

by HowardSoft®

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**Tax Preparer®**

# **Tax Forms Guide 2015 Edition**

(for preparing tax year 2014 Form 1040 tax returns  
and tax planning for 2015 and beyond)

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**TIP:** For a clickable on-screen version of this table of contents, view Bookmarks. To search, press ctrl-F and enter the phrase you want to find in the box near the top of the window, then press ctrl-G to find other occurrences.

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# Introduction

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Tax Forms Guide vs. User's Guide  
Paperwork Reduction Act Notice

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## Tax Forms Guide vs. User's Guide

**Tax Forms Guide for timely information.** Because the tax forms and their instructions are changed annually by the IRS, *this Tax Forms Guide is revised annually*, based on the information we receive annually from the IRS:

**Chapter 1. Highlights of Changes.** A review of the important tax law changes for the year and how they affect the software.

**Chapter 2. Form by Form Details.** A detailed reference for every tax form in the software. This is the bulk of the guide, and contains details on nearly every line of each form and schedule that it covers.

**Chapter 3. Laser and Windows Graphic Printing.** Instructions for the graphic printing of forms for both Windows and non-Windows printers.

**Chapter 4. Electronic Filing (e-file).** Instructions for generating files for electronic filing and submitting them for transmission to the IRS using Standard Level or Premium Level versions of *Tax Preparer*.

When you get an update each year, you should leave the User's Guide in the HowardSoft binder, and

**Replace the ENTIRE Tax Forms Guide  
with this new version.**

However, we strongly recommend that you also

**SAVE the expired Tax Forms Guides  
in a separate binder**

for later help in producing records for an audit or preparing an amended return. (You can purchase from HowardSoft grey stitched binders and black slipcases to hold your new and expired manuals.)

**User's Guide for other information.** Unlike the tax forms, the structure and operation of the software are stable, and change little from year to year. As a result, *the separate User's Guide is revised only once every few years* as needed. You will use this guide for years to come for help with general operating procedures. First-time users can benefit from the tutorial on how to prepare and print a return. But the rest of the guide is an important reference for everyone. It includes keyboard charts, trouble-shooting hints, and complete details on translating prior-year returns into current-year returns, printing a graphic return for filing, program setup, and custom settings. *The most recent revision of the User's Guide was April, 2009. It was updated to include operating instructions for the floating Tax Preparer Control Panel and newer Windows operating systems, including Windows Vista and 64-bit Vista.*

## Paperwork Reduction Act Notice

**Legal requirement.** The IRS requires that computer-generated forms contain the phrase "For Paperwork Reduction Act Notice, see instructions" and that we provide you with a copy of the notice. The following quote does not reduce paper, but it does meet the IRS requirements:

The Privacy Act of 1974 and Paperwork Reduction Act of 1980 say that when we ask you for information, we must first tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory under the law.

This notice applies to all papers you file with us, including this tax return. It also applies to any questions we need to ask you so we can complete, correct, or process your return; figure your tax; and collect tax, interest, or penalties.

Our legal right to ask for information is Internal Revenue Code 6001, 6011, and 6012(a) and their regulations. They say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under these sections. Code section 6109 and its regulations say that you must show your social security number on what you file. This is so we know who you are, and can process your return and papers. You must fill in all parts of the tax form that apply to you. But you do not have to check boxes for the Presidential Election Campaign Fund.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

We ask for tax return information to carry out the tax laws of the United States. We need it to figure and collect the right amount of tax.

We may give the information to the Department of Justice and to other Federal agencies, as provided by law. We may also give it to states, the District of Columbia, and U. S. commonwealths or possessions to carry out their tax laws. And we may give it to foreign governments because of tax treaties they have with the United States.

If you do not file a return, do not provide the information we ask for, or provide fraudulent information, you may be charged penalties and be subject to criminal prosecution. We may also have to disallow the exemptions, exclusions, credits, deductions, or adjustments shown on the tax return. This could make the tax higher or delay any refund. Interest may also be charged.

Please keep this notice with your records. It may help you if we ask you for other information. If you have questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

# Chapter 1

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## Highlights of Changes

Overview  
IRS Forms Built into Software  
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Form by Form Changes  
Recommended IRS Publications

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## Overview

**Year-end tax bill averts major changes for tax year 2014.** Before a last-minute tax bill, the last major tax bill was passed by Congress on January 1, 2013 (signed into law the next day). That bill extended most expired deductions and credits to tax years 2012 and 2013. However, little was done for 2014, so it remained for Congress to extend or make permanent those tax benefits before the next tax season or else many taxpayers would see a major increase in their taxes. Congressional deadlock continued throughout 2014, so there was some doubt whether Congress would extend the benefits to 2014. However, the House passed a bill on December 3 and the Senate passed it without amendment on December 18. The bill extends most deductions and credits to 2014 alone (retroactive to January 1), which averts the adoption of the IRS's advance drafts of forms for 2014, which exhibited major changes on many forms, resulting in the label "Reserved" for most lines of some forms. Unfortunately, the bill, H.R. 5771, titled *Tax Increase Prevention Act of 2014*, only extends the benefits by one year, so Congress will be facing the same issue in 2015.

**What the bill contains.** The year-end tax bill reinstates (for 2014 alone) nearly every benefit that expired at the end of 2013:

- Above-the-line deduction of up to \$250 of teachers' out-of-pocket expenses at line 23 of Form 1040.
- Above-the-line deduction of up to \$4,000 of qualified college tuition and expenses at line 34 of Form 1040.
- Tax-free IRA distributions to charities for taxpayers of age 70-1/2 or older
- Itemized deduction of state and local sales taxes in lieu of state income taxes at line 5b of Schedule A.
- Itemized deduction of private mortgage insurance premiums in lieu of mortgage interest at line 13 of Schedule A.
- \$500,000 ceiling on section 179 depreciation, which would otherwise drop to \$25,000 at line 1 of Form 4562.
- 50% bonus depreciation on new property, which would otherwise drop to zero at line 14 of Form 4562.
- Credit for increasing research and development (Form 6765).
- Work opportunity credit for wages paid to favored groups (Form 5884).
- New markets credit for businesses investing in low-income community development (Form 8874).
- Credit for wind energy and certain other renewable energy sources (Part I of Form 5696).
- Non-business energy credit for certain energy improvements (Part II of Form 5695.)
- Excise tax credit for alternative fuel and alternative fuel mixtures (Form 4136).
- Credit for production of cellulosic biofuel (Form 4136).

Unfortunately, the enactment of the tax bill was too late to make changes for forms that had to be prepared and printed before the end of the year, so some forms refer you to the web for the latest information rather than updating the forms and instructions. This could cause a number of benefits to be overlooked many taxpayers!

**Additions for health care exemptions, taxes, and credits.** With prior deductions and credits reinstated, the only major changes now evident on the forms are related to the *Affordable Care Act*, which is technically comprised of two separate bills: the *Patient Protection and Affordable Care Act* (P.L. 111-148) and the *Health Care and Education Reconciliation Act of 2010* (P.L. 111-152). Although enacted way back in 2010, these acts contained a gradual phase-in of the new rules, so most of its provision did not apply for 2013. As a result, the 2014 Form 1040 is the first Form 1040 to undergo major changes to reflect the new laws, with three lines added to page 2 of Form 1040. A new Form 8962, *Premium Tax Credit (PTC)*, is responsible for two of these lines, one for a tax and one for a credit. The form reconciles the advance credit built into your health care premium purchased through a government exchange, which is based on estimated 2014 income when you signed up for health care on the exchange, with the credit to which you are entitled based on your actual 2014 income. The third line is responsible for a tax for those who failed to buy required health insurance and do not qualify for a full exemption from their individual responsibility to do so, and a checkbox to indicate that all liable persons in your household maintain the required full-year coverage. A new Form 8965, *Health Coverage Exemptions*, is used to support any exemptions on a monthly basis, and instructions for that form explain how to compute any remaining tax for Form 1040.

**Built-in forms, schedules, and worksheets.** Although some forms underwent major surgery as some credits expired, relegating the related forms to carryovers only, only one form that HowardSoft supports was dropped by the IRS: Form 8885, *Health Coverage Tax Credit*, which expired at the end of 2013. In addition, we have dropped two additional forms, which are now very rarely used because they relate to long ago expired credits with only carryovers from prior claims: Form 8834, *Qualified Electric Vehicle Credit*, and Form 8859, *D.C. First-Time Homebuyer Credit*. Form 8834 is now used only for reporting passive activity credit carryovers from credits that expired at the end of 2007 (for the regular electric vehicle credit) and the end of 2011 (for the plug-in electric vehicle credit). Form 8859, which applied only to homes in Washington, D.C., is now used only for reporting carryovers (caused by their tax liability limit) from the credit, which expired at the end of 2011. On the other hand, we have added the new health-care forms (Forms 8962 and 8965) to the Standard and Premium Levels. The Economy Level has the same essential forms we have had in the past. The Standard Level has those forms plus Forms 1116, 4952, 5405, 5695, 8910, 8941, 8948, 8960, 8962, and 8965, and the e-file forms. The Premium Level has double the forms of the Economy Level, adding a number of forms that have been requested by customers over the years. The forms built into the 2014 Edition of *Tax Preparer* are listed in Table 1-1, and most of the data entry worksheets that support them are listed in Table 1-2. The most prominent built-in worksheets for IRS calculations are listed in Table 1-3.

## Highlights of Changes (2015 Edition)

**Table 1-1. IRS Forms in 1040 Edition**

*Forms marked with a single asterisk (\*) are included only in the Premium Level software (not Economy nor Standard).*  
*Forms marked with a double asterisk (\*\*) are included only in the Standard and Premium Level software (not Economy).*

Form 1040	- U.S. Individual Income Tax Return (accepted by IRS in lieu of 1040A or 1040EZ)
Form 1040-V	- Payment Voucher (printed when tax due, not visible on screen)
Schedule A	- Itemized Deductions
Schedule B	- Interest and Dividend Income
Schedule C/C-EZ	- Profit or Loss From Business (5 copies: one for each business)
Schedule D	- Capital Gains and Losses (supports unlimited number of transactions)
Schedule E	- Supplemental Income and Loss (supports unlimited number of activities)
Schedule EIC	- Earned Income Credit
Schedule F	- Profit or Loss from Farming (5 copies: one for each farm)
Schedule H	- Household Employment Taxes (2 copies: one for each spouse)
Schedule J	- Farm Income Averaging
Schedule R	- Credit for the Elderly or the Disabled
Schedule SE	- Self-Employment Tax (2 copies: one for each spouse)
**Form 1116	- Foreign Tax Credit (10 copies: one for each category of income)
*Form 1310	- Statement of Person Claiming Refund Due a Deceased Taxpayer (2 copies: one for each)
Form 2106/2106-EZ	- Employee Business Expenses (5 copies: one for each employer)
*Form 2120	- Multiple Support Declaration (5 copies: one for each supported person)
Form 2210/2210-F	- Underpayment of Estimated Tax
*Form 2350	- Application for Extension of Time to File (for certain taxpayers abroad)
Form 2441	- Child and Dependent Care Expenses
*Form 2555/2555-EZ	- Foreign Earned Income/Foreign Earned Income Exclusion (2 copies: one for each spouse)
*Form 2848	- Power of Attorney & Declaration of Representative
Form 3468	- Computation of Investment Credit
Form 3800	- General Business Credit
Form 3903	- Moving Expenses (3 copies: one for each move)
*Form 4136	- Credit for Federal Tax Paid on Fuels
*Form 4137	- Social Security & Medicare Tax on Unreported Tip Income (2 copies: one for each spouse)
*Form 4255	- Recapture of Investment Credit
Form 4562	- Depreciation and Amortization (20 copies: one for each supported form or schedule, plus two unattached copies)
Form 4684	- Casualties and Thefts
Form 4797	- Sales of Business Property (supports unlimited number of transactions)
Form 4835	- Farm Rental Income and Expenses
Form 4868	- Automatic Extension of Time to File
**Form 4952	- Investment Interest Expense Deduction
*Form 4970	- Tax on Accumulation Distribution of Trusts
*Form 4972	- Tax on Lump-Sum Distributions (2 copies: one for each spouse)
Form 5329	- Additional Tax on Qualified Plans(IRAs), etc. (2 copies: one for each spouse)
**Form 5405	- Repayment of the First-Time Homebuyer Credit
**Form 5695	- Residential Energy Credits
*Form 5884	- Work Opportunity Credit
*Form 6198	- At-Risk Limitations (10 copies: 1 for each activity)

Form 6251	- Alternative Minimum Tax
Form 6252	- Installment Sale Income ( <i>5 copies: one for each sale</i> )
*Form 6478	- Credit for Alcohol Used as Fuel
*Form 6765	- Credit for Increasing Research Activities
*Form 6781	- Gains/Losses from Sec. 1256 Contracts & Straddles
Form 8283	- Noncash Charitable Contributions
*Form 8332	- Release of Claim to Exemption for Child ( <i>5 copies: one for each custodial parent</i> )
*Form 8379	- Injured Spouse Allocation
*Form 8396	- Mortgage Interest Credit
Form 8582	- Passive Activity Loss Limitations
*Form 8586	- Low-Income Housing Credit
*Form 8594	- Asset Acquisition Statement under Section 1060
Form 8606	- Nondeductible IRA Contributions, etc. ( <i>2 copies: one for each spouse</i> )
*Form 8611	- Recapture of Low-Income Housing Credit ( <i>5 copies: one for building</i> )
Form 8615	- Tax for Children Under Age 18
*Form 8801	- Credit for Prior Year Minimum Tax
Sch. 8812	- Additional Child Tax Credit
Form 8814	- Election to Report Child Interest and Dividends ( <i>15 copies: one for each child</i> )
*Form 8815	- Exclusion of Interest from EE/I US Savings Bonds
*Form 8822/8822-B	- Change of Address/Change of Address or Responsible Party - Business
*Form 8824	- Like-Kind Exchanges ( <i>5 copies: one for each property</i> )
*Form 8828	- Recapture of Federal Mortgage Subsidy
Form 8829	- Expenses for Business Use of Your Home ( <i>5 copies: one for each Schedule C supported</i> )
*Form 8839	- Qualified Adoption Expenses
*Form 8846	- Credit for Employer Social Security and Medicare Tax Paid on Certain Employee Tips
*Form 8853	- Archer MSAs & Long-Term Care Insurance Contracts
*Form 8862	- Info to Claim EarnedInc.Credit After Disallowance
Form 8863	- Education Credits (American and Lifetime Learning)
Form 8867	- Paid Preparer's Earned Income Credit Checklist
Form 8880	- Qualified Retirement Savings Contributions Credit
*Form 8889	- Health Savings Accounts (HSAs) ( <i>2 copies: one for each spouse</i> )
**Form 8910	- Alternative Motor Vehicle Credit
Form 8917	- Tuition and Fees Deduction
*Form 8936	- Qualified Plug-in Electric Drive Motor Vehicle Credit
**Form 8941	- Credit for Small Employer Health Insurance Premiums
**Form 8948	- Preparer Explanation for Not Filing Electronically
Form 8949	- Sales and Other Dispositions of Capital Assets
**Form 8960	- Net Investment Income Tax
**Form 8962	- Premium Tax Credit (PTC)
**Form 8965	- Health Coverage Exemptions
Form 1040X	- Amended Income Tax Return
Form 1040-ES	- Estimated Tax for Individuals
**e-file	- U.S. Individual Electronic Filing

*Forms not built into the software are available for download from the IRS website at [www.irs.gov/formspubs](http://www.irs.gov/formspubs).*

*\*Included in Premium Level program only.*

*\*\*Included in Standard and Premium Level programs only.*

## Highlights of Changes (2015 Edition)

**Table 1-2. Custom Worksheets for Supporting Data Entry**

TYPE OF WORKSHEET	LINE(S) FROM WHICH ACCESSIBLE
Optional Text for Letters	Control Form, 2 lines on screen 4: More cover letter lns(itemize) More billing ltr lns (itemize)
Dependents'	Form 1040, line 6c
Form W-2	Form 1040, ln 7a, 7b (you, spouse)
Form 1099-R	Form 1040, lines 15a and 16a
Form W-2G	Form 1040, line 21
Sales Tax Worksheet	Sch A, screen 3: Local tax from worksheet
Mortgage Interest	Sch A, above line 11: Other home int(NOT on 1098)
Seller-Financed Mortgage	Sch B, above line 1: Seller-financed mortgage
1099-INT (Interest income)	Sch B, line 1, and Form 8814
1099-DIV (Dividend income)	Sch B, line 5, and Form 8814
Vehicle Info W/s for Sch C	Sch C, above line 43: ITEMIZE HERE if 2 or more
Short-term Gain/Loss	Sch D, lines 1,2,3 (for Form 8949)
Sch K-1 Short-tm Gain/Loss	Sch D, line 5
Long-term Gain/Loss	Sch D, lines 8,9,10 (for Form 8949)
Sch K-1 Long-tm Gain/Loss	Sch D, line 12
Rental/Royalty	Sch E, lines 3 and 4
Partnerships and S Corps	Sch E, line 28, screens 5 to 8: Farm & nonfarm for you & spouse
Estates and Trusts	Sch E, line 34a
REMICs	Sch E, line 38
State Fund Contributions	Sch H, line 15
Foreign Source	**Form 1116, line 1a (screen 4)
Alternative Basis for Compensation Source	**Form 1116, for line 1b (screen 5)
Vehicle Expense Worksheet	Form 2106, line 12
Eligible Person Worksheet	*Form 2120 (bottom of screen 1)
Care Provider Worksheet	Form 2441, line 1
Qualifying Person Worksheet	Form 2441, line 2
Prior-yr Qualifying Person	Form 2441, line 9b
Revoked Exclusions	*Form 2555, line 6d
Tax Home Worksheet	*Form 2555, line 9
U.S. Income worksheet	*Form 2555, line 14
U.S. Home Maintained	*Form 2555, line 15e
Travel Abroad Worksheet	*Form 2555, line 18
Partnership Foreign Earned	*Form 2555, line 20b
Lessor worksheet	Form 3468, line 4
Carryforward/Carryback	Form 3800, between Pt I, lines 4 & 5
Fuel Use Worksheet	*Form 4136, lines 1c,2b,3a,4a,4e,4f, 5c,5d,8d,8e,11a,11b,11c,11d,11e, 11f,11g,11h,14a
Fuel Sale worksheet	*Form 4136, lines 6a and 7a
Biodiesel Certificate	*Form 4136, line 10
Unreported Tips worksheet	*Form 4137, line 1
ITC Recapture Worksheet	*Form 4255, line 3
Section 179	Form 4562, line 6
Section 168(f)(1)	Form 4562, line 15
Depreciation	Form 4562, line 16
MACRS/ACRS	Form 4562, lns 16,17,15a-i,20a-c,22
Listed Property	Form 4562, lines 26 and 27
Vehicle Info W/s for 4562	Form 4562, lines 30 through 36
Amortization worksheet	Form 4562, lines 42 and 43
Personal Casualty and Theft	Form 4684, lines 4 and 10

Business Casualty and Theft Casualty & Theft Summary	Form 4684, lines 22 and 28
Section 1231 Gain/Loss	Form 4684, lines 29 and 34
Sch K-1 Sec 1231 Gain/Loss	Form 4797, line 2
Ordinary Gain/Loss	Form 4797, line 2
Sch K-1 Ordinary Gain/Loss	Form 4797, line 10
Ordinary Gain from 6252	Form 4797, line 10
Gain/Recapture	Form 4797, ln 25,26,27,28,29 for sec 1245,1250,1252,1254,1255 property
Foreign Currency Contracts	*Form 6781 (screen 1)
Section 1256 Contracts	*Form 6781, line 1
Straddle Components	*Form 6781, Part II
Losses From Straddles	*Form 6781, line 10
Contracts for Straddles	*Form 6781, below lines 11b and 13b: Itemize contracts in 11a&b Itemize contracts in 13a&b
Gains From Straddles	*Form 6781, line 12
Unrecognized Gains	*Form 6781, line 14
Section A Donated Property	Form 8283, line 1
Section A Partial Interest	Form 8283, above line 2a: ITEMIZE HERE if 2 or more
Section B Donated Property	Form 8283, line 5
Passive Activity worksheet	Form 8582, screens 3 and 7
Worksheets 1 through 7	Form 8582, pages 2 and 3
Line 2 worksheet for 8611	*Form 8611, line 2
Student worksheet	*Form 8815, line 1
Share Paid to QSML Lender	*Form 8828, above line 13
1099-INT (Interest income)	Form 8814 (screen 2)
1099-DIV (Dividend income)	Form 8814 (screen 3)
Student worksheet	*Form 8815, line 1
Share Paid to QSML Lender	*Form 8828, line 12
MACRS/ACRS for Form 8829	Form 8829, below line 40
Adoption Expenses	*Form 8839, line 1
Long-term Care worksheet	*Form 8853, Section C, above line 17
Address Where Lived w/Child	*Form 8862, line 6
Other Person Lived w/Child	*Form 8862, line 7
Education Credit worksheet	Form 8863, screen 1
Alternative Vehicle Info	**Form 8910, line 1
Qualifying Student worksht	Form 8917, line 1
Plug-in Electric Drive	*Form 8936, Part I
Health Insurance worksheet	**Form 8941 (screen 1)

*\*\*Standard & Premium Level only*

*\*Premium Level only.*

## Highlights of Changes (2015 Edition)

**Table 1-3. IRS Worksheets Built into Calculations**  
*(Only those common to Economy, Standard, and Premium Levels shown)*

NAME OF IRS WORKSHEET	FORM AND LINE(S) SUPPORTED
Social Security Benefits worksheet(*)	Form 1040, lines 20a & 20b
Self-Employed Health Insurance Deduction	Form 1040, line 29
IRA Deduction worksheet(*)	Form 1040, line 32
Student Loan Interest Deduction worksheet(**)	Form 1040, line 33
Standard Deduction worksheet	Form 1040, line 40
Deduction for Exemptions worksheet	Form 1040, line 42
Foreign Earned Income Tax worksheet	Form 1040, line 44
Qualified Dividends & Capital Gain Tax worksheet	Form 1040, line 44
Worksheet to See If You Should Fill In 6251	Form 1040, line 45
Child Tax Credit worksheet (***)	Form 1040, line 52
Earned Income Credit worksheets A & B (plus Questions to See If You Can Take the Earned Income Credit, including worksheets for figuring earned and investment income)(****)	Form 1040, line 66a
State & Local General Sales Tax Deduction worksheet - Line 5b	Schedule A, line 5b
Capital Loss Carryover worksheet	Schedule D, lines 6 & 14
28% Rate Gain worksheet	Schedule D, line 18
Unrecaptured Section 1250 Gain worksheet	Schedule D, line 19
Schedule D Tax worksheet	Schedule D, line 20
Qualified Dividends & Capital Gain Tax worksheets, Taxable Income worksheets, Foreign Earned Income Tax worksheets, and Tax Rate Schedules for prior three years	Schedule J, 5,8,9,12,13,16
Capital Gain Tax worksheet	Schedule J, line 8
Credit Limit worksheet	Schedule R, line 20
Worksheet for Home Mortgage Interest-Line 4a worksheet for Line 18 (worldwide Qualified Dividends and Capital Gains)	Form 1116, line 4a Form 1116, line 18
Worksheet for Special Depreciation Allowance	Form 2106, line 31
Worksheet for Form 2210, Part IV, Section B	Form 2210, line 27
Credit Limit worksheet	Form 2441, line 10
Distance Test worksheet	Form 3903 Qualification
Worksheet for Lines 1, 2, and 3	Form 4562, lines 1 to 3
Contribution Credit worksheets	Form 5329, lines 10, 19, 27
Excess Contributions worksheets	Form 5329, lines 15, 23, 31
Credit Limit worksheet	Form 5695, line 31
Exemption worksheet-Line 29	Form 6251, line 29
Foreign Earned Income Tax worksheet	Form 6251, line 31
Maximum Roth IRA Contribution worksheet	Form 8606, line 18b
Credit Limit worksheet	Form 8396, line 2
Basis in Reg. Roth IRA Contributions-Line 22	Form 8606, line 22
Basis in Roth IRA Conversions & Rollovers from Qlfd. Retirement Plans to Roth IRAs-Line 24	Form 8606, line 24
Child's Investment Income worksheet	Form 8615, line 1

Alternate worksheet for line 1 of

Form 8615 (in IRS Pub. 929)	Form 8615, line 1
Schedule D Tax Worksheet for Line 9 Tax	Form 8615, line 9
Schedule D Tax worksheet for Line 15 Tax	Form 8615, line 15
Earned Income Worksheet	Form 8812, screens 1 & 2
Worksheet for figuring holding period %	Form 8828, line 20
Line 3 Limitation Chart and Worksheet	Form 8853, line 3
Additional 50% Tax worksheet—Line 13b	Form 8853, line 13b
Credit Limit worksheet	Form 8865, line 19
Line 3 Limitation Chart and Worksheet	Form 8889, line 3
Worksheet 1. Info to Complete line 1a	Form 8941, Health Insur.w/s
Worksheet 4. Info to Complete lines 4 and 5	Form 8941, Health Insur.w/s
Worksheet 2. Full-Time Equivalent Employees	Form 8941, line 2
Worksheet 3. Average Annual Wages	Form 8941, line 3
Worksheet 5. FTE Limitation	Form 8941, line 8
Worksheet 6. Average Annual Wage Limitation	Form 8941, line 9
Worksheet 7. FTES Enrolled in Coverage	Form 8941, line 14
Estimated Tax Worksheet	Form 1040-ES, lines 1 - 17

Footnotes:

\* plus special worksheets in IRS Pub. 590-A

\*\* plus special worksheets in IRS Pub. 970

\*\*\* plus special worksheets in IRS Pub. 972

\*\*\*\* plus special worksheets in IRS Pub. 596

*Also see Table 1-2 for worksheets that require data entry and are completed separately for each separate event, transaction, person, etc.*

## Form by Form Changes

**Control Form.** The inflation rate used by the IRS to index tax tables, exemption phaseouts, and a number of ceilings from 2014 to 2015 (for tax planning and Form 1040-ES) is 1.58%. (The rate was 1.69% from 2013 to 2014.)

**Form 1040 (Main Form).** Several significant changes appear on the form.

- ◆ **Educator expense deduction at line 23 saved by year-end tax bill.** The deduction had expired at the end of 2013, but was extended retroactively for one more year. (The label for line 23 had been changed to "Reserved" in the IRS's advance drafts of Form 1040.)
- ◆ **Exclusion at line 29 from Form 8885 eliminated.** Because the credit from Form 8885 expired at the end of 2013, your deduction for self-employed health insurance can no longer be reduced because of it.
- ◆ **Phaseouts of IRA deductions at line 32 modified.** The thresholds at which the IRA deductions at line 32 are phased out have been indexed with inflation, as usual. See the IRS instructions for line 32 for details.
- ◆ **Tuition and fees deduction at line 34 saved by year-end tax bill.** The deduction had expired at the end of 2013, but was extended retroactively for one more year. (The label for line 34 had been changed to "Reserved" in the IRS's advance drafts of Form 1040, and the associated Form 8917 had been eliminated.)
- ◆ **Table of standard deductions for line 40 modified.** Standard deductions are indexed with inflation. The new standard deduction table for 2014 appears in Table 1-4.

**Table 1-4. Standard Deduction Schedules**

	2013 TAX YEAR		2014 TAX YEAR	
	Base amount	Add for ea. blind/65&up	Base amount	Add for ea. blind/65&up
Single	\$ 6,100	\$1,500	\$ 6,200	\$1,550
Married filing joint	\$12,200	\$1,200	\$12,400	\$1,200
Married filing separate	\$ 6,100	\$1,200	\$ 6,200	\$1,200
Head of household	\$ 8,950	\$1,500	\$ 9,100	\$1,550
Qualifying widow(er)	\$12,200	\$1,200	\$12,400	\$1,200
For those claimed as a dependent on someone else's return:	greater of \$950 and \$300 plus earned inc, up to above amounts.		greater of \$1,000 and \$350 plus earned inc, up to above amounts.	

- ◆ **Exemptions at line 42 modified.** The base exemptions are indexed with inflation from \$3,900 per person to \$3,950 for 2014. The start of the phaseout for high-income taxpayers has been indexed with inflation.

**Table 1-5. Thresholds for Phaseout of Exemptions**

	2013	2014
	TAX YEAR	TAX YEAR
Single	\$250,000	\$254,200
Married filing joint	\$300,000	\$305,050
Married filing separate	\$150,000	\$152,525
Head of household	\$275,000	\$279,650
Qualifying widow(er)	\$300,000	\$305,050

- ◆ **Tax tables and tax rate schedules indexed with inflation.** All tax brackets are increased by indexing with the 1.69% inflation realized from 2013 to

2014. The changes affect calculations for tax at line 44. The tax rate schedules for both years are shown in Table 1-6.

**Table 1-6. Tax Rate Schedules**

TAX RATE	TAXABLE INCOME ABOVE <u>single</u>	<u>mfj &amp; qw</u>	WHICH TAX RATE STARTS <u>mfs</u>	<u>h of h</u>
FOR TAX YEAR 2013:				
10%	\$ 0	0	0	0
15%	8,925	17,850	8,925	12,750
25%	36,250	72,500	36,250	48,600
28%	87,850	146,400	73,200	125,450
33%	183,250	223,050	111,525	203,150
35%	398,350	398,350	199,175	398,350
39.6%	400,000	450,000	225,000	425,000
FOR TAX YEAR 2014:				
10%	\$ 0	0	0	0
15%	9,075	18,150	9,075	12,950
25%	36,900	73,800	36,900	49,400
28%	89,350	148,850	74,425	127,550
33%	186,350	226,850	113,425	206,600
35%	405,100	405,100	202,550	405,100
39.6%	406,750	457,600	228,800	432,200

- ◆ **Form 8962 added to support the new lines 46 and 69.** The form reconciles the advance credit built into health care premiums for insurance purchased through a government exchange, which is based on estimated 2014 income when you signed up for health care on the exchange, with the credit to which you are entitled based on your actual 2014 income. If your actual allowed credit is less than the advance credit you received, a tax results for line 46. But if your actual allowed credit is more than the advance credit you received, a credit results for line 69. *(Form 8962 is built into the software for Standard and Premium Levels.)*
- ◆ **Earned income credit at line 66a indexed with inflation.** The credit now applies for slightly higher incomes, and the maximum credit is now \$6,143, up from \$6,044.
- ◆ **Form 8965 added to support the new line 61.** The form is used to support any exemptions from the health care requirement on a monthly basis, and instructions for that form explain how to compute any remaining tax for line 61, even though the calculation is not included on Form 8965. The form itself is only used to show how exemptions were determined. *(Form 8965 is built into the software for Standard and Premium Levels.)*
- ◆ **Form 8885 removed from line 73c.** The credit from Form 8885 (*Health Coverage Tax Credit*) no longer appears at line 73 because it expired at the end of 2013. As a result, the label for the checkbox for line 73c (formerly line 71c) has been changed to "Reserved."

**Schedule A (Itemized Deductions)**

- ◆ Because the credit from Form 8885 expired at the end of 2013, there is no longer a reduction at line 1 stemming from it in the amount of long-term premiums you claim.

## Highlights of Changes (2015 Edition)

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- ◆ The deduction of state sales tax at line 5b in place of the deduction of state income tax at line 5a has been saved by the year-end tax bill. Accordingly, the sales tax tables at the end of Schedule A instructions have been modified to reflect changed state sales tax rates and spending experiences of taxpayers by state. (The label for line 5b had been changed to "Reserved" in the IRS's advance drafts of Schedule A.)
- ◆ The standard mileage rate for getting medical care is 23.5 cents a mile for 2014 for line 1. (It was 24.0 cents a mile for 2013, and will be 23.0 cents a mile for 2015.)
- ◆ The start of the phaseout of deductions for high income taxpayers has been indexed with inflation at line 29. The thresholds for the phaseout are the same as those shown in Table 1-5 for exemptions.

### **Schedule C (Profit or Loss From Business)**

- ◆ The standard mileage rate for business car expenses includible in line 9 has fallen to 56.0 cents a mile for 2014. (It had been 56.5 cents a mile for 2013, and will be to 57.5 cents a mile for 2015.)

### **Schedule C-EZ (Net Profit From Business)**

- ◆ The standard mileage rate for business car expenses includible in expenses on line 2 has fallen to 56.0 cents a mile for 2014. (It had been 56.5 cents a mile for 2013, and will be to 57.5 cents a mile for 2015.)

### **Schedule E (Supplemental Income and Loss)**

- ◆ The standard mileage rate for miles related to your rentals has fallen to 56.0 cents a mile for 2014. (It had been 56.5 cents a mile for 2013, and will be to 57.5 cents a mile for 2015.)

### **Schedule EIC (Earned Income Credit)**

- ◆ The maximum credit and thresholds for phaseout have been raised with inflation, with the maximum credit rising to \$6,143 for 2014 for taxpayers with 3 qualifying children. (The maximum credit was \$6,044 for 2013.)

### **Schedule F (Farm Profit or Loss)**

- ◆ The standard mileage rate for business car expenses includible in line 10 has fallen to 56.0 cents a mile for 2014. (It had been 56.5 cents a mile for 2013, and will be to 57.5 cents a mile for 2015.)

### **Schedule H (Household Employment Taxes)**

- ◆ The wage base for social security is raised to \$117,000 for 2014, which is the maximum amount of wages subject to social security tax for any one employee. It will be \$118,500 for 2015.
- ◆ Number of credit reduction states for Part II reduced from 14 to 8, most of which are subject to a 1.2% credit reduction rate (double the former average).

### **Schedule SE (Self-Employment Tax)**

- ◆ The wage base for social security is raised from \$113,700 for 2013 to \$117,000 for 2014 at line 5 of Section A and lines 7 and 8a of Section B. The base rises to \$118,500 for 2015.

- ◆ The ceilings for the Optional Methods in Part II of Section B are raised in concert with the raised social security base.

## **Form 1116 (Foreign Tax Credit)**

- ◆ The income limit for qualifying for the adjustment exception (for foreign source qualified dividends and capital gains) is raised to \$226,850 if married filing jointly or qualifying widow(er), \$113,425 if married filing separately, \$186,350 if single, and \$206,600 if head of household (up from \$223,050, \$111,525, \$183,250, and \$203,150, respectively).
- ◆ The tax used in computing the maximum allowable credit at line 20 is raised by the new excess advance premium tax credit repayment on line 46 of Form 1040.

## **Forms 2106 and 2106-EZ (Employee Business Expenses)**

- ◆ The standard mileage rate for business car expenses (deductible at line 22 of Schedule 2106 or line 1 of Schedule 2106-EZ) is reduced to 56.0 cents a mile for 2014. (It had been 56.5 cents a mile for 2013, and will be to 57.5 cents a mile for 2015.)

## **Form 2555 (Foreign Earned Income)**

- ◆ The maximum foreign earned income exclusion has been raised from \$97,600 to \$99,200.
- ◆ The minimum annual housing allowance has been raised to \$29,760 (from \$29,280) and the maximum has been lowered to \$114,300 (from \$117,100) and applies only to Hong Kong. The table of allowances for high-cost cities has been modified for hundreds of locations.
- ◆ The annual amount that must be deducted from your housing allowance has been raised from \$15,616 to \$15,872, corresponding to \$43.48 per day (up from \$42.78 per day).

## **Form 3903 (Moving Expenses)**

- ◆ The standard mileage rate for moving to a new home is 23.5 cents a mile for 2014 for line 1. (It was 24.0 cents a mile for 2013, and will be 23.0 cents a mile for 2015.)

## **Form 4137 (Social Security and Medicare Tax on Unreported Tip Income)**

- ◆ The wage base for social security is raised from \$113,700 for 2013 to \$117,000 for 2014 at line 7. (The base rises to \$118,500 for 2015.)

## **Form 4562 (Depreciation and Amortization)**

- ◆ The \$500,000 maximum allowed section 179 deduction was saved by the year-end tax bill, which extended it retroactively to the end of 2014. It had been scheduled to drop to just \$25,000.
- ◆ The 50% special allowance ("bonus" depreciation) was also saved by the year-end tax bill for most property. It had been scheduled to retire at the end of 2013.

## **Form 6251 (Alternative Minimum Tax)**

- ◆ The threshold above which AMT income is raised at line 28 for married taxpayers filing separately has been indexed with inflation.
- ◆ The thresholds for the exemptions at line 29 have been indexed with inflation as well.

## Highlights of Changes (2015 Edition)

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- ◆ The thresholds in the calculation of tax at line 31 have been indexed with inflation.
- ◆ The IRS worksheet for the former line 49 has been replaced by additional lines on the form (lines 49 through 53).

### **Form 8606 (Nondeductible IRAs)**

- ◆ Thresholds for the high-income limitation on Roth IRA contributions are raised about 1.6% to \$191,000 if married filing jointly or qualifying widow(er), and \$129,000 for all others, at which no contribution is allowed. The phaseout starts \$15,000 lower if married filing jointly or qualifying widow(er), and \$10,000 lower for all others.

### **Form 8801 (Credit for Prior Year Minimum Tax)**

- ◆ All exemptions and phaseouts have been indexed with inflation relative to the prior-year Form 8801, but they match the Form 6251 levels for 2013.
- ◆ Part III (for capital gain tax) has been expanded to reflect an additional tax for high-income tax payers, which was new to Form 6251 last year.

### **Form 8815 (Exclusion of Interest From U.S. Savings Bonds)**

- ◆ The phaseout thresholds on this form have been indexed with inflation. The exclusion now phases out to zero when AGI reaches \$143,950 if married filing jointly or qualifying widow(er), and \$91,000 otherwise. (These thresholds were \$142,050 and \$89,700 for 2013.)

### **Form 8839 (Qualified Adoption Expenses)**

- ◆ The maximum credit (and the exclusion for employer-provided benefits) is now \$13,190 per child, up from \$12,970 per child.
- ◆ The phaseout now starts at \$197,880 of modified AGI, up from \$194,580, and phases out at \$40,000 higher.
- ◆ The form has been returned to the IRS e-file program. It had been dropped from the program for the last couple of years because of difficulties in handling net reporting requirements.

### **Form 8846 (Credit for Employer Social Security and Medicare Taxes Paid on Certain Tips)**

- ◆ The wage base for social security is raised from \$113,700 for 2013 to \$117,000 for 2014 at line 7. (The base rises to \$118,500 for 2015.)

### **Form 8853 (Archer MSAs and Long-Term Care Insurance Contracts)**

- ◆ The MSA qualifications for a High Deductible Health Plan (HDHP) have been raised. The minimum annual deductible is now \$2,200 for self-only coverage and \$4,350 for family coverage. The maximum out-of-pocket expenses is now \$4,350 for self-only coverage and \$8,000 for family coverage (up from \$4,300 and \$7,850). The monthly amounts for the Line 3 Limitation Chart and Worksheet are now \$2,200 to \$3,250 for self-only coverage (up from \$2,150 to \$3,200) and \$4,350 to \$6,550 for family coverage (up from \$4,300 to \$6,450).

### **Form 8863 (Education Credits)**

- ◆ The phaseout thresholds on this form for the *Lifetime Learning Credit* have been indexed with inflation. The credit now phases out to zero

when AGI reaches \$128,000 if married filing jointly, and \$64,000 otherwise. (These thresholds were \$127,000 and \$63,000 for 2013.)

### **Form 8880 (Credit for Qualified Retirement Savings Contributions)**

- ◆ The phaseout thresholds on this form have been indexed with inflation. The credit now phases out to zero when total income on Form 1040 reaches \$60,000 if married filing jointly, \$45,000 if head of household, and \$30,000 otherwise. (These thresholds were \$59,000, \$44,250, and \$29,500 for 2013.)

### **Form 8885 (Health Coverage Tax Credit)**

- ◆ This form has been retired by the IRS because the credit expired at the end of 2013 and was not reinstated by the year-end tax bill.

### **Form 8889 (Health Savings Accounts (HSAs))**

- ◆ The HSA qualifications for a High Deductible Health Plan (HDHP) have been raised. The minimum annual deductible remains at \$1,250 for self-only coverage and \$2,500 for family coverage. However, the maximum out-of-pocket expenses is now \$6,350 for self-only coverage and \$12,700 for family coverage (up from \$6,250 and \$12,500). The monthly amounts for the Line 3 Limitation Chart and Worksheet are now \$3,300 for self-only coverage and \$6,550 for family coverage (up from \$3,250 and \$6,450), raised by \$1,000 under some circumstances.

### **Form 8941 (Credit for Small Employer Health Insurance Premiums)**

- ◆ Starting tax year 2014, *credit applies only for insurance provided through a Small Business Options Program (SHOP) Marketplace.*
- ◆ Credit rate for most small employers raised to 50% (up from 35%).
- ◆ Threshold for average wages below which credit is allowed raised to \$50,000 (up from \$51,000), and base for phaseout calculations raised to \$25,400 (up from \$25,000).
- ◆ Table of average premiums per small group market expanded to separate counties rather than separate states. The number of entries in the table is therefore expanded from 51 (50 states plus D.C.) to more than 2,000! As a result, *you must now manually enter an amount from the IRS table on the worksheet we provide for Form 8941; it is no longer automatic.*

### **Form 8962 (Premium Tax Credit)**

- ◆ This form has been created to provide credit for marketplace-purchased insurance and to reconcile advances on that credit (via reduced premiums) with the allowed credit based on actual 2014 income. It results in a net tax at line 46 or a net credit at line 69 of Form 1040.

### **Form 8965 (Health Coverage Exemptions)**

- ◆ This form has been created to support your claim for exemptions from the requirement to purchase health insurance. In addition, its instructions detail the computation of the amount of tax to be reported on line 61 of Form 1040 when you do not meet the individual responsibility to provide insurance for yourself, your spouse, and your dependents.

## **Schedule D Tax Worksheet**

## Highlights of Changes (2015 Edition)

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- ◆ The thresholds between the end of the 0% capital gains tax bracket and the start of the 15% capital gains tax bracket have been indexed with inflation.

## Printouts and Form 1040 Tab Settings

**Graphic printing of Form 1040 through Windows.** Windows-graphic printing of tax forms is possible with virtually any Windows printer. You just need to make sure that your program settings for graphic printouts appear as

**Special (1 = HPLaser,2 = Windows): 2**

This is the default setting for all Windows systems because it ensures that your *Tax Preparer* software will take full advantage of the printer control that is built into Windows.

**Graphic printing of Form 1040 through DOS.** Laser-graphic printing requires that you use a printer that emulates the HP LaserJet printer, that you have a compatible tax font cartridge or downloadable tax soft-font, and that you can print through DOS to an LPT or COM port. These capabilities are no longer common, but if you have the proper equipment and tax fonts, you may experience faster printing and better print quality with this setting than is possible with many Windows printers. The proper program setting for graphic printouts in this case is

**Special (1 = HPLaser,2 = Windows): 1**

This setting can have disastrous results if you do not have a compatible printer, so you should use it only when you are confident of your printer's capabilities.

**CAUTION: DO NOT change tab setting changes for Windows-graphic or laser-graphic printing of Form 1040.** The program is delivered with Form 1040 tabs preset for our computer-generated graphic printouts. Any change to those tab settings will result in improper alignment of the data with the form. The ability to change tab settings is provided only for those who want to print onto a pre-printed Form 1040, such as the one you receive from the IRS, or photocopies thereof. This option is reasonable only if you have trouble printing our built-in graphic forms, since the graphic printing of Form 1040 is included at all levels of the software (Economy, Standard, and Premium).

**Fill-in of preprinted forms (paper or transparent overlay).** If you cannot use either Windows-graphic or Laser-graphic printing, you can still produce quality printouts by printing onto a preprinted IRS Form 1040, or overlaying a printout with a transparent overlay copy of Form 1040. In either case, your program setting for fill-in printouts should be

**Special (1 = HPLaser,2 = Windows): 0**

With this setting your data are printed without any form text or graphics, so that you can print on a preprinted form, or on a blank page for photocopying with a transparent overlay of Form 1040. Unfortunately, the IRS form was not designed with computers or typewriters in mind, so some adjustment may be necessary in order for the data to fit properly on the form. This adjustment is provided through our "tab settings," which appear when you choose 5 from the Program Settings Menu (Figure 14-1 of the User's Guide). Automatic pre-

## Highlights of Changes (2015 Edition)

sets are provided for HowardSoft and IRS forms, but limited adjustment is possible for other forms through selected vertical and horizontal tabs. Vertical tabs are rounded to the nearest line (1/6-th inch, or 0.17) and horizontal tabs are rounded to the nearest character (1/10-th inch, or 0.10).

**Automatic presets for Form 1040 Tabs.** The three preset tab settings are shown in Figures 1-1 through 1-3 and described as follows:

- **Enter 1 for Facsimile, Laser-graphic, and Windows-graphic printouts** to ensure that our facsimile Form 1040 follows the IRS format and that the computer-generated graphic forms are filled in properly.
- **Enter 2 for fill-in of IRS Form 1040** to ensure the proper alignment of data onto a *bona-fide* IRS Form 1040 or photocopy thereof. However, if your printer cannot print in the bottom ½" of the page, the paid preparer's city and state will be missing from the bottom of the page. (This margin restriction is typical of many ink-jet printers.)
- **Enter 3 for fill-in of IRS Form 1040 on margin-limited printers.** Use this setting if the bottom margin of your printer is limited to no less than ½" and you must print the paid preparer's city and state on the form. With this setting the paid preparer's city and state will print, but you will no longer see the taxpayer's name and SSN at the top of page 2.

With any of the above presets you cannot change any tabs yourself. But if you enter 0 instead of one of the presets, you can enter your own vertical and horizontal tabs to adjust to some other forms.

**Ignore tabs shown on screen when you choose preset 1, 2, or 3.** The vertical and horizontal tabs shown on the screen do not immediately reflect any changes you make to your presets, but rather are readjusted when you exit the program settings screens. The tabs are shown on the screen only for the manual tabs you can enter when you choose 0 as your entry for the presets.

```
FORM 1040 TABS
Enter 1=ALL HowardSoft forms,
    2=IRS-printed form ONLY,
    3=IRS-printed form alt:           1
or ZERO to set tabs below:
VERT-Deps on 6c not abve to 6d      .33
Line 6d number to line 7            .17
Ln 37(pg1) to ln 38(pg2)           1.50
Designee Yes/No to name.           .17
HORIZ-Paper edge to ln 3 name.      2.40
...to line 4 child name.           5.60
...to line 6c First name            1.40
```

Figure 1-1. Tabs for ALL HowardSoft forms: Facsimile, Laser-graphic, and Windows-graphic Form 1040

**Default setting is for HowardSoft computer-generated Form 1040.** The software is delivered using preset 1, which is appropriate for all HowardSoft forms, as noted above. These settings are illustrated in Figure 1-1. *Preset 1 is the ONLY setting that can produce IRS-accepted,*

*computer-generated Form 1040 printouts.*

**Other settings are good for fill-in of IRS-printed Form 1040.** *CAUTION: Do NOT use these other settings for Howardsoft-supplied graphic forms; preset 1 is the ONLY setting appropriate for all of the graphic forms that are printed by the soft-*

```

FORM 1040 TABS
Enter 1=ALL HowardSoft forms,
      2=IRS-printed form ONLY,
      3=IRS-printed form alt:           2
or ZERO to set tabs below:
VERT-Deps on 6c not abve to 6d       .17
Line 6d number to line 7             .33
Ln 37(pg1) to ln 38(pg2)            1.50
Designee Yes/No to name.             .33
HORIZ-Paper edge to ln 3 name.       3.10
...to line 4 child name.             6.20
...to line 6c First name             1.50

```

Figure 1-2. Tabs for IRS-printed Form 1040 ONLY

ware. Presets 2 and 3 are appropriate only for preprinted forms you get from the IRS; they are not appropriate for any forms that are built into the software. If you choose to print onto the actual IRS Form 1040, or an accurate photocopy thereof (including transparent overlays), you would normally use preset 2, which is illustrated in Figure 1-2. The tabs are very similar to those for HowardSoft forms, but the differences provide a closer alignment to the actual IRS form. The tabs for preset 3 differ from those for preset 2 only in the distance between pages 1 and 2, as illustrated in Figure 1-3. Presets 2 and 3 are the ONLY settings that can produce accurate fill-in of a bona fide IRS-printed Form

```

FORM 1040 TABS
Enter 1=ALL HowardSoft forms,
      2=IRS-printed form ONLY,
      3=IRS-printed form alt:           3
or ZERO to set tabs below:
VERT-Deps on 6c not abve to 6d       .17
Line 6d number to line 7             .33
Ln 37(pg1) to ln 38(pg2)            1.33
Designee Yes/No to name.             .33
HORIZ-Paper edge to ln 3 name.       3.10
...to line 4 child name.             6.20
...to line 6c First name             1.50

```

Figure 1-3. Tabs for IRS-printed Form 1040 Alternate

1040 or photocopy thereof. Keep in mind, however, that the IRS does not take care to ensure that data fields and boxes are positioned at exact multiples of 10 characters per inch across and 6 lines per inch down. As a result,

some settings are unavoidable compromises that merely approximate the IRS form.

**A need for custom tab settings usually means an improperly set up printer.** The software provides 3 different preset tab settings for perfect printing on the appropriate forms, as detailed above. You should never have to use other tab settings unless you are using a form not described here. *If you have to customize tabs to print onto HowardSoft or IRS forms, either your printer's typeface is wrong (such as elite size, which is 12 characters per inch, instead of pica size, which is 10 characters per inch), or your program settings for margin, auto-skip, characters per line, or lines per page are wrong, not your tab settings.* For guidance on how to change the program settings for your printer, see Chapter 14 of the separate User's Guide. Never use the tab settings to adjust for improper type size or line spacing of your printer.

### Recommended IRS Publications

**Free help from the IRS.** In our opinion, IRS publications are a better source of information than most of the privately produced tax publications. Moreover, they are available free-of-charge directly from the IRS. Our recommendations are listed in Table 1-7. Those released by the time of our first release of the tax season are *included on the CD-ROM version of our Standard and Premium updates*. You can also get them at your local IRS Forms Distribution Center or from the IRS web site at:

<http://www.irs.gov/formspubs>

You may also order them by number from:

Superintendent of Documents  
U.S. Government Printing Office  
Washington, DC 20402

*We highly recommend the comprehensive Publication 17 for individuals, Publication 225 for farm businesses, and Publication 334 for non-farm businesses.*

**A renewed need for forms and instructions from the IRS.** In a misguided attempt to save paper and money, the IRS is no longer automatically sending forms and instructions for Form 1040 returns to taxpayers whose returns have been printed by computer. It seems that the IRS believes that those who use computers need no instructions! While that may be flattering to the taxpayer or the software developer, there are so many special cases that cannot be handled by any software or instructions that accompany them that this step merely hinders the taxpayer in fully complying with the complex rules. *We strongly recommend that if you received a postcard instead of forms and instructions, and you will be preparing your own return, request from the IRS that the forms and instructions be sent to you.*

**CD-ROM versions of Standard and Premium updates include forms, instructions, and publications.** If you ordered *Tax Preparer* a Standard or Premium update on CD-ROM, you will find a wide selection of IRS forms, instructions, and publications on the CD-ROM in PDF format. All publications listed in Table 1-7 that have been released by the release date of our software are included. In addition, forms and instructions for all forms built into the software and most of those cited in this Tax Forms Guide are included. All of these forms and publications in Adobe's PDF format and can therefore be viewed and printed using the free Adobe Acrobat Reader that is included.

**Manual fill-in by computer now available for most IRS forms.** If you need to file forms not built into *Tax Preparer*, you can now use your computer to prepare most of these forms manually thanks to the fill-in versions that the IRS has developed for many of their PDF forms. Using the free Adobe Acrobat Reader, you can enter data into preset fields in these special versions of the forms, and print the forms with the data inserted. Moreover, if you use Adobe Acrobat Reader 5.1 or later, you can save the filled-in form with your data intact. (Versions prior to 5.1 require you to purchase another Adobe product, Adobe Acrobat Approval, to have this capability.) With our Standard and Premium Level updates we provide fill-in PDF versions of many of the forms not

built into *Tax Preparer*. However, if there are any additional forms you need for fill-in, you can get them from the IRS web site at

<http://www.irs.gov/formspubs>

Note that the IRS's fill-in forms do *not* perform any calculations, validation, or verification of entries, but allow you to enter data in the regular data entry portions of the form. If you have special situations where you are instructed to write data on a dotted line or beside a line, you will have to handwrite that data onto the form after printing it.

**Manual fill-in by computer also available for many state forms.** Many states offer forms with the same capabilities as the IRS fill-in forms, also based on Adobe Acrobat's PDF format. If you need a state income tax form, we recommend that you access the state's web site through the download page on our public website at:

<http://www.howardsoft.com/links.htm>

Go to the section near the middle of the page labeled "Links and downloads for other states" and click "Federation of Tax Administrators." This site contains links to the sites of all states that have an income tax. Forms that can be filled-in by computer will be identified on the state's web site as "fill-in forms" or "fillable forms."

**Table 1-7. Recommended IRS Publications**

1	Your Rights as a Taxpayer
3	Armed Forces Tax Guide
4	Student Guide to Federal Income Tax
5	Appeal Rights and Preparation of Protests for Unagreed Cases
17	Your Federal Income Tax
54	Tax Guide for U.S. Citizens and Resident Aliens Abroad
225	Farmer's Tax Guide
334	Tax Guide for Small Businesses
378	Fuel Tax Credits and Refunds
463	Travel, Entertainment, Gift, and Car Expenses
501	Exemptions, Standard Deduction, and Filing Information
502	Medical and Dental Expenses
503	Child and Dependent Care Credit
504	Divorced or Separated Individuals
505	Tax Withholding and Estimated Tax
509	Tax Calendars for 2015
514	Foreign Tax Credit for Individuals
516	U.S. Government Civilian Employees Stationed Abroad
517	Social Security and Other Info. for Clergy and Religious Workers
519	U.S. Tax Guide for Aliens
520	Scholarships and Fellowships
521	Moving Expenses
523	Selling Your Home
524	Credit for the Elderly or the Disabled
525	Taxable and Nontaxable Income
526	Charitable Contributions
527	Residential Rental Property
529	Miscellaneous Deductions
530	Tax Information for First-Time Homeowners
531	Reporting Tip Income
533	Self-Employment Tax
534	Depreciating Property Placed in Service Before 1987
535	Business Expenses
536	Net Operating Losses
537	Installment Sales
541	Partnerships
544	Sales and Other Dispositions of Assets
547	Casualties, Disasters, and Thefts
550	Investment Income and Expenses
551	Basis of Assets
552	Record keeping for Individuals
554	Older Americans' Tax Guide
555	Community Property
556	Examination of Returns, Appeal Rights, Refund Claims
560	Retirement Plans for the Self-Employed
561	Determining the Value of Donated Property
564	Mutual Fund Distributions
575	Pension and Annuity Income
587	Business Use of Your Home
590-A	Contributions to Individual Retirement Arrangements (IRAs)
590-B	Distributions from Individual Retirement Arrangements (IRAs)
596	Earned Income Credit
600	Optional State Sales Tax Tables
907	Tax Highlights for Persons With Disabilities
908	Bankruptcy Tax Guide
925	Passive Activity and At-Risk Rules
926	Household Employer's Tax Guide
929	Tax Rules for Children and Dependents
936	Home Mortgage Interest Deduction
939	General Rule for Pensions and Annuities
946	How to Depreciate Property
968	Tax Benefits for Adoption
969	Medical Savings Accounts
970	Tax Benefits for Education
972	Child Tax Credit



## Chapter 2

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### Form by Form Details

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## How to Use This Chapter

**Line-by-line details.** This chapter provides line-by-line details for all forms and schedules built into the software, including

- expanded descriptions for each line**, to help you understand the brief labels that appear on the screen,
- operating details**, identifying the IRS forms and worksheets that support a line and highlighting movement among the forms,
- description of automatic calculations**, to let you know what to expect and why, and
- clarification of tax regulations**, with examples of the kind of information that must be supplied.

Forms appear in this chapter in the same as they appear on the Forms Menu that you see when you choose "ENTER Forms/Schedules" after choosing "PRE-PARE 1040 Tax Returns" from the Main Menu.

**Refer to Chapter 7 of *User's Guide* for keyboard help.** Throughout this chapter we refer to several special keys for controlling movement through the forms and their computations. Please refer to Chapter 7 of the separate *User's Guide* if you do not know how to identify these keys on your computer.

**How special lines are flagged in the manual.** Special lines are identified in this manual as follows.

**auto-calc** identifies a fully-automatic calculated line. An auto-calc line can generally be overridden by use of the Override Key, but this is rarely recommended.

**Road Map line, supported by Form \_\_\_\_ or Schedule \_\_** identifies a line through which a supporting IRS form or schedule is accessed with the Itemize Key. The entry for the line comes automatically from the supporting form. You can make an entry directly on the line for tax planning purposes, but your entry is overridden by the number from the supporting form, if it exists, during final calculations.

**Supported by the \_\_\_\_\_ Worksheet** identifies a line through which a worksheet customized to the line is accessed. While the main access line is flagged as described in the next paragraph, worksheets typically support several lines near the main access line as well.

Lines that carry none of the above designations are supported by a generic itemized list, as described in Chapter 12 of the separate *User's Guide*. (Note that auto-calc and Road Map lines are visible during data entry only when you use the Road Map or normal, full-screen methods of data entry, and not when you use one of the high-volume data entry methods.)

**How special lines are flagged on the screen.** Special lines like the ones described above are easily identified on 80-column screens, where the lines are wide enough to hold special flags.

- (shaded block) flags an auto-calc line. The block appears in the column where the cursor would normally lie on an entry line, and prevents the cursor from stopping at that line.
- r flags a Road Map line *before* the supporting form is created. When you press the Itemize Key at a Road Map line, the supporting form is

accessed, and thereby created, and the "r" turns into an "i" to indicate that the supporting form exists.

- w **flags a worksheet line before the worksheet is created.** When you press the Itemize Key at a worksheet a line, the supporting worksheet is accessed, and thereby created, and the "w" turns into an "i" when you return to the supported form.
- i **flags that the line is supported, either through the Road Map, a worksheet, or a general itemized list.** As implied above, the "i" indicates that support for a line exists, and its entry is determined by the supporting entity.
- d **flags a detached itemized line.** If you press the Detach Support Key on a line flagged by an "i", or you manually change the entry for the line, a "d" appears beside the entry and the corresponding support is no longer printed with the official return. You can reattach the support by pressing the Itemize Key at the line anew, and the total provided by the support is restored. (Note that you cannot detach a supporting IRS form from a Road Map line.)
- o **flags an overridden line.** If you change an entry on an auto-calc line by invoking the Override Key, your entry for that line is flagged by an "o" to the right of the new entry, and the shaded block disappears. If you later invoke the Detach Override Key, the "o" disappears, the shaded block reappears, and the line is recalculated anew.

**Refer to Chapter 11 for Reference Numbers.** If you use a high-volume method of data entry you will want to know the internal reference numbers for high-volume data entry. They are not shown here but are available from printouts of data input sheets described in Chapter 11 of the separate User's Guide.

**Override possible, but don't get carried away.** The Override Access Key gives you manual access to auto-calc lines, but its use is intentionally limited:

- 1 A return cannot have more than 20 overrides. (*CAUTION: If you need to override more than 20 lines on any one return, you are either misusing the software or you misunderstand the tax law.*)
- 2 Lines that get their entry from a supporting form cannot be overridden. To avert inconsistencies with the supporting form, you must override numbers on the supporting form instead.
- 3 Worksheet lines cannot be overridden, but many worksheets provide a means for manual entry when it makes sense to do so.

*CAUTION: Whenever you use the Override feature you materially affect the calculations, so we strongly recommend that you refrain from using it.* It is intended for emergency situations only.

## Where to Report Income and Deductions

**Where to report income.** The IRS requires that you report income from *ALL* sources. However, it is not always obvious where to report income other than wages. So we provide Table 2-1 to guide you by type of income, and Table 2-2 to guide you by the IRS form you receive from the payer.

**Table 2-1. Where to Report Income (by type of income)**

<b>INCOME ITEM</b>	<b>WHERE TO REPORT</b>
Advance Payment of Wages	Form 1040, line 7
Alimony Received	Form 1040, line 11
Alaska Permanent Fund Dividends	Form 1040, line 21
Amortizable bond premium	
acquired after 12/31/87	Sch. B, ln 1 (1099-INT)
acquired before 10/23/86	Schedule A, line 27
Annuities	Form 1040, line 16
Awards	Form 1040, line 21
Back Pay	Form 1040, line 7
Bad Debts Recovered	Form 1040, line 21
Beneficiary Income	Schedule E, Part III
Bonuses	Form 1040, line 7
Business Income, partnership	Schedule E, Part II
self-employed	Schedule C, Part I
Cancellation of debt (1099-C)	Form 1040, line 21
Capital Gains	Schedule D or Form 4797
Commissions	Form 1040, line 7
Dividend Income, taxpayer's	Schedule B, line 5
child's	Form 8814
Education Savings Accounts,	
taxable distributions from	Form 1040, line 21
Executors' Fees	Form 1040, line 21
Expense Allowances	Form 1040, line 7
Farm Income, partnership	Schedule E, Part II
self-employed	Schedule F, I or III
Fees, nonprofessional,	
directors, election board	Form 1040, line 21
Fishing Income, partnership	Schedule E, Part II
self-employed	Schedule C, Part I
Gambling Winnings	Form 1040, line 21
Home sale, if taxable gain	Schedule D, line 10
Illegal Business Profits	Form 1040, line 21
Installment sales	Form 6252
Interest Income, taxpayer's	Schedule B, line 1
child's	Form 8814
IRA Distributions	Form 1040, line 15
Jury Fees	Form 1040, line 21
Nontaxable interest	Sch. B, ln 1 (1099-INT)
Nontaxable income	Form 1040, after line 22
Partnership Income	Schedule E, Part II
Pensions	Form 1040, line 16
Prizes	Form 1040, line 21
Punitive Damages	Form 1040, line 21
Qualified Tuition Programs,	
taxable distributions from	Form 1040, line 21
Raffle Winnings	Form 1040, line 21
Recapture, clean-fuel deduc'n	Form 1040, line 21
Refunds, State/Local Inc Tax	Form 1040, line 10
Real Estate Tax	Form 1040, line 21
Reimbursement of prior deductions	Form 1040, line 21
Rents Received	Schedule E, Part I
Rewards	Form 1040, line 21
Royalties Received	Schedule E, Part I
Sale of Business Property	Form 4797
Home, Stocks, Bonds	Schedule D
Salaries, Tips, Wages	Form 1040, line 7

**Table 2-2. Where to Report Income (by IRS form received)**

<b>FORM</b>	<b>WHERE TO REPORT</b>
Schedule K-1	Schedule B (for line 8a or 9 of 1040), Schedule D (for line 13 of 1040), Form 4797 (for line 11 of Schedule D or line 14 of 1040), or Schedule E (for line 17 of 1040), as instructed by the payer on Schedule K-1.
Form W-2	Line 7a and 7b of Form 1040. (enter nontaxable earned below line 22)
Form W-2G	Line 21 of Form 1040.
Form 1099-B	Schedule D (for line 13 of 1040) for sales of personal property, Form 4797 (for line 14 of 1040) for sales of business property, Schedule B (for line 13 of Schedule D for capital gain distributions, Sch C, C-EZ, D, E, or F, or line 21 of Form 1040, depending on the activity for which the bartering was in trade.
Form 1099-C	Line 21 of Form 1040.
Form 1099-DIV	Schedule B (for line 9 of Form 1040), or Form 8814 (for line 44 of Form 1040)
Form 1099-INT	Schedule B (for line 8a or 8b of 1040), or Form 8814 (for line 44 of Form 1040)
Form 1099-G	Line 10 of Form 1040 for state and local tax refunds if deducted in a prior year, Line 19 of Form 1040 for unemployment compensation, Line 21 of Form 1040 for real estate tax refunds if deducted in a prior year. Schedule F for farm-related payments (agricultural program payments and disaster payments)
Form 1099-MISC	Schedule C or C-EZ (for line 12 of 1040) for business or professional income, Schedule E (for 17 of 1040) for royalties, Schedule F (for ln 18 of 1040) for farms, Form 1040 line 21 for most other income. Also include withholding in line 64 of Form 1040.
Form 1099-OID	Line 1 of Schedule B (for line 8a of 1040), for your share only.
Form 1099-R	Line 15a and 15b of Form 1040 if an IRA distribution, line 16a and 16b if another form of pension or annuity.
Form 1099-S	Schedule D or Form 4797.
Form SSA-1099	Line 20a of Form 1040.
Form RRB-1099	Line 20a of Form 1040.

## Form by Form Details (2015 Edition)

**Where to report deductions.** Some deductions reduce income before the adjusted gross income (AGI) is totaled at line 37 of form 1040, and are detailed in Table 2-3. Other deductions reduce income after line 38 through itemized deductions on Schedule A, and are detailed later, in our instructions for Schedule A.

**Table 2-3. Where to Report Deductions**

DEDUCTIBLE ITEM	WHERE TO REPORT
Alimony & Separate Maintenance Payments	Form 1040, line 31a
Amortizable bond premium acquired before 10/23/86	Schedule A, line 28
Amortization	Form 4562, Part VI
Bad Debts, Farm business	Schedule F, line 34
Non-farm business	Schedule C, line 9
Other than business	Schedule D, ln 1 (worksheet)
Business Credits	Form 3800
Business Expenses, Employee's	Form 2106
Business Expenses, fee-basis state/local gov't officials	Form 1040, line 24
Business Expenses & Losses	Schedule C, Part II
Business Use of Home	Form 8829
Capital Asset Loss	Schedule D
Capital Construction Fund	Form 1040, line 43 (use override to reduce income by amt contributed to fund)
Capital Loss Carryover	Schedule D
Casualty Loss	Form 4684
Clean Vehicle Fuel, business use	Sch C, line 27, or F, line 34
Clean Vehicle Fuel, nonbusiness	Form 1040, line 36
Depletion	Schedule E
Depreciation of Business Property (Including ACRS & Section 179 Deduction)	Form 4562 and the applicable schedule (A, C, E, F, 2106)
Farm Expenses	Schedule F, Part II
Foreign housing deduction	Form 1040, line 36
Foreign income/housing exclusion	Form 1040, line 21 (negative)
IRA contributions, Deductible	Form 1040, line 32
Nondeductible	Form 8606
Interest penalty for early withdrawal of savings	Schedule B, ln 1 (worksheet)
Investment Credit	Form 3468
Jury pay given to employer	Form 1040, line 36
Lump-sum Distributions	Form 4972 or 5544
Moving Expenses	Form 3903
Net Operating Loss Carryover	Form 1040, ln 21 (negative)
Nontaxable income	Form 1040, after line 22
Performing arts expense	Form 2106 (for 1040 line 24)
Self-employment	
Health insurance	Form 1040, line 29
Other expenses, nonfarm	Schedule C, Part II
Other expenses, farm	Schedule F, Part II
Self-employed SEP, SIMPLE, and other qlfd plan contributions	Form 1040, line 28
worthless Securities	Schedule D

*NOTE: Most deductions not included above should be shown on Schedule A, detailed in Tables 2-6 to 2-9.*

### Control Form

**Optional form for more control.** This form provides the overall control of the return, but rarely requires your attention unless you have estimated tax payments to report. Among the purposes of this form are the entry of data for:

- Tax year – for tax planning in future years.
- Dollar rounding – to ensure consistency throughout the return when the IRS-preferred rounding is used.
- Estimated taxes paid – including both federal amounts for Form 1040 and state amounts for Schedule A.
- Blocking auto-creation of selected forms – for rare exceptions that make you eligible to omit the selected forms from the return.
- Summarizing prior-year and current tax details for Form 2210 – for an accurate determination of penalties for underpayment.
- Client Letter Control – for control of text to be printing on cover and billing letters.
- Signature Block Control – for control of whether or not paid preparer information will print in the signature block of Form 1040 and other signature forms.

The form also provides a tax summary for the return, which will appear on any cover letters to clients you choose to print. *This form is accessible through the Road Map by pressing the Itemize Key (F10 or I) at the first line of Form 1040, where Tax Year is shown.*

**TAX YEAR CONTROL.** This section controls the assumptions under which the return is calculated.

**Tax year (2014 unless tax planning).** This entry controls the tax year assumed in all calculations. It is automatically 2014 unless you enter a later year. The entry 2014 results in an official return for the 2014 tax year. *If you enter a later year, an unofficial return for the later year is produced using currently scheduled changes in the tax regulations that are built into the software.* (TIP: Be sure to make a copy of the 2014 return with our file manager before you alter the return for tax planning.) The tax year entry also controls how data are transferred to next year's return with the software's "translate" feature. If you leave the entry at 2014, next year's "translate" will know to shift certain amounts to different lines, as required for such date-sensitive forms as Form 4562. *CAUTION: Supporting worksheets are NOT automatically recalculated after you change the tax year. You must access each affected worksheet to force its recalculation based on the new entry for tax year.*

**Monetary amounts rounded to \$'s. (auto-calc)** This entry shows the rounding rule under which the return is calculated. When you start a return by translating a prior-year return, the setting for such date-sensitive forms as Form 4562. *CAUTION: Supporting worksheets are NOT automatically recalculated after you change the tax year. You must access each affected worksheet to force its recalculation based on the new entry for tax year.*

setting in your program setting for "Round to the nearest dollar?" is used. (See Chapter 14 of the separate User's Guide for further information on this program setting.) *The IRS prefers rounding to the nearest dollar*, but only if you apply it consistently throughout the return. However, the IRS specifically instructs you to round ONLY the total amount to be entered on the IRS form, and NOT the individual components that make up that amount. So, the software intentionally refrains from rounding amounts on individual supporting statements, even when the answer here is Yes. *If you change this entry in the midst of preparing a return, which you can do by invoking the Override Key, unacceptable rounding inconsistencies could result. You should therefore refrain from changing the setting except when starting the return. TIP: We recommend dollar rounding for all returns to minimize the potential for computational inaccuracies* in the penny amounts for returns with entries that exceed \$100,000.

**Indexing % used for 2015 plans.** *(auto-calc)* Tax tables, earned income credit tables, exemption rates, and the standard deduction are all indexed with inflation by law. The indexing rate that reflects the tables and rates for the next tax year is supplied by the software and shown here. The indexing rate for tax year 2015 relative to tax year 2014 is 1.58%. Although you could change this rate by using the Override Key, we strongly recommend against it because *this entry must be the rate supplied by HowardSoft for an accurate estimate of tax year 2015 taxes and a valid Form 1040-ES.*

**FEDERAL ESTIMATED TAX PAYMENTS.** Payments of estimated tax to the IRS and the application of refund from the prior-year return are both credited to the return at line 65 of Form 1040 based on the following details.

**Federal tax applied from 2013 return.** For a translated return with tax year retained at 2013, this entry will already be correct. If not translated, or if translated from a tax planning return (tax year already set to 2014), you must enter the amount that appears on line 75 of your 2013 return, which is the part of your refund applied to estimated taxes for 2014.

*In the next 4 lines, enter late payments in the quarter they were actually paid, not the quarter they were due:*

**Federal estimated tax paid in 1st quarter.** Enter the amount paid by the end of the first federal quarterly period (April 15, 2014).

**Federal estimated tax paid in 2nd quarter.** Enter the amount paid by the end of the second federal quarterly period (June 15, 2014).

**Federal estimated tax paid in 3rd quarter.** Enter the amount paid by the end of the third federal quarterly period (September 15, 2014).

**Federal estimated tax paid in 4th quarter.** Enter the amount paid by the end of the fourth federal quarterly period (January 15, 2015).

**TOTAL for Form 1040, line 65.** *(auto-calc)* Computed as the sum of the above five lines, and posted to Form 1040 as indicated.

**STATE ESTIMATED TAX PAYMENTS.** Payments of estimated tax to the state are deductible on Schedule A for the year the payments are actually made. You could make your total entry directly on Schedule A on the line above line 5 labeled "Other non-fed tax paid," but the Control Form provides an easy way to reconcile the differences between what you deduct and what your state return reflects, and ensures the proper automation of HowardSoft's California Supplement for those who prepare California state returns.

**Prior 4th quarter 2013 estimated tax paid in 2014.** Enter any 2013 fourth quarterly payment made after December 31, 2013. An entry here is common because the due date for this payment was January 15, 2014.

**State estimated tax paid in 1st quarter.** Enter the first quarterly payment to the state for the tax year, *including any amount applied from a refund on the prior-year state return.*

**State estimated tax paid in 2nd quarter.** Enter the second quarterly payment to the state here for the tax year.

**State estimated tax paid in 3rd quarter.** Enter the third quarterly payment to the state here for the tax year.

**State estimated tax paid in 4th quarter.** Enter the fourth quarterly payment for the tax year *whether it was paid before January 1 or not.*

**Part of 4th quarter estimated tax paid in 2015.** Enter the part of the preceding entry that was not actually paid until after December 31, 2014. An entry here is common because the due date for this payment is January 15, 2015 for most taxpayers.

**TOTAL for Schedule A, line 5a. (*auto-calc*)** Computed as the sum of the first five lines less the last line. This result is posted to Schedule A as one component of the deduction for taxes on line 5a of Schedule A when the income tax method is used for line 5 of Schedule A. *The middle four lines should be reported on the state return as tax paid in advance for the purposes of that return.*

**AUTO-CREATION OVERRIDE.** A number of forms are automatically generated and completed upon the final recalculation of the return when they appear necessary based on your data. If the calculations on the completed, automatically-generated form indicate that the form is indeed required, the form becomes a permanent part of the return. You can defeat this automatic feature for a particular form by answering Yes to the corresponding "Block auto-creation?" question, below. But we generally recommend against it because *the built-in automation is your safeguard against inadvertent omissions on your return, and very rarely is a bypass of the automation legitimate.*

**Block Schedule A auto-creation?** Unless you answer Yes, Schedule A is generated when the estimated state tax payments entered on the Control Form plus the state tax withholding entered on the W-2 and 1099-R Worksheets for Form 1040 lines 7, 15, and 16 total more than the standard deduction, and the total deduction on the schedule exceeds the standard deduction that would otherwise apply. ***CAUTION: Even though this schedule is automatically generated based on***

state taxes, you will have to access it to supply information on other deductions.

**Block Schedule EIC auto-creation?** Unless you answer Yes, the earned income credit is computed and Schedule EIC is generated if it appears from your dependent claims, earned income, age, and AGI that you may be eligible for the Earned Income Credit, but is retained with the return only if a credit results. Note that even if you qualify for the childless credit, Schedule EIC is still required to perform the computations, even though it is not printed with the return in this case.

**Block Schedule R auto-creation?** Unless you answer Yes, Schedule R is computed when it appears from the return that you may get a credit based on age, but is retained with the return only if a credit actually results from a detailed calculation. CAUTION: Even though this schedule is automatically generated, you may have to access it to supply information on nontaxable pensions not reported on line 16a or 20a of Form 1040 or information on disabilities.

**Are YOU SE-exempt via Form 4029?** If you filed Form 4029 as a conscientious objector to social security tax and you received IRS approval for it, you are not subject to the tax and should answer Yes.

**Are YOU SE-exempt via Form 4361?** If you filed Form 4361 as a member of a minister, member of a religious order, or Christian Science practitioner, and you received IRS approval for it, you are not subject to the SE on your ministerial income. Answer Yes here if this is your only self-employment income. But answer No if you received other self-employment income, and make the proper entries on Schedule SE to exempt the ministerial income alone.

**Block YOUR SE auto-creation?** The answer is automatically Yes if you answered Yes to either of the above two questions, but you can also answer Yes yourself for special cases. Unless you answer Yes, Schedule SE is generated for you when your earned income less wages is more than \$433.13 (\$433 for a rounded return). You may legitimately block the auto-creation under only very limited circumstances, including the preceding two questions.

**Is SPOUSE SE-exempt via Form 4029?** As above, but for spouse.

**Is SPOUSE SE-exempt via Form 4361?** As above, but for spouse.

**Block SPOUSE SE auto-creation?** As above, but for spouse's income.

**Block Form 2210 auto-creation?** Unless you answer Yes, Form 2210 (along with 2210-F) is generated when the amount of underpayment (line 63 less line 74 of Form 1040) is \$1000 or more. (The software decides whether 2210 or 2210-F is applicable.)

**Block YOUR Form 5329 auto-creation?** Unless you answer Yes, Form 5329 is generated when the IRA deductions allowed on Form 1040 are less than the actual IRA contributions AND a penalty results from the excess contribution. A Yes is acceptable here if you are under 59-1/2 years of age and any 1099-R you received for the year has distribution code 2, 3, or 4 properly shown in box 7. These codes in-

dicating an exception to the 59-1/2 age rule, an exception due to disability, or an exception due to death, respectively. Otherwise you should complete Form 5329 and identify any applicable exception yourself at line 2 of Form 5329. **CAUTION: If you have a distribution from a Roth IRA or a Coverdell ESA, or you have excess contributions to either, you should NOT block the autocreation of Form 5329 because special penalties apply.**

**Block SPOUSE Form 5329 auto-creation?** The same considerations apply to the spouse as noted above for the principal taxpayer.

**Block Form 6251 auto-creation?** Unless you answer Yes, Form 6251 is generated when a minimum tax exists based on your adjusted gross income, exemptions, and filing status. **CAUTION: This form is required under many more circumstances than those that cause it to be created automatically. You should therefore access the form yourself if you have any tax preferences not automatically posted to Form 6251.**

**Block Form 8582 auto-creation?** Unless you answer Yes, Form 8582 is generated when Schedule E has any passive losses or Schedules C, D, F, or Form 4797 have a net passive activity loss.

**Block YOUR Form 8606 auto-creation?** Unless you answer Yes, Form 8606 is generated when the IRA deductions allowed on Form 1040 are less than the actual IRA contributions. **CAUTION: Even though this form is automatically generated, you will have to access it to report the current value and past basis of your IRA accounts** if you ever made nondeductible contributions to it.

**Block SPOUSE Form 8606 auto-creation?** The same considerations apply to the spouse as noted above for the principal taxpayer.

**Block Schedule 8812 auto-creation?** Unless you answer Yes, Schedule 8812 is generated when your Child Tax Credit at line 52 of Form 1040 is less than the full amount and it appears that you can gain at least some of that credit back as a refundable tax credit at line 67.

**Block Form 8880 auto-creation?** Unless you answer Yes, Form 8880 is generated when you have an IRA deduction at line 32 of Form 1040 and it appears that you are eligible for a credit for your contribution to the IRA.

Note that forms are automatically generated only upon the final recalculation of the return: when you exit the return, you press the Recalculate Key, or you choose Recalculate from the Preparation Menu. **CAUTION: Once generated, such forms become a permanent part of the return. You CANNOT remove them merely by answering Yes to the above questions,** but you can later remove them using the File Manager, as detailed in Chapter 9 of the User's Guide. However, when you remove the form you do not automatically remove the numbers it may have already posted to other forms.

**Schedules B, D, and E, and Forms 4797 and 8949 also automatically generated.** You are *not allowed to block their automatic creation* because they are generated as needed for a result to be properly reflected in the totals for Form 1040:

- Schedule B is needed when an amount for foreign tax paid or a Yes answer to a foreign account question appears on Form 8814.
- Schedule D is needed when a qualified dividend or capital gain distribution is reported on a 1099-DIV worksheet for Schedule B or Form 8814, or when a gain or loss from a sale on Form 4797 or 6252, or a casualty or theft on Form 4684, must be reported there. (Note that even though the IRS now allows you to omit Schedule D under some special circumstances, the software still generates it in order to perform the proper tax calculations. However, the schedule is automatically omitted from printing when allowed under IRS rules.)
- Schedule E is needed when farm rental income is shown on Form 4835.
- Form 4797 is needed when a gain on an installment sale (Form 6252) or casualty or theft (Form 4684) must be reported there.
- Form 8949 is needed for official printouts whenever there are amounts on lines 1, 2, 3, 9, 10, or 11 of Schedule D, because the details on the worksheets for those lines are no longer shown on the official printout of Schedule D but are shown only on Form 8949, as required by the IRS.

**INFORMATION FOR FORM 2210.** The computation of the penalty on underpayments of estimated tax is based on both current-year and prior-year taxes computed in a special way. Prior-year information shown here is translated from the prior-year return, and current-year information is posted from Form 1040 amounts:

**Filed full-year return in PRIOR year?** If you answer Yes, the amount on the next line is used on Form 2210 as the amount of prior-year tax. *If you answer Yes, you MUST enter the tax in the next entry or else the software will assume the tax was really zero.*

**PRIOR-year tax paid (unadjusted).** For a translated return with tax year retained at 2013, this entry will already be correct. It is taken from the amount computed on the prior-year Control Form for Form 1040-ES, line 14b (at the bottom of the same screen as this entry). If not translated, or if translated from a tax planning return (tax year already set to 2014), you must determine the amount to enter here. You can compute it in the same way as we compute the amount for Form 1040-ES line 14b. This is the same as tax that would appear at line 9 of the prior-year Form 2210.

**PRIOR-year filing status (1-5).** You must enter the prior filing status here unless it has already been translated from the prior-year return or the filing status is the same in 2014.

**PRIOR-year Adjusted Gross Income.** You must enter the prior AGI here unless it has already been translated from the prior-year return.

**Adjustment for filing status change.** *(Applicable only if the PRIOR-year filing status above differs from the one on the current Form 1040.)* You may need to make an adjustment if your prior-year tax would

have differed had you used the current-year filing status. See IRS Pub. 505 for details.

**PRIOR-year tax for Form 2210 line 8.** *(auto-calc)* Computed as the unadjusted tax plus the above adjustment. For most taxpayers, this is the PRIOR-year tax to be used on Form 2210 for penalty exceptions. However, the amount used on Form 2210 may be 110% of this amount if prior-year AGI exceeds \$150,000 (\$75,000 if married filing separately).

**Tax on 1040 lines 57, 60b, and line 62.** *(auto-calc)* Taken from Form 1040 as indicated, this is the sum of self-employment tax (line 57), first-time homebuyer credit repayment (line 60b), and numerous write-in taxes (line 62).

**Less UT, EPP, Form 8866, Form 8697, and FMSR taxes in Form 1040 line 62.** *(auto-calc)* Taken as the part of line 62 of Form 1040 identified on Form 1040 as stemming from the indicated recapture and other taxes.

**Plus Early distribution part of Form 1040 line 59.** *(auto-calc)* Taken from line 4 of Form 5329.

**Plus ESA/QTP distribution in Form 1040 line 59.** *(auto-calc)* Taken from line 8 of Form 5329.

**Plus Household employment tax on Form 1040 line 60a.** *(auto-calc)* Taken as the amount on Form 1040, line 60a, from Schedule H. TIP: If did not have taxes withheld from your income or you would not be required to make estimated tax payments if household employment taxes were not included, this amount should not be included; in this case you would include the amount as a negative number in your entry for the following adjustment line.

**Plus Other adjustments for Form 2210 line 2.** Enter here any other adjustment to the amount to be entered on line 2 of Form 2210. For example, if line 62 of Form 1040 includes excise tax on insider stock compensation from an expatriated corporation (identified as ISC in the support for our line above line 62 labeled "Itemize Codes for others"), you would enter the amount here as a negative number.

**Tax for Form 2210 line 2.** *(auto-calc)* Computed as the sum of specific taxes in the total on line 63 of Form 1040, as computed above, this is the "Other taxes" entry to be added to the regular tax after credits at line 56 of Form 1040 in computing the CURRENT-year tax to be used on Form 2210 for penalty computations.

**Less Earned Income Credit on Form 1040 line 66a.** *(auto-calc)*

**Less Additional child tax credit on Form 1040 line 67.** *(auto-calc)*

**Less Fuel tax credit on Form 1040 line 72.** *(auto-calc)*

**Plus Net tax on Form 1040 line 56.** *(auto-calc)*

**Tax for Form 1040-ES line 14b.** *(auto-calc)* Computed from the above lines as the tax after credits on Form 1040 line 56 plus other taxes for Form 2210 line 2 less the three credits shown above. This is the amount to be used *NEXT* year on Form 2210 in computing the penalty exceptions. It is therefore used in the current Form 1040-ES in estimating next year's tax subject to penalty.

The results in the above section are posted to lines 2 and 8 of Form 2210, and line 14b of Form 1040-ES, as indicated.

**OPTIONS FOR PAID PREPARERS.** The next few lines relate to the cover and billing letters that are printed by tax professionals for their clients.

**DATE FOR LETTERS TO CLIENT.** The standard letter is not dated. If you prefer the letter to be dated, you can enter any date to appear on the letters with the following entry:

**Date for letters.** Enter the date to appear on the cover and billing letters. It is printed in the center of the page below the preparer's letterhead.

**SUBSTITUTE SALUTATION.** The standard salutation for letters is a concatenation of the first and last names for you and spouse, such as "Dear Jonathan A. & Marilyn M. Sample." However, if you prefer a more personal salutation, you can replace the first and last names with the following entry:

**Enter what to print after Dear:** Enter the salutation to be used after the word "Dear" by entering it here in 35 characters or less.

**OPTIONAL COVER LETTER TEXT.** Samples of the cover letter appear at the end of Chapters 4 of the separate User's Guide.

**Tax summary always prints.** The letter always starts with the tax summary, then general instructions on signing, dating, and mailing the return. But the remainder of the letter is under your control.

**OMIT all instructional text?** The standard cover letter includes instructional text for the client indicated by a Yes answer to either or both of the following questions. If you prefer to have no instructional text in the letter, irrespective of the answers, answer Yes here.

**Print joint filer instructions.** (*auto-calc lines*) Answered Yes if the filing status on the return is married filing jointly and your answer to "OMIT all instructional text" is No, but you can override this line (using the Override Key) to omit the reminder that both spouses must sign.

**Print payment instructions.** (*auto-calc lines*) Answered Yes if the tax summary shows an amount due and your answer to "OMIT all instructional text" is No, but you can override this line (using the Override Key) to omit instructions to "send a check to the IRS identified with your social security number."

**More cover letter lines (itemize).** (*Supported by the Worksheet for Optional Text for Letters, Figure 2-1.*) Up to 5 additional lines of text can be added to the letter for this client through the worksheet that supports this line. *Typical uses for these lines include additional instructions to the taxpayer or a personalized message.*

A standard closing is also printed along with the tax preparer's name.

**OPTIONAL BILLING LETTER TEXT.** Samples of the billing letter appear at the end of Chapters 4 and 13.

**List of forms always prints.** A list of forms prepared for the client always prints, but the remainder of the letter is under your control.

**More billing letter lines (itemize).** (*Supported by the Worksheet for Optional Text for Letters, Figure 2-1.*) Up to five additional lines of text

## Control Form

can be added to the letter for this client through the worksheet that supports this line, which is identical in form but separate in content from the worksheet that supports the cover letter. Typical uses for these lines are to list additional forms or state returns prepared that are not built into the software, or to list other services rendered.

**Fee for services rendered is \$.** Enter the invoice amount to appear on the billing letter for the return. If you enter zero, the line stating the fee is omitted from the billing letter.

A standard closing is also printed along with the tax preparer's name.

**SIGNATURE BLOCK (1040, etc).** The paid preparer information you supply in the software's Program Settings is generally printed at the bottom of page 2 of Form 1040 and certain other signature forms. However, you can choose to omit it with the following entry:

**Omit paid preparer information?** Answer Yes to omit the printing of the paid preparer information in the signature block of Form 1040 and other signature forms for this return alone.

**Optional Text for Letters, Figure 2-1.** Up to 5 additional lines of text can be added to the cover letter and/or billing letter. What you enter will apply only to the tax return you are currently preparing, so you can customize your entries for that return. A separate worksheet for each type of letter is provided, but the design of the two worksheets is identical, as detailed here. The text for each 61-character line is entered in 3 parts, as follow:

**Line n – start.** Enter here the first 25 characters of the line. Your entries in the next 2 lines will be appended to this one for the printout.  
**middle.** Enter here the next 25 characters of the line. Your entry will be appended to the preceding entry at character positions 26 through 50.

```
OPTIONAL TEXT FOR LETTERS
The following entries print on
the letters as 5 61-char rows:
Line 1 - start.....
        middle.....
        end of line 1.....
Line 2 - start.....
        middle.....
        end of line 2.....
Line 3 - start.....
        middle.....
        end of line 3.....
Line 4 - start.....
        middle.....
        end of line 4.....
Line 5 - start.....
        middle.....
        end of line 5.....
```

Figure 2-1. Optional Text for Letters

**End of line n.** Enter here the final 11 characters of the line. Your entry will be appended to the preceding entry at character positions 51 through 61.

Note that no more than 5 lines of additional text are allowed.

**TAX SUMMARY.** The detailed tax summary shown here is determined from the results on Form 1040. It is used on printed cover letters to clients.

**INCOME.** (auto-calc lines) Income is summarized as follows:

**Total Income.** Posted from line 22 of Form 1040.

...less adjustments. Posted from line 36 of Form 1040.

**Adjusted Gross Income.** Posted from line 38 of Form 1040.

...less deductions. The sum of lines 40 and 42 of Form 1040.

**Taxable Income.** Posted from line 43 of Form 1040.

**TAXES.** *(auto-calc lines)* Taxes are summarized as follows:

**Regular plus minimum tax.** Posted from line 47 of Form 1040.

...less credits. Posted from line 55 of Form 1040.

...plus other taxes. Computed as line 63 less line 56 of Form 1040.

**Total 2014 Tax.** Posted from line 63 of Form 1040.

...less payments. Posted from line 74 of Form 1040.

**Amount Overpaid.** Line 74 less line 63 of 1040, but no less than zero.

**Amount Underpaid.** Line 63 less line 74 of 1040, but no less than zero.

**Penalty.** Posted from line 79 of Form 1040.

Only non-zero lines among the last three lines are printed on the cover letter.

**REFUND OR AMOUNT YOU OWE.** *(auto-calc lines)* Net tax is summarized here:

**TOTAL REFUND available.** Computed as Amount Overpaid less Penalty, but no less than zero.

**TOTAL YOU OWE to I.R.S.** Computed as Amount Underpaid plus Penalty less Amount Overpaid, but no less than zero.

Only one of these lines will be non-zero, and it is the only line printed on the cover letter.

### Form 1040 / Main Form

**FORM 1040 PAGE 1.** Form 1040 is shown on the Forms Menu as two separate forms: Form 1040 page 1 and Form 1040 page 2, although the calculations and navigation back and forth through Form 1040 are virtually seamless when you use the PageUp and PageDown keys on your keyboard. Form 1040 page 1 is used to identify the taxpayer(s) and report the Filing Status, Exemptions, Income, and Adjustments for the return, as follows.

**Start of the Road Map.** Form 1040 page 1 is the home base for the built-in Road Map. You should ALWAYS start a new return with Form 1040 page 1, regardless of what method you use. The taxpayer information is critical to several calculations throughout the return, so you should complete Form 1040 through line 6d even if you do not file Form 1040.

**Tax year (Control Form access).** (Road Map line, supported by Control Form.) This entry shows the tax year assumed in all calculations, and is automatically 2014 unless you enter a later year on the Control Form. You should access the Control Form if you need to report any estimated tax payments made for the tax year, block the automatic creation of forms by the software, report prior-year taxes for Form 2210 exceptions, or customize cover and billing letters. Reminder: For this and all other Road Map lines you must press the Itemize Key (I or F10) to access the supporting form.

**SPECIAL HANDLING INDICATOR.** The following entries are provided to satisfy various IRS instructions to write a particular phrase across the top of the return. In this software, your entry on these lines is printed in the top of the label area of Form 1040, since most printers cannot print in the top margin. We therefore recommend that you use a yellow highlighter to bring attention to any entry you make here.

**Out-of-country extension statement.** If you are filing late because you were out of the country on April 15, provide details in a supporting statement for this line. A reference to the statement is printed in the address block of Form 1040 one line below the first taxpayer's last name. For a paper return, we recommend that you use a yellow highlighter to bring attention to this cross-reference on the return you file with the IRS. For an e-file return, the entry is automatically flagged for the IRS as an out-of-the-country explanation.

**Other statement.** For a paper return, you can use this entry to indicate any other special handling to the IRS. You can use either the 22-character entry or a supporting statement to explain. You can indicate a decedent return, an active duty military taxpayer, or any other phrase that you may be instructed to write across the top of the return. Your entry is printed in the address block of Form 1040 one line below and to the right of the first taxpayer's last name. We recommend that you use a yellow highlighter to bring attention to this entry on the return you file with the IRS. For an e-file return, you must enter here only one of the military indicators specified by the IRS for this line: DESERT STORM, HAITI, FORMER YUGOSLAVIA, UN OPERATION, JOINT GUARD, JOINT FORCE, NORTHERN

WATCH, OPERATION ALLIED FORCE, NORTHERN FORGE, ENDURING FREEDOM, IRAGI FREEDOM, and KOSOVO OPERATION. No other entries are allowed for e-file. Furthermore, your entire entry must be upper-case and you cannot use a supporting statement.

**INFORMATION ON TAXPAYER.** The principal taxpayer is identified here, including any special circumstances that could affect calculations on the return.

**Your 1st name & initial.** You must enter the names even if you use an IRS address label on Form 1040 because the names are required in the headers of all other forms and schedules. For the first name and initial you should omit any titles like Mr., Mrs., or Dr., and enter the first name without spaces. Enter each name in 25 characters or less, keeping in mind that the IRS typically compresses first names to 10 characters.

**Your last name.** Even though 25 characters are allowed by the software, you should abbreviate long names in the same way that they are abbreviated by the IRS in IRS-supplied address labels, including the omission of apostrophes and other punctuation marks. The IRS typically compresses last names to 15 characters. However, if you abbreviate, be sure to retain the first 4 characters of the last name without abbreviation because the IRS uses them in its computerized name controls.

**Your social security number (SSN).** Enter your valid 9-digit social security number here. If you enter 9 digits without spaces or dashes, the software will reformat them into the standard 11-character format (000-00-0000). An SSN is now mandatory; there are no longer any allowed exceptions. If you fail to enter an SSN here, the software will warn you "SSN required!" Moreover, if the SSN starts with a 9, indicating that it is not an SSN that allows you to work, the software will prevent you from claiming the Earned Income Credit.

**Your occupation.** Enter the occupation in 11 characters or less. It will be printed at the bottom of page 2 of the Official Form 1040.

**You want \$3 to go to the Presidential Election Campaign (PEC) Fund?** A Yes answer has no effect on your taxes, but rather earmarks \$3 of the tax collected from you to be spent on the campaign funds of major candidates. Congress established this fund in 1971 as a part of campaign reform with the intent of reducing the reliance of presidential candidates on large individual or group contributors, to place candidates on an equal financial footing in the general election, and to free candidates from fund-raising duties. Candidates who accept money from the fund must agree to limit their spending and, for candidates who run in November, to not accept any contributions from individuals or private groups.

**Your age at end of tax year.** This entry is critical because it affects built-in calculations on Form 1040 (*including IRA deductions*), Schedules A, EIC, and R, and Forms 4972, 5329, 5405, 6251, 8606, 8615, 8801, 8853, 8863, 8880, 8889, 1040-ES and 1040X. **CAUTION:** Do not round your entry. Instead, enter age as a decimal (such as 59.5 for age 59 years, 6 months) because some calculations depend

*on the precise age at year-end.* (Although you would normally enter your age as of December 31 of the tax year, the IRS instructs you to use the age you will be on January 1 of the following tax year, which can certainly affect calculations for those born on New Years day.)

**You 65 or over at year-end.** (*auto-calc*) Answered based on the entry for your age, above, and used in the count for line 39a of Form 1040.

**You blind at end of tax year?** Answer Yes to claim blindness for you, which is also used in the count for line 39a of Form 1040.

**You dependent on another's return?** Answer Yes if YOU can be claimed as a dependent on another person's return. When you answer Yes, your personal exemption is automatically eliminated and the standard deduction is automatically limited in accordance with special IRS rules. You are also ineligible for certain credits.

**You EIC-qualified child of another?** If a qualifying child of another person for the Earned Income Credit, you cannot claim it for yourself. The software ensures this through your answer here.

**You student 5 months or more?** If you were a student for any 5 months of the tax year, you do not qualify for a credit through Form 8880 for your contributions to an IRA or other qualified plan. The software ensures this through your answer here.

**You non-resident for 6 months or more?** If your main home is not in the United States for more than 6 months, you cannot qualify for the childless version of the Earned Income Credit. The software ensures this through your answer here.

**If deceased, enter date (mm-dd-yyyy).** For decedent returns the date of death must be printed on Form 1040 near the top of the form. The software ensures this through your entry here. *For a paper return,* you should also use the "Other statement" entry in the SPECIAL HANDLING INDICATOR section at the beginning of this form to indicate that this is a decedent return by entering TAXPAYER DECEASED. (We also recommend that you use a yellow highlighter to bring attention to this entry and the date deceased.) *TIP for e-file:* The IRS imposes several special requirements for e-filed decedent returns. See "[Beware special entries required for decedent returns](#)" on the *e-file Alerts* page of our *Check for Updates* website (accessed from the floating *Tax Preparer Control Panel*).

**INFORMATION ON SPOUSE.** If married, enter information on your spouse here. Even if married filing separately, you must still supply the spouse's name and SSN below.

**Spouse's 1st name & initial.** An entry here is mandatory for all married filers, whether filing jointly or not. Enter the first name in 25 characters or less, preferably in 10 characters or less. *CAUTION: If married filing separately ALSO enter the spouse's full name in the Filing Status section of Form 1040 (on the line "MFS:Spouse full name").*

**Spouse's last name (if different).** If you make no entry, it is assumed to be the same as "Your last name" even if married filing separately. Although you can enter as many as 25 characters here, it is preferable to abbreviate to 15 characters as the IRS typically does. However, if

you abbreviate, be sure to retain the first 4 characters of the last name without abbreviation because the IRS uses them in its computerized name controls. When the composite of all names is too long to be printed in the available space on the forms, the first names are shortened to accommodate the restriction first, then the last names. (If married filing jointly, your entry is deleted upon a recalculation of the return if precisely the same as your entry for "Your last name." This feature obviates a potential problem for e-filed returns and ensures the intended aesthetics for paper returns.)

**Spouse's SSN (required if married).** An entry here is mandatory for all married filers, whether filing jointly or not. Enter spouse's valid 9-digit social security number here. It will be checked and formatted like the SSN for the principal taxpayer. Moreover, if the SSN starts with a 9, indicating that it is not an SSN that allows you to work, and your filing status is married filing jointly, the software will prevent you from claiming the Earned Income Credit. *CAUTION: If married filing separately ALSO enter the spouse's full name in the Filing Status section of Form 1040 (on the line "MFS:Spouse full name").*

**Spouse's occupation.** Enter the occupation in 11 characters or less. It will be printed at the bottom of page 2 of the Official Form 1040.

**Spouse wants \$3 to go to the Presidential Election Campaign Fund?** The question is answered separately for you and spouse, but the meaning is the same. See our details for "You want \$3 to go to..." for more information.

**Spouse's age at end of tax year.** See our details for "Your age at year-end" for hints on entering fractional years and the usage of this entry by the software.

**Spouse 65 or over at year-end.** *(auto-calc)* Answered based on the entry for spouse's age, and used in the count for line 39a of Form 1040.

**Spouse blind at end of tax year?** Answer Yes to claim blindness for spouse, and used in the count for line 39a of Form 1040.

**Spouse dependent on another's return?** Answer Yes if SPOUSE can be claimed as a dependent on another person's return. When you answer Yes, the spouse's personal exemption is automatically eliminated and the standard deduction is automatically limited in accordance with special IRS rules.

**Spouse EIC-qualified child of another?** If spouse is a qualifying child of another person for the Earned Income Credit, you cannot claim the Earned Income Credit on this return. The software ensures this through your answer here.

**Spouse student 5 months or more?** If spouse was a student for any 5 months of the tax year, the spouse does not qualify for a credit through Form 8880 for contributions to an IRA or other qualified plan. The software ensures this through your answer here.

**Spouse non-resident for 6 months or more?** If spouse's main home is not in the United States for more than 6 months, you cannot qualify for the childless version of the Earned Income Credit. The software ensures this through your answer here.

**If deceased, enter date (mm-dd-yyyy).** For decedent returns the date of death must be printed on Form 1040 near the top of the form. The software ensures this through your entry here. For a paper return, you should also use the "Other statement" entry in the SPECIAL HANDLING INDICATOR section at the beginning of this form to indicate that this is a decedent return by entering SPOUSE DECEASED. (We also recommend that you use a yellow highlighter to bring attention to this entry and the date deceased.) *TIP for e-file:* The IRS imposes several special requirements for e-filed decedent returns. See "Beware special entries required for decedent returns" on the *e-file Alerts* page of our *Check for Updates* website (accessed from the floating *Tax Preparer Control Panel*).

**HOME ADDRESS.** Enter the address for the return here, complete with the special indicators and entries shown below.

**In care of (or additional addressing information).** Although generally used for the continuation of an address, this line has a special use for decedent returns. For a decedent return, you must enter the name of the executor or other representative who is filing the return, even if that person is the surviving spouse. *If using the Premium Level and you prepared a Form 1310 for the return, the person claiming a refund through the form appears here automatically.*

**Present home address (number and street or rural route).** Enter the street address here in 35 characters or less. Enter P. O. Box instead only if the post office does not deliver mail to your street address. To keep the address short, use the same abbreviations that the IRS uses in its address labels, without periods, as listed in Table 2-4. The address, including city, state, and ZIP code, below, are used in cover and billing letters as well as the address block of Form 1040.

**Apt., Suite, Bldg., etc.** If applicable, enter an apartment or suite here. You need not make an entry unless it is required by the post office.

**City, town, or post office.** Enter city in 25 characters or less.

**State.** Enter the standard two-letter state code shown in Table 2-5.

**ZIP code.** Enter ZIP code in the standard five-number (00000) or nine-number (00000-0000) format.

**Daytime phone number.** The taxpayer's phone number appears on the official Form 1040 in the signature block at the bottom of page 2.

**APO or FPO?** Answer Yes if the address is of the indicated type.

**Stateside military?** Answer Yes if the address is an address in the U.S. for a member of the military stationed outside of the U.S.

**Foreign?** Answer Yes if the address is a foreign address.

**Foreign address.** Three entries intended *only* for e-file returns and three others are required for both paper and e-file returns. *CAUTION: Do NOT make entries in this section if you supplied an U.S. address above. This section is relevant ONLY if you have no U.S. address entered.*

**Street address.** Enter the foreign street address in 35 characters or less.

**City.** Enter the foreign city in 35 characters or less.

## Form by Form Details (2015 Edition)

Form 1040

**Province/state.** Enter this information in the format used by the country of residence in 17 characters or less.

**Country.** Enter the standard 2-letter code shown in Table 2-6.

**Postal code.** Enter this information in the format used by the country of residence in 17 characters or less.

**Phone.** Enter in 25 characters or less.

**Table 2-4. Abbreviations for Address Entry**

ABBREV	ORIGINAL WORD	ABBREV	ORIGINAL WORD
&	AND	1/2	One-half
AFB	Air Force Base	1/4	One-quarter
APT	Apartment	PKY	Parkway
AVE	Avenue	PL	Place
BLVD	Boulevard	PO BOX	Post Office Box
%	Care of	RT	Route, Rte.
CL	Circle	RD	Road
CT	Court	R D	Rural Delivery, R.F.D., R.D., Rural Route, etc
DR	Drive	S	South
E	East	SE	Southeast, S.E.
GEN DEL	General Delivery	SW	Southwest, S.W.
HWY	Highway	ST	Street
LN	Lane	TER	Terrace
N	North	W	West
NE	Northeast, N.E.		
NW	Northwest, N.W.		

**Table 2-5. Official State Codes**

AL	Alabama	IL	Illinois	MO	Missouri	PA	Pennsylvania
AK	Alaska	IN	Indiana	MT	Montana	RI	Rhode Island
AZ	Arizona	IA	Iowa	NE	Nebraska	SC	S Carolina
AR	Arkansas	KS	Kansas	NV	Nevada	SD	S Dakota
CA	California	KY	Kentucky	NH	New Hamp.	TN	Tennessee
CO	Colorado	LA	Louisiana	NJ	New Jersey	TX	Texas
CT	Conn.	ME	Maine	NM	New Mexico	UT	Utah
DE	Delaware	MD	Maryland	NY	New York	VT	Vermont
DC	Washington, D.C.			NC	N Carolina	VA	Virginia
FL	Florida	MA	Mass.	ND	N Dakota	WA	Washington
GA	Georgia	MI	Michigan	OH	Ohio	WV	W Virginia
HI	Hawaii	MN	Minnesota	OK	Oklahoma	WI	Wisconsin
ID	Idaho	MS	Miss.	OR	Oregon	WY	Wyoming

For APO or FPO addresses, state codes are AA, AE, or AP.

**Table 2-6. Official Country Codes**

(Entries in this table are alphabetical by country, not code.)

AF Afghanistan	DJ Djibouti	LE Lebanon	RW Rwanda
AX Akrotiri	DO Dominica	LT Lesotho	TB Saint Barthelemy
AL Albania	DR Dominican Republic	LI Liberia	SH Saint Helena
XA Alberta		LY Libya	SC Saint Kitts & Nevis
AG Algeria	TT Dem Rep of Timor-Leste	LS Liechtenstein	ST Saint Lucia
AN Andorra	EC Ecuador	LH Lithuania	RN Saint Martin
AO Angola	EG Egypt	LU Luxembourg	SB Saint Pierre & Miquelon
AV Anguilla	ES El Salvador	MC Macau	WS Samoa
AY Antarctica (not Valid for 2555)	EK Equatorial Guinea	MK Macedonia	SM San Marino
AC Antigua & Barbuda	ER Eritrea	MA Madagascar	TP Sao Tome and Principe
AR Argentina	EN Estonia	MI Malawi	XW Saskatchewan
AM Armenia	ET Ethiopia	MY Malaysia	SA Saudi Arabia
AA Aruba	FK Falkland Islands (Islas Malvinas)	MV Maldives	SG Senegal
AT Ashmore & Cartier Islands	FO Faroe Islands	ML Mali	RI Serbia
AS Australia	FJ Fiji	MT Malta	SE Seychelles
AU Austria	FI Finland	IM Man, Isle of	SL Sierra Leone
AJ Azerbaijan	FR France	XM Manitohe	SN Singapore
BF Bahamas The	FP French Polynesia	MR Mauritania	LO Slovakia
BA Bahrain	FS French Southern & Antarctic Lands	MP Mauritius	SI Slovenia
FQ Baker Island		MF Mayotte	BP Solomon Islands
BG Bangladesh	GB Gabon	MX Mexico	SO Somalia
BB Barbados	GA Gambia The	FM Micronesia, Federated States of	SF South Africa
BO Belarus	GG Georgia	MQ Midway Islands	SX South Georgia & The South Sandwich Islands
BE Belgium	GM Germany	MD Moldova	
BH Belize	GH Ghana	MN Monaco	SP Spain
BN Benin	GI Gibraltar	MG Mongolia	PG Spratly Islands
BD Bermuda	GR Greece	MJ Montenegro	CE Sri Lanka
BT Bhutan	GL Greenland	MH Montserrat	VC St Vincent & Grenadines
BL Bolivia	GJ Grenada	MO Morocco	SU Sudan
BK Bosnia and Herzegovina	GT Guatemala	MZ Mozambique	NS Suriname
BC Botswana	GK Guernsey	WA Namibia	SV Svalbard
BV Bouvet Island	GV Guinea	NR Nauru	WZ Swaziland
BR Brazil	GU Guinea-Bissau	NP Nepal	SW Sweden
XB British Columbia	GY Guyana	NL Netherlands	SZ Switzerland
IO British Indian Ocean Territory	HA Haiti	NT Netherlands Antilles	SY Syria
BX Brunei	HM Heard Island & McDonald Islands	NC New Brunswick	TW Taiwan
BU Bulgaria	BK Herzegovina and Bosnia	XL Newfoundland and Labrador	TI Tajikistan
UV Burkina Faso	VT Holy See	NC New Caledonia	TT Tanzania
BM Burma	HO Honduras	NZ New Zealand	TH Thailand
BY Burundi	HK Hong Kong	NU Nicaragua	TN Tonga
CB Cambodia	HK Howland Island	NG Niger	TL Tokelau 340
CM Cameroon	HU Hungary	NI Nigeria	TL Tonga
CA Canada	IC Iceland	NE Niue	TD Trinidad & Tobago
CV Cape Verde	IN India	NF Norfolk Island	
CJ Cayman Islands	ID Indonesia	NT Northwest Territories	TS Tunisia
CT Central African Republic	IR Iran	XS Nova Scotia	TU Turkey
CD Chad	IZ Iraq	XV Nunavut	TX Turkmenistan
CI Chile	EI Ireland	NO Norway	TK Turks and Caicos Islands
CH China	IS Israel	MU Oman	
KT Christmas Islands	IT Italy	XO Ontario	TV Tuvalu
IP Clipperton Islands	JM Jamaica	PK Pakistan	UG Uganda
CK Cocos (Keeling Islands)	JN Jan Mayen	PS Palau	UP Ukraine
CO Colombia	JA Japan	LQ Palmyra Atoll	AE United Arab Emirates
CN Comoros	DQ Jarvis Island	PM Panama	UK United Kingdom
CF Congo (Brazzaville)	JE Jersey	PP Papua New Guinea	UY Uruguay
CG Congo (Kinshasa)	JQ Johnston Atoll	PF Paracel Islands	UZ Uzbekistan
CW Cooks Islands	JO Jordan	PA Paraguay	NH Vanuatu
CR Coral Sea Islands	JK Kazakhstan	PE Peru	VE Venezuela
CS Costa Rica	KE Kenya	RP Philippines	VM Vietnam
IV Cote d'Ivoire	KQ Kingman Reef	PC Pitcairn Islands	VI Virgin Islands, British
HR Croatia	KR Kiribati	PL Poland	WQ Wake Island
CU Cuba	KN Korea, North	PO Portugal	WF Wallis & Futuna
CY Cyprus	KS Korea, South	XP Prince Edward Island	WI Western Sahara
EZ Czech Republic	KU Kuwait	QA Qatar	YM Yemen
DA Denmark	KG Kyrgyzstan	XQ Quebec	ZA Zambia
DX Dhekelia	KV Kosovo	RO Romania	ZI Zimbabwe
	LA Laos	RS Russia	OC Other Countries
	LG Latvia		

**FILING STATUS.** Filing status is identified first:

**Filing Status:** 1=Sgl,2=MFJ,3=MFS,4=HoH,5=QW. Enter the number that reflects the filing status in accordance with the IRS types: 1 for Single (S), 2 for Married Filing Jointly (MFJ), 3 for Married Filing Separately (MFS), 4 for Head of Household (HH), and 5 for Qualifying Widow(er) (QW). *If in doubt about which filing status to use, consult the IRS Instructions for Form 1040 for detailed qualifications for each.*

The next few entries are relevant **ONLY** for the filing status noted:

**MFS: Spouse lived APART ALL YEAR?** Answer Yes only if you are married and did *NOT* live with your spouse ANYTIME during the tax year. WARNING: This answer is critical to several calculations including those on Schedule R, Form 2106, 2441, 8582, 8606, 8839, and lines 20b and 32 of Form 1040.

**MFS: Enter spouse's full name.** If you chose filing status 3 (Married Filing Separately), enter spouse's name here in 25 characters or less. **CAUTION: You MUST also enter the spouse's name and social security number on screen 2 of Form 1040.** By IRS rules the spouse's SSN must appear at the top of Form 1040 even if you file separately.

**H-of-H: If qualifying child not your dependent...** If you chose filing status 4 (Head of Household) and the person who qualifies you for this status is your child, but the child is not a dependent listed in line 6c below, identify the qualifying child as follows. *(Leave these entries blank if the child is claimed as a dependent at line 6c.)*

**Child's SSN:** Enter the qualifying child's SSN in the standard xxx-xx-xxxx format, but only if not claimed as a dependent at line 6c.

**and name:** Enter the qualifying child's full name here in 25 characters or less, but only if not claimed as a dependent at line 6c.

TIP: *To avert delays in processing the return, you should enter one and only one name if no dependents are listed in line 6c.*

**QW: Enter year spouse died.** To qualify for the Qualifying Widow(er) filing status, you must have a dependent child (other than a foster child) and your spouse must have died in either of the prior 2 years (2012 or 2013 for tax year 2014 returns). See the IRS Instructions for Form 1040 for other requirements. If qualified, enter the year the spouse died. (Although you cannot use this filing status if the Spouse died during the tax year, the survivor qualifies to use the MFJ filing status for that year, with the deceased spouse's name entered on Form 1040 if he or she did not remarry during the year. You also cannot use the Qualifying Widow(er) filing status if the spouse died more than two years before the filing tax year.)

**EXEMPTIONS.** Personal and dependency exemptions are claimed here. Note that age and blindness do not provide personal exemptions. Instead, they are shown at line 39a and used to increase your standard deduction at line 40. (They are of no benefit if you itemize deductions.)

**6a Exemption claimed: YOURSELF.** *(auto-calc)* Given automatically unless you answered Yes to the earlier dependency question.

**b Exemption claimed: SPOUSE.** *(auto-calc)* Automatically Yes when married filing jointly, unless your answer to the earlier dependency question is Yes. (If married filing separately but the spouse does not file, has no income, and is not a dependent of another, you can claim an exemption for the spouse and override this line with a Yes answer.)

**Number of exemptions on 6a and b.** *(auto-calc)* Computed as the number of Yes answers above (zero, one, or two), but reduced by the number who are a dependent on someone else's return.

**c Children who: lived with you.** *(Supported by the Dependents' Worksheet, Figure 2-2.)* Detailed information on ALL dependents is required. You must press the Itemize Key (i or F10) at this or any of the following lines, and enter the information in the Dependents' Worksheet, detailed next. The same set of worksheets is accessed no matter which line you itemize. The separate lines shown here are the separate totals from all the worksheets.

**...not with you due to divorce or separation.** *(Supported by the Dependents' Worksheet, Figure 2-2.)* See details for 6c, above.

**Dependents on 6c not above.** *(Supported by the Dependents' Worksheet, Figure 2-2.)* See details for 6c, above.

**Number qualified for child tax credit.** *(Supported by the Dependents' Worksheet, Figure 2-2.)* Qualification for this credit is determined independently for each child on the supporting worksheets. The credit depends on a number of other factors as well, and is computed automatically by the software at line 52 of Form 1040. **CAUTION: You MUST view all worksheets and answer all questions in order for a claim for the child tax credit of up to \$1,000 per child to be considered.**

**Number qualified for earned income credit.** *(Supported by the Dependents' Worksheet, Figure 2-2.)* Qualification for this credit is also determined independently for each child on the supporting worksheets. The credit depends on a number of other factors as well, and is computed automatically by the software at line 66a of Form 1040 upon the final recalculation of the return. Schedule EIC is automatically printed with the return when a child qualifies you for the credit, as required by the IRS. **CAUTION: You MUST view all worksheets and answer all questions in order for a claim for the earned income credit based on your children to be considered.**

**d Number of exemptions claimed.** *(auto-calc)* Computed as the sum of exemptions on lines 6a, 6b, and 6c.

> **INVALID FILING STATUS OR MISSING DATA?** (*auto-calc*) A Yes answer here indicates that something is wrong with your claims for filing status or dependents. Conditions that can lead to a Yes answer here include:

**MFJ.** Spouse's first name is not entered on Form 1040, screen 2.

**MFS.** Spouse's SSN is not entered on Form 1040, screen 2, or the spouse's name is not entered below the filing status.

**H-of-H.** There is neither a dependent claimed nor a child's name entered for H-of-H below the filing status.

**QW.** There is no claim for a dependent child who lived with you, or your entry below the filing status for year spouse died is not 2012 or 2013.

**CAUTION: Use Dependents' Worksheet for non-dependents as well.** Because we use our Dependents' Worksheets to automate the Earned Income Credit (line 66a) in addition to dependent claims at line 6c, you must supply information on children you claim for that credit on the worksheets, irrespective of whether they are claimed at line 6c. Once you complete the worksheets and exit from the return, the credit is automatically computed and Schedule EIC is automatically created if you have children that qualify you for that credit.

**Special dependent claims.** If your dependent claims at line 6c include any claims for dependents partially supported by others or you are not the custodial parent, you may have to file Form 2120 and/or Form 8332 with the return. These forms have no amounts to post to Form 1040, but are just informational forms. However, the following two lines provide convenient access to these forms for those using the Premium Level software.

**Form 2120 if multiple supporters.** (*If Premium Level, Road Map line supported by Form 2120.*) If you claim a dependent at line 6c for whom no-one provides more than half of his or her support, you must file Form 2120 with the return to identify the others who provide more than 10% of the support and verify that you have signed statements from them agreeing not to claim this dependent for the tax year.

**Form 8332 if not custodial parent.** (*If Premium Level, Road Map line supported by Form 8332.*) If you claim a dependent at line 6c for whom you are not the custodial parent, you must generally file Form 8332 signed by the custodial parent which releases his or her claim to the exemption for that dependent.

**Dependents' Worksheet, Figure 2-2.** You must fully identify each dependent on a separate worksheet page. (The same set of worksheets is accessed from all lines under 6c.) The questions on this worksheet help determine qualification of the person as a dependent for exemption purposes, a child qualifying you for the Child Tax Credit, and a child qualifying you for the Earned Income Credit. For more details on specific eligibility tests and income limits, see IRS Pub. 501 (*Exemptions, Standard Deduction, and Filing Information*), IRS Pub. 596 (*Earned Income Credit*), IRS Pub. 929 (*Tax Rules for Children and Dependents*), and IRS Pub. 972 (*Child Tax Credit*). TIP: Critical, but often overlooked, some critical entries are flagged with the > symbol on the screen. A claim for a dependency exemption, earned income credit, or child tax credit may be denied if you fail to make the proper entries on these lines.

**1 First Name.** Enter dependent's first name in 10 characters or less.

**Last Name.** Enter dependent's last name in 15 characters or less. This and the preceding line may seem unduly restrictive, but the IRS has made it clear in their specifications for e-file that it wants very short names in specific fields.

**e-file name.** *(auto-calc)* The name is reformatted for e-file as defined in IRS Pub. 1346.

**e-file name control.** *(auto-calc)* The name control is a 4-character code for the last name, usually the first four characters of the last name, as defined in IRS Pub. 1346.

**> Year born.** Enter year of birth as a 4-digit number, such as 1998. The entry must be 1998 or later for the child to qualify for the Child Tax Credit for 2014.

**Younger than you or spouse?** *(semi auto-calc)* The dependent must be younger than the taxpayer (or spouse if filing jointly). This entry is automatic when the age is at least one year older or younger than the taxpayer (or spouse if filing jointly). Otherwise, you must answer the question manually, since only the year, not the exact date, is entered above.

**Months NOT alive in tax year.** If a dependent child died during the tax year, you can still claim that child as a dependent for the entire year, and certain other tests relate only to the months the child was alive. Enter the number of months, including 2-place decimal, NOT alive here to ensure that no tests are unduly restrictive.

**2 Dependents' social security number.** You must now ALWAYS have an entry here. You must provide an Identifying number for the dependent no matter what his or her age, even if born at the end of the year. The only exception now allowed is that if the dependent was born and died during the tax year, you may enter DIED in place of the SSN, but you must also attach a copy of the child's birth certificate to the return. If you fail to comply, your claim for an exemption for the dependent may be denied. If you enter 9 digits without spaces or dashes, the software will format your entry into the standard 11-character format for SSN (000-00-0000). If you make no entry of nine characters or more, the warning "SSN req'd!" will appear. (Note

that you may use a temporary number issued to you by the IRS, such as an ITIN or ATIN, if you have no SSN. But the former exceptions for conscientious objectors are no longer allowed.)

**3 Relation to you.** Enter relationship. Virtually any relationship is allowed for dependency, including parent, grandparent, aunt, or uncle. However, a child must live with you all year if not related (such as a foster child).

*CAUTION for e-file:* If you are going to e-file the return, you must enter only one of the following or else the return will be rejected by the IRS: SON, DAUGHTER, STEPCHILD, FOSTER CHILD, GRANDCHILD, PARENT, GRANDPARENT, SISTER, HALF SISTER, STEPSISTER, BROTHER,

```

DEPENDENTS (Screen 1 of 2)
1 1st name.....
   Last name.....
   e-file name....
   e-file name control.....
> Year born..... 0
   Younger than you or spouse? Yes
   Months NOT alive in tax yr 0
2 Dependent's soc sec no.
3 Relation to you .....
  Perm/tot. disabled in tax yr? No
> U. S. citizen or resid alien? No
  Resident of Canada or Mexico? No
> # months lived in your home. 0
  Dep's gross inc under $3,700? No
  Student at least 5 mos of yr? No
> Do you meet the Support Test? No
  Gave exmp right to other par? No
  Dep joint filer (or excep'n)? No
  You/spouse dependent of othr No
  EXEMPTION ALLOWED ON 1040 No
[Press PageDown for CTC & EIC]
    
```

HALF BROTHER, STEP-BROTHER, NIECE, NEPHEW, AUNT, UNCLE, NONE, or OTHER.

*Note that CHILD is no longer allowed as an entry, and FOSTERCHILD has been changed to FOSTER CHILD.*

*(Surprisingly, such common descriptions as mother, father, grandmother, grandfather, grandson, and granddaughter*

```

DEPENDENTS (Screen 2 of 2)
Type of Dependent:
  Depnd child who lived w/ you? No
  Dep child nonres due to sepn? No
  Other dependent..... No
CHILD TAX CREDIT
  Child's age at end of tax yr 0
4 DEP & CHILD TAX CREDIT QLFD No
EARNED INCOME CREDIT
  Meets relationship test..... No
  Dependent married.....? No
  Unmarried or qlfd married... Yes
  # mos in your home NOT in US 0
  Lived w/you over half of yr. No
  Meets age or disabled test.. No
  EIC-qlfd to another taxpayer? No
  Any of them w/higher mod AGI? No
  Don't know AGI but claiming? No
  Relationship to other person
  Meets SSN test..... No
  EARNED INCOME CREDIT QLFD No
[Press PageUp for more detail]
    
```

Figure 1-2. Dependents' Worksheet, Screens 1 & 2

are not allowed. Instead you must enter parent, grandparent, or grandchild.)

**Permanently and totally disabled the entire tax year?** If disabled, the age test need not be met. Otherwise, the child must be under age 19 or a student under age 24.

> **U.S. citizen or resident alien?** To be qualified for the Child Tax Credit the answer here must be Yes. To be qualified as a dependent, unless the relationship is adopted the answer to this or then next question must be Yes.

**Resident of Canada or Mexico?** A resident of Canada or Mexico qualifies as a dependent.

> **Number of months lived in your home.** If the only absences of the dependent during the tax year were temporary, such as vacation or school, enter 12. Otherwise enter the actual number of months, including 2-place decimal. (If you made an entry for "Months NOT alive in tax year," your entry can be no more than the remaining months alive in the tax year.)

**Dependent's gross income under \$3,700?** To qualify as a dependent, the person must generally have less than \$3,700 of income. However, this condition need not be met if the child is under age 19 or is a student under age 24

**Student at least 5 months of the year?** If the child is under age 24, the income test need not be met if you can answer Yes here.

> **Do you meet the Support Test?** For a dependency exemption or a Child Tax Credit, you must have provided more than half the support of the child, unless divorced or there are more than two caretakers.

**Gave exemption right to other parent?** If you don't claim the child as your dependent *only* because you gave the right to the other parent, you may still qualify for the Earned Income Credit even for a married child.

**Dependent a joint filer (or exception)?** If married filing jointly, the child generally cannot qualify as your dependent. *Exception: If the child filed jointly only for the purposes of getting a refund, answer No here.*

**You or spouse dependent of another?** *(auto-calc)* Automatically determined from your answers on screens 1 and 2 of Form 1040 for each spouse. If Yes, you cannot claim any dependents yourself. However, you may still qualify to claim the child tax credit, as explained later.

**EXEMPTION ALLOWED ON 1040.** *(auto-calc)* Automatically Yes as long as the person qualifies as your dependent based on the above entries. An exemption is then reflected in line 6c of Form 1040. Note that you may still qualify for the Earned Income Credit even when this answer is No. But the answer must be Yes to claim the Child Tax Credit.

The remaining entries for the worksheet are contained on the second screen of the worksheet, illustrated in the bottom half of Figure 2-2.

### **Type of Dependent:**

**Dependent child who lived with you.** Answer Yes if the child lived with you more than six months of the tax year.

**Dependent child nonresident due to separation or divorce?** Answer Yes if the dependent is a dependent child but did not live with you because of separation or divorce.

**Other dependent.** *(auto-calc)* This answer is Yes only if the preceding two answers are No but the result for "EXEMPTION ALLOWED ON 1040" is Yes.

**CHILD TAX CREDIT:**

**Child's age at end of tax year.** *(auto-calc)* Computed as the tax year less the year born, this result must be less than 17 to be qualified for the Child Tax Credit.

**4 CHILD TAX CREDIT QUALIFIED.** *(auto-calc)* To qualify the child must be your dependent, must be a U.S. citizen or resident alien, must be under age 17, and must be one of the following relationships to you: son, daughter, grandchild, stepchild, brother, sister, stepbrother, stepsister, half brother, half sister, niece, nephew, or foster child.

**EARNED INCOME CREDIT:**

**Meets relationship test.** *(auto-calc)* Answered Yes only if the relationship to you is son, daughter, grandchild, stepchild, brother, sister, stepbrother, stepsister, half brother, half sister, niece, nephew, or foster child.

**Dependent married?** If married, the child qualifies you for the Earned Income Credit only if **(a)** your dependent, or **(b)** not your dependent only because you gave the right to the other parent.

**Unmarried or qualified married.** *(auto-calc)* Answered Yes only if **(a)** the child is unmarried, or **(b)** the child is married but you answered No to "Dependent a joint filer (or exception)?" and the child is your dependent (or not your dependent only because you gave the right to the other parent).

**Number of months lived in your home NOT in the U.S.** Enter the number months, including 2-place decimal. This entry should be no more than your earlier entry for "Number of months lived in your home."

**Lived with you over half of the year.** *(auto-calc)* To qualify for the Earned Income Credit the child must have lived with you more than 6 months in the U.S. or the entire time alive. Therefore, this question is answered Yes if "Number of months lived in your home" less "Number of months lived in your home NOT in the U.S." is either **(a)** more than 6.00, or **(b)** equal to 12 less "Months NOT alive in tax year."

**Meets age or disabled test.** *(auto-calc)* Answered Yes only if **(a)** Permanently and totally disabled in tax year" is Yes, or **(b)** "Younger than you or spouse" is Yes and "Child's age at end of tax year" is either under 19, or, if older, is under 24 and "Student at least 5 months of year" is Yes.

**EIC-qualified to another taxpayer(s)?** Answer Yes if the child can qualify someone else for the Earned Income Credit. If so, only the one with the highest AGI can claim the credit.

**Any of them with higher modified AGI?** If the preceding answer is Yes and you know that at least one of the other taxpayers has a higher

AGI (as modified for EIC calculations), you must answer Yes here and cannot claim the credit based on this child.

**Don't know AGI but claiming?** If you don't know the AGI of the other qualifying person, you can still tentatively claim the credit by answering Yes here. However, the credit may later be disallowed by the IRS.

**Relationship to other person.** Enter the relationship of the child to the other qualifying person only if you entered Yes to "EIC-qualified to another taxpayer?" The relationship must be one of the relationships listed as qualifying for "Meets relationship test?" at the beginning of this section of the worksheet. *CAUTION for e-file: If you are going to e-file the return, you must enter (in upper case) one of the relationships shown in our instructions for line 3 of this worksheet.*

**Meets SSN test.** *(auto-calc)* Answered Yes only if the child's SSN was entered in the standard xxx-xx-xxxx format and the first character of the entry is a number less than 9. SSNs starting with 9 are only taxpayer identification numbers and do not qualify you to work.

**EARNED INCOME CREDIT QUALIFIED.** *(auto-calc)* Answered Yes only if the child qualifies based on all the preceding answers.

When you escape from the worksheets and return to Form 1040, the number of worksheets for each class is counted, and the totals are posted to the separate 6c lines.

**INCOME.** All income is reported on lines 7 through 22 of Form 1040, with most lines supported by an IRS form or worksheet.

**CAUTION: Supporting forms and worksheets override your manual entries.**

Once one of the lines in the section is supported by a form or worksheet (as indicated by an "i" to the right of an entry), data from that supporting form or worksheet will generally override any entry you make directly on that line. For forms, your entry is changed upon final recalculation of the return. For worksheets, your entry is changed the next time you access the worksheet. You must therefore make all changes in any available support rather than directly on the Form 1040 line, or else your entry may be changed in the future.

**WAGES, SALARIES, TIPS, ETC.** Wages and other compensation from employers are reported here. You should include in W-2 worksheets for lines 7a and 7b not only wages and tips reported to you on a W-2, but also all moving expense allowances that exceed actual expenses, whether or not you receive a W-2 form for these items.

**7a YOUR wages, etc. on W-2.** *(Supported by the W-2 Worksheet, Figures 2-3a through 2-3e.)* To report wages reported to you on a Form W-2, you must itemize this line (by pressing I or F10) and complete the supporting W-2 Worksheets – one for each Form W-2 received. Critical totals from the worksheets are displayed on-screen below line 7a and are used throughout the return.

**7b SPOUSE wages, etc. on W-2.** *(Supported by the W-2 Worksheet, Figures 2-3a through 2-3e.)* If filing as married filing jointly, report wages reported to the other spouse in the W-2 Worksheets that support this line.

They serve the same role as the worksheets noted above, but for the spouse alone. Note that amounts you enter here are ignored if the filing status for the return is not married filing jointly.

**TOTAL INCOME FOR LINE 7.** Some other income you receive may be classified as wages even though they are not reflected in box 1 of the Forms W-2 you received. Examples include excessive reimbursements from your employer, income as a household employee, and certain taxable scholarships.

**Wages on W-2s (7a plus 7b).** (auto-calc) Wages reported to you on W-2s are shown here, taken from the worksheets for lines 7a and 7b.

**Non-W-2 household employee (HSH).** Enter here wages received as a household employee for which you *did not* receive a Form W-2. The employer is not required to send you a Form W-2 if total wages from that employer is less than \$1,500. If you enter the unreported wages here, a special code HSH will be printed on the official Form 1040 to flag the amount to the IRS. These wages will then be included in earned income throughout the return. As a result, it could increase your Earned Income Credit. *Be sure to include spouse's non-W2 household employee wages if married filing jointly.*

**SPOUSE part of the above.** Enter only the spouse's part of the preceding entry. You must include in the preceding line any wage you enter here, or else the calculations in the return for earned income will be incorrect.

**Non-W-2 taxable scholarships (SCH).** Enter here scholarships you received that are taxable even though they were not reported to you on a W-2 and therefore are not reported on the W-2 worksheets. (The amount of a scholarship NOT spent on books and tuition is generally taxable.) These wages will be flagged to the IRS by a special code SCH printed on the official Form 1040. These wages will generally be included in earned income, but NOT for the purposes of the Earned Income Credit at line 66a. *Be sure to include spouse's non-W2 taxable scholarships if married filing jointly.*

**SPOUSE part of the above.** Enter only the spouse's part of the preceding entry. You must include in the preceding line wages you enter here or else calculations for earned income will be incorrect.

**Excess reimbursed on Form 2106.** (Road Map line, supported by Form 2106.) Employer reimbursements that exceed actual expenses are posted here from Form 2106. You must complete a separate Form 2106 for each separate employer of each spouse. Five copies of Form 2106 are available, all of which are accessible here. The total for both spouses appears here for a joint return.

**SPOUSE part of the above.** (Road Map line, supported by Form 2106.) The part of the preceding line from the spouse's Form(s) 2106 appears here.

**Excess on Form 2441 from Dependent Care Benefits (DCB).** (Road Map line, supported by Form 2441.) Employer payments for child and dependent care that exceed actual expenses or the maximum amount eligible for the child care credit are posted here from Form 2441. The total for both spouses appears here for a joint return. *TIP: Be sure to report the*

amount in box 10 of your Forms W-2 in the W-2 Worksheets for line 7. This amount will then flow to Form 2441, and only the excess taxable amount will be return here for inclusion in income.

**SPOUSE part of the above.** (*Road Map line, supported by Form 2441.*)

The part of the preceding line attributable payments from the spouse's employer appears here.

**Excess reimbursed on Form 3903.** (*Road Map line, supported by Form 3903.*) If an employer reimbursed you for more than your actual moving costs, and did not include it in box 1 of the W-2 for the job, the excess appears here to be taxed like any other wages. The total for both spouses appears here for a joint return.

**SPOUSE part of the above.** (*Road Map line, supported by Form 3903.*)

The part of the preceding line attributable TO payments from the spouse's employer appears here.

**Taxable benefits on Form 8839.** (*If Premium Level, Road Map line supported by Form 8839.*) Depending on your income, some of the employer-provided adoption assistance may be taxable. The taxable amount is figured on Form 8839 (Qualified Adoption Expenses). The result on line 27 of Form 8839 is reported here.

**SPOUSE part of the above.** (*Road Map line, supported by Form 8839.*)

The part of the preceding line attributable to assistance from the spouse's employer appears here.

**7 Wages, salaries, tips, etc.** (*auto-calc*) Computed as the sum of all taxable income reported in the preceding wages section, including the totals for line 7a and 7b, non W-2 household employee income, non W-2 taxable scholarships, and excess reimbursements from Forms 2106, 2441, and 3903. (Spouse parts are excluded from this total if not married filing jointly.)

**W-2 Worksheet, Figures 2-3a through 2-3e.** You must complete a worksheet for all sources of taxable income that must be reported on line 7 unless they are separately entered or transferred above. Use a separate worksheet page for each employer. All information on the worksheets is available from the identified boxes on the W-2s. Only lines marked with an asterisk (\*) are required entries for a paper return. All other entries are required for e-file returns only, and should match the amounts shown on the Form W-2 (or W-2c) received. The W-2 Worksheet is now displayed on 5 separate screens in order to accommodate all the entries required for e-file. Use the PageDown key to view successive screens (and the PageUp key to go back).

**Automatic fill-in of employee information for W-2 Worksheets.** For the W-2 Worksheets detailed next, the lines for the employee's name, address, and SSN are completed automatically when you have NO entries for these lines. They are completed based on your entries on screens 1, 2, and 3 of Form 1040, page 1. (The software determines which spouse's information is used based on the line you itemized to get to the W-2 Worksheet: line 7a for you and line 7b for spouse.) However, once completed, you can change any of these entries at will and your changes will be retained as long as they are not blank. **CAUTION:** For e-file, your entries must match those on the actual Form W-2 received, even including an incorrect address.

```

FORM W-2 (Screen 1 of 6)
Only (*) reqd for paper return
Corrected.....? No
a Employee's SSN.....
b Employer ID number.....(*)
c Employer's name(*).....:
    '' e-file name control...
    '' name line 2.
    '' U.S.address.
    '' U.S.city....
    '' U.S.state.....
    '' U.S.ZIP code.....
d Control number.....
e Employee's name.
f    '' U.S.address.....
    '' U.S.city.....
    '' U.S.state.....
    '' U.S.ZIP code.....
Enter foreign info on screen 6
    
```

### Screen 1 of 6:

**Cor-**  
**rected.** Answer  
 Yes only if the  
 information re-  
 ported here is  
 from a Form W-  
 2c (*Corrected*  
*Wage and Tax*  
*Statement*),  
 which super-  
 sedes a W-2  
 previously filed  
 with the IRS by  
 the employer.  
**α Employee's**  
**SSN.** Enter in  
 standard XXX-  
 XX-XXXX for-  
 mat. If initially

Figure 2-3α. W-2 Worksheet, Screen 1

*blank, this entry is taken from the corresponding entry on Form 1040, but you can change the entry thereafter.*

**b Employer ID number (\*).** Enter the employer's federal ID number shown in box b in the standard 00-0000000 format.

**c Employer's name (\*).** Enter the name shown in box c in 25 characters or less. The remaining parts of box c are required only for an e-filed return:

**...e-file name control.** If you plan to e-file the return *you MUST enter a 4-character name control here*. This is usually the first 4 characters of the preceding name, but there are special rules for certain types of business names. If you have any doubts, see our 5-page document *Instructions for Entry of Name Controls for Businesses*, which is available online on the E-FILE ALERTS page of our "Check Web for Updates" site (accessible from the *Tax Preparer Control Panel*).

**...name line 2.** Use this line for in care of addresses or a continuation of the employer's name, in 25 characters or less. *e-file TIP: This line is no longer allowed by the IRS to contain an address continuation as it was in prior years.*

**NEW: Foreign addresses now entered separately.** The IRS has devised new formats for entering foreign addresses for employers and employees for an e-file return. You are no longer allowed to use that same data entry lines as you would for U.S. addresses. We therefore now provide separate data entry lines for foreign address on the last screen of the 6-screen W-2 Worksheet.

**...U.S. address.** Enter address in 25 characters or less. *If you choose to enter the employer's foreign address instead, leave this and the following 3 entries blank and enter the foreign address on screen 6*

of this worksheet. **CAUTION:** Do not enter both U.S. and foreign addresses, even if the employer has addresses in both locations, or else the e-file return will be rejected.

- ...**U.S. city.** Enter the city in 22 characters or less.
- ...**U.S. state.** Enter the standard 2-letter state code.
- ...**U.S. ZIP code.** Enter the ZIP code in 10 characters or less.
- d Control number.** This entry may be used by the employer for any purpose.
- e Employee's name.** Enter name in 25 characters or less. *If initially blank, this entry is taken from the corresponding entry on Form 1040, but you can change the entry thereafter.*
- f Employee's address.** For all of the following entries, *if initially blank, the entries are initially taken from the corresponding entries on Form 1040, but you can change them thereafter.*
  - ...**U.S. address.** Enter address in 25 characters or less. *If you choose to enter your foreign address instead, leave this and the following 3 entries blank and enter the foreign address on screen 6 of this worksheet. CAUTION: Do not enter both U.S. and foreign addresses, even if you have homes in both locations, or else the e-file return will be rejected.*
  - ...**U.S. city.** Enter the city in 22 characters or less.
  - ...**U. S. state.** Enter the standard 2-letter state code.
  - ...**U.S. ZIP code.** Enter the ZIP code in 10 characters or less.

**Screen 2 of 6:**

**1 Wages, tips, etc.**  
 (\*) Enter wages, tips, and other compensation shown in box 1. You must include any deferred compensation or employer contributions to retirement plans that exceed the allowed limit, which is generally

FORM W-2 (Screen 2 of 6)		
	Box 3 & 5 same as box 1? No	
	Prison inmate inc. above	0
2	Fed tax withheld.....(*)	00
3	Soc security wages.....(*)	00
	Clergy soc sec NOT in 3..(*)	00
4	Soc sec tax w/h.....(*)	00
	Soc.sec.tax w/h allowed	00
	Excess DUE FROM EMPLOYER	00
5	Medicare wage&tips.....(*)	00
6	Medicare tax w/h.....(*)	00
	Medicare tax w/h allowed	00
	Excess DUE FROM EMPLOYER	00
7	Soc security tips.....(*)	00
8	Allocated tips.....(*)	00
	Adjust to 8 for 1040.(*)	00
9	Reserved.....	00
10	Dependent care beni.....(*)	00
	Part NOT included in 1.	0

Figure 2-3b. W-2 Worksheet, Screen 2

\$17,500 for 2014, but can be \$3,000 higher for employees with at least 15 years of service to a public school, hospital, welfare agency, church, etc., or \$5,500 lower for those who have only SIMPLE plans. Also include earned income that is not shown on a W-2 but is associated with the job and not reported elsewhere on the return, in-

cluding the value of certain living benefits and tips not reported to the employer.

**Box 3 and 5 same as box 1?** For a data entry short-cut, answer Yes here if boxes 3 and 5 show the same amount as box 1, except for the \$117,000 limit on box 3 for tax year 2014. A Yes answer will cause the box 3 entry to be the lesser of box 1 or \$117,000 and will cause the box 5 entry to equal box 1.

**Prison inmate income above.** If box 1 includes any amount paid to a prison inmate for work, enter the amount here. The software eliminates this income from taxable earned income when computing the Earned Income Credit.

**2 Federal tax withheld (\*).** Enter total federal withholding of income tax shown in box 2.

**3 Social security wages (\*).** Enter wages shown in box 3, which is the amount of wages (but not tips) subject to the social security tax. The amount shown on W-2 should already include SEP contributions and elective deferrals, even though they are not included as wages in box 1. This amount should be no more than \$117,000 for 2014. *Note that the RRTA compensation that is subject to social security tax is generally shown in box 14, not here.* (This entry is automatic if you answered Yes to the question below box 1, as noted above.)

**Clergy social security wages NOT reflected in box 3 (\*).** For clergy, if the employer is exempt from deducting social security tax yet the employee is still liable for the tax, enter the amount here. This amount will be used in the computation of Schedule SE to help perform the special computations for clergy.

**4 Social security tax withheld (\*).** Enter the withholding shown in box 4, which is the social security tax withheld from wages by the employer in your behalf. *Note that the social security withholding on RRTA compensation is generally shown in box 14, not here.*

**Social security tax withhold allowed. (auto-calc)** Computed as the sum of lines 3 and 7, but no more than \$117,000 for 2014, times 6.2%. This result can never be greater than \$7,254.00 for 2014. This is the most the employer should have deducted for the reported wages and tips. This maximum does not include the amounts allowed for RRTA, railroad retirement, taxes, which are handled at box 14 instead.

**Excess DUE FROM EMPLOYER. (auto-calc)** If the social security tax withheld exceeds the above allowed amount, the excess is shown here. *This is the amount that you must collect from the employer, not the IRS.* You can collect from the IRS only the overwithholding that resulted from having more than one employer, which the software automatically shows on line 71 of Form 1040, not any amount appearing here due to an employer's error.

**5 Medicare wages, tips, etc. (\*).** Enter the wages shown in box 5. (This entry is automatic if you answered Yes to the question below box 1, as noted above.)

**6 Medicare tax withheld (\*)**. Enter the withholding shown in box 6, which is the Medicare tax withheld from your wages by the employer in your behalf. This amount should include both the traditional 1.45% tax of wages *plus an additional 0.9% of the amount by which wages exceed \$200,000*.

**Medicare tax withhold allowed.** *(auto-calc)* Computed as 1.45% of the sum of line 1 and the code D, E, F, G, and S deferrals in box 12 plus 0.9% of the amount by which the same sum exceeds \$200,000. This is the most the employer should have deducted for the reported wages and tips. (This maximum does not include the amounts allowed for RRTA taxes, which are handled at box 14 instead.)

**Excess DUE FROM EMPLOYER.** *(auto-calc)* If the Medicare tax withheld exceeds the above allowed amount, the excess is shown here. If you see an amount here, then the employer overwithheld and you must collect the excess from the employer, not the IRS. (This line does not reflect any amounts allowed for RRTA taxes, which are handled at box 14 instead.)

**7 Social security tips (\*)**. Enter the tips shown in box 7 that were subject to the social security or Medicare tax. Do not include amounts for allocated tips or unreported tips, because social security tax on those tips is reported separately through Form 4137 (which is built into Premium Level software only) in support of line 58 of Form 1040.

**8 Allocated tips (\*)**. Enter tips shown in box 8, which are tips allocated by your employer. **CAUTION: If you have an amount for this line you must complete Form 4137** to determine the amount of social security and Medicare tax due on these tips, and report the result on line 58 of Form 1040.

**Adjustment to box 8 for 1040 (\*)**. If the above amount does not accurately reflect the tips you received but did not report to your employer (unreported tips), enter an adjustment here (plus or minus) so that the sum of the two amounts matches your unreported tips. *This sum should also match line 4 of the Form 4137 that you must file*. It will be included as taxable income for line 7, and social security and Medicare taxes will be assessed on it by Form 4137. (Note that tips that you did report to your employer are already included in boxes 1, 3, and 5 of your Form W-2, so they are already included in taxable income and have already been assessed social security and Medicare taxes.)

**9 Reserved.** *(auto-calc)* Always zero for 2014, box 9 was formerly used to report advance payments for the Earned Income Credit. However, advance payments were repealed for 2011 and later years. Nevertheless, the IRS decided to retain the box on the Form W-2 for 2014, even though it is not currently used.

**10 Dependent care benefits (\*)**. Enter employer-paid dependent care benefits shown in box 10. Up to \$5,000 of this amount is not counted as wages because it covers deductible expenses for child care.

**Part NOT included in line 1.** *(auto-calc)* Computed as the lesser of the preceding amount and \$5,000, this is the amount not considered as

taxable wages. This amount automatically flows to Form 2441 for computing the credit for child and dependent care.

<div style="background-color: black; color: white; padding: 5px;"> <p><b>FORM W-2 (Screen 3 of 6)</b></p> <p>11 Nonqualified plans.....(*) 0                  Amt NOT included in 1(*) 0                  Deferred comp in box 1. 0</p> <p>12a Code(+year if USERRA):CCYY 0                12a \$ amount..... 0                12b Code(+year if USERRA):CCYY 0                12b \$ amount..... 0                12c Code(+year if USERRA):CCYY 0                12c \$ amount..... 0                12d Code(+year if USERRA):CCYY 0                12d \$ amount..... 0                CodeD,E,F,G,Sdeferrals in12(*) 0</p> <p>13 Statutory employee.....? No                  If Yes, reporting on C(*)? No                Retirement plan.....? No                Third-party sick pay.....? No</p> </div>	<p><b>Screen 3 of 6:</b></p> <p>11 Nonquali- fied plans (*). Enter the total shown in box 11 of W-2, which in- cludes deferr- als from non- qualified plans that are tax- able as in- come in 2014, and therefore re- flected in box</p>
--	--

**Figure 2-3c. W-2 Worksheet, Screen 3**

1, and deferrals that became taxable in 2014 for the social security and medicare taxes, and therefore reflected in boxes 3 and 5.

**Amount NOT included in box 1 (\*).** Enter part of box 11 that is not reflected in box 1 because it is reflected in boxes 3 and 5 instead.

**Deferred compensation in box 1.** *(auto-calc)* This amount is used to reduce the amount of wages used in computing the IRA limitations at line 32.

**12a through 12d, Code (+year if USERRA) and amount.** These four pair of lines are *for e-file reporting only* and are not used in any computations. They are used by the IRS for cross-checking with the W-2s they receive from the employer. The code is a 1-letter or 2-letter code from A through H, J through N, P through T, V, W, Y, Z, AA, BB, CC, and DD *only*, each of which represent an IRS-defined item. For prior-year USERRA contributions (which are makeup amounts for an employee returning after military service), you must also enter the last 2 digits of the year (which is the year to which the makeup contributions apply). **CAUTION:** *The year entry must be the 3<sup>rd</sup> and 4<sup>th</sup> characters of the entry. For example, if the code is H and the year is 2012, you must enter H 12, not H12.*

**Code D,E,F,G, & S deferrals in 12 (\*).** Enter the part of amounts in 12a through 12d that represents salary deferrals identified by the cited codes. *This amount is excluded from box 1 but is generally included in boxes 3 and 5.* Up to \$17,500 could be deferred for 2014 (\$20,000 if you qualify for the 15-year rule in IRS Pub. 571, which requires that you have at least 15 years of service with a public school, hospital, welfare agency, church, etc.). *Your entry here is included as wages when determining allowed withholding for the RRTA equivalent of social security and Medicare taxes.* CAUTION: You must enter the cited deferrals yourself; they are not automatically

transferred from any amounts you entered in lines 12a through 12d above. Furthermore, neither your entry here nor your entries on lines 12a through 12d are used elsewhere in the return.

**13 Statutory employee?** Answer Yes if the box for statutory employee is checked on the W-2, whether or not you choose to report income on Schedule C.

**If Yes, reporting on C (\*)?** If the preceding box is checked, you have the option of reporting the income shown on this form on Schedule C rather than 1040 line 7, so that you can deduct expenses directly against income rather than through Schedule A (which has many limitations). *CAUTION: When you answer YES here, the income is automatically excluded from line 7 of Form 1040, so you MUST report it on Schedule C for a valid return*, yet credit for social security payments are ensured so that you are not liable for the self-employment tax on this income.

**Retirement plan?** Answer Yes if the box for retirement plan is checked on the W-2 received from the employer. If Yes, be sure to identify the person to which the plan applies on the line above line 32 of Form 1040 in order for the proper IRA limitations to be applied.

**Third-party sick pay?** Answer Yes if the box for third-party sick pay is checked on the W-2 received from the employer.

**Screen 4 of 6:**

14a through 14c, Type and amount. *Except for California* (explained at the end of this paragraph), these four pair of lines are *for e-file reporting only* and are not used in any computations in the re-

FORM W-2 (Screen 4 of 6)	
14a Other deduc/ben.	-- type: amount:
14b Other deduc/ben.	-- type: amount:
14c Other deduc/ben.	-- type: amount:
14 From amts in 14a,b,c:	
RRTA Tier1 SocSec-equiv (*)	0
Max.soc.sec.equ.allowed	0
Excess DUE FROM EMPLOYER	0
RRTA Tier1 Medicare-egv (*)	0
Max.Medicare tax allowed	0
Excess DUE FROM EMPLOYER	0
State/local taxes in 14.(*)	0

Figure 2-3d. W-2 Worksheet, Screen 4

turn. They are solely intended for cross-checking by the IRS with the W-2s they receive from the employer. No amounts in box 14 are required by the IRS to be reported. The are amounts the employer wants you to know or is required to report because of some local law. **IMPORTANT EXCEPTION FOR CALIFORNIA:** *If you plan to translate this federal return into a California Form 540 return using our California Supplement software, you must use line 14a ONLY for reporting the state disability insurance (SDI) (and related amounts). It will be translated from this federal return to the California return and automatically placed on an SDI line of our W-2 Worksheets for both Form 540 and Form 8453 (for e-file returns). The amount will be used in calculations for excess SDI, in print-*

outs of FTB Schedule W-2 CG, and in an FTB-defined spot in the e-file output. For an e-file return your entry for Type for line 14a must identify the fund as SDI, CASDI, VD, VP, VPDI, or VI. No other entries are allowed for California e-file returns, irrespective of any variation of these abbreviations that may appear on the actual Form W-2.

**14 From amounts in 14a, b, c.** By contrast, the following lines ARE used in calculations for the return, and are amounts generally reported to you in box 14 of the W-2. CAUTION: You must enter all amounts below yourself; they are not automatically transferred from any amounts you entered in lines 14a through 14c above.

**RRTA Tier 1 Social Security-equivalent tax withheld (\*).** Enter the amount reported to you as the social security equivalent part of the Tier 1 withholding. This is generally 6.2% of wages plus deferrals up to \$117,000 for 2014. (For 2015, the ceiling rises to \$118,500.)

**Social security tax withhold allowed (\*).** (auto-calc) Computed as the sum of wages on line 1 and the code D, E, F, G, and S deferrals in line 12, but no more than \$117,000 for 2014, times 6.2%. This result can never be greater than \$7,254.00 for 2014. (If you entered an amount in line 3 or line 7, the software concludes that no RRTA applies here, so no amount is allowed here.)

**Excess DUE FROM EMPLOYER.** (auto-calc) Like the regular social security tax, overwithholding for the RRTA social security equivalent tax must be collected from the employer, not the IRS. You can collect from the IRS only the overwithholding that resulted from having more than one employer, which the software automatically shows on line 71 of Form 1040, not any amount appearing here due to an employer's error.

**RRTA Tier 1 Medicare-equivalent tax withheld (\*).** Enter the amount reported to you as the Medicare-equivalent part of the Tier 1 withholding. Be sure to include the Additional Medicare Tax, even though it may be stated separately from the regular Medicare tax.

**Medicare tax withhold allowed.** (auto-calc) Computed as 1.45% of the sum of line 1 and the code D, E, F, G, and S deferrals in line 12 plus 0.9% of the amount by which the same sum exceeds \$200,000. This is the most the employer should have deducted for the reported wages and deferrals. (If you entered an amount in line 5, the software concludes that no RRTA applies here, so no amount is allowed here.)

**Excess DUE FROM EMPLOYER.** (auto-calc) Like the regular Medicare tax, overwithholding for the RRTA Medicare-equivalent tax must be collected from the employer, not the IRS.

**State and local tax in box 14 (\*).** Non-federal taxes shown in box 14 should be entered here. For a California job this could include withholding for state disability insurance (SDI). This entry will be reflected in itemized deductions on Schedule A of Form 1040.

Screen 5 of 6:

15 State (\*). Enter the employer's 2-letter state code.  
**Employer state ID number (\*).** Enter the employer's state ID number shown in box 15, in the state's standard format.  
 2nd state. As above if for another state.  
**Employer IDN for 2nd state.** As above if for another state.

```

FORM W-2 (Screen 5 of 6)
15 State.....(*)
Employer state IDN.....(*)
2nd state.....
Employer IDN for 2nd state.
16 State wages, tips, etc. ... 0
2nd State wages, tips, etc. ... 0
17 State income tax.....(*) 0
2nd State income tax withld. 0
18 Local wages, tips, etc. ... 0
2nd Local wages, tips, etc. ... 0
19 Local income tax.....(*) 0
2nd Local income tax withld. 0
20 Locality..... 0
2nd Locality..... 0
State/local tax in 14 & 19 0
Soc sec & equiv Tier 1 tax 0
Soc sec & equiv Tier 1 wage 0
Medicare& equiv Tier 1 tax 0
    
```

Figure 2-3e. W-2 Worksheet, Screen 5

16 **State wages, tips, etc.** Usually the same as box 1, enter the wages that apply to the first state.  
**2nd State wages, tips, etc.** As above if for another state.  
 17 **State income tax (\*).** Enter regular state income tax withholding shown in box 17 here.  
**2nd State income tax withheld.** As above if for another state.

**Special instructions for California e-file.** If you plan to e-file a Form 540 return translated from this Form 1040 return, we recommend that you round your entries for lines 16 and 17 to the nearest dollar to ensure acceptance of the return by the FTB. This approach averts a quirk in FTB error checking that fails to recognize the inevitability of small rounding discrepancies, and will have no effect on the federal return as long as the return is set on the Control Form to round to the nearest dollar (as required for both federal and California e-file).

18 **Local wages, tips, etc.** An amount would appear here only if subject to a local income tax.  
**2nd Local wages, tips, etc.** As above if for another locality.  
 19 **Local income tax (\*).** Enter here any local tax withheld from wages as shown in box 19.  
**2nd Local income tax withheld.** As above if for another locality.  
 20 **Locality.** Identify the locality for the first entry in lines 18 and 19.  
**2nd Locality.** Identify the locality for the 2nd entry in lines 18 and 19.  
**State and local tax in boxes 14 and 19.** *(auto-calc)* Computed as the sum of the total in box 19 and the state/local tax part of box 14.  
**Social security & equivalent Tier 1 tax.** *(auto-calc)* Computed as the sum of properly withheld amounts for social security tax and the Tier 1 equivalent. This amount flows through to Form 1040 for use in computing excess withholding at line 71.

**Social security & equivalent Tier 1 wage.** *(auto-calc)* Computed as the sum of wages used in figuring the allowed social security tax. This amount flows through to Schedule SE for reducing self-employment wages by amounts already withheld for social security.

**Medicare & equivalent Tier 1 tax.** *(auto-calc)* Computed as the sum of properly withheld amounts for Medicare tax and the Tier 1 equivalent. This amount is used in Schedule 8812 in determining the available additional child tax credit in Part III of the schedule.

```
FORM W-2 (Screen 6 of 6)
Employer's foreign address:
'' foreign address.....
'' foreign city.....
'' foreign province/state
'' foreign country code..
'' foreign postal code...
Employees foreign address:
'' foreign address.....
'' foreign city.....
'' foreign province/state
'' foreign country code..
'' foreign postal code...
Source (S=Standard,N=Non-Std):
```

**Screen 6 of 6:**

**Foreign addresses.** The last screen is used to enter a foreign address for the employer and/or employee when a U.S. address was not entered on screen 1. *Do not enter both foreign and U.S. addresses for the same employer or employee, even*

Figure 2-3f. W-2 Worksheet, Screen 6

*when both apply, or else your e-file return will be rejected by the IRS.*

**Employer's foreign address:**

- ...foreign address. Enter foreign address in 30 characters or less.
- ...foreign city. Enter foreign city in 30 characters or less.
- ...foreign province or state. Enter the foreign province or state in 15 characters or less.
- ...foreign country code. Enter 2-letter country code. *See Table 2-6 on page 2-22 for Official Country Codes.*
- ...foreign postal code. Enter a foreign postal code up to 15 characters in length.

**Employee's foreign address:**

- ...foreign address. Enter foreign address in 30 characters or less.
- ...foreign city. Enter foreign city in 30 characters or less.
- ...foreign province or state. Enter the foreign province or state in 15 characters or less.
- ...foreign country code. Enter 2-letter country code. *See Table 2-6 on page 2-22 for Official Country Codes.*
- ...foreign postal code. Enter a foreign postal code up to 15 characters in length.

**Source (S=Standard, N=Non-Standard).** This entry is required for e-file only, and is normally S. Enter N only if the W-2 is altered, typed, or handwritten rather than computer-generated.

When you escape from the worksheets the totals are posted to lines 7a (or 7b) and the lines that follow them. These worksheets are NOT printed as a part of the official return because the IRS requires you to file *bona fide* copies of W-2s with the return. *TIP: Graphic Form W-2 printouts are available for Standard and Premium Level software provided you complete our e-file form (form 90 on the Forms Menu) and have not chosen to omit the W-2 from printouts (on screen 5 of the e-file form). Just choose an official printout of our e-file form from the Forms Menu for printing. (You need not e-file the return).* If you use Economy Level software, you only have two options for printing the W-2 Worksheets: using the Quick Print key while viewing a worksheet, or as a part of a printout of "PERSONAL & Other Support" (described in Chapter 4 of the separate *User's Guide*).

**OTHER INCOME.** In addition to wages at line 7, all other income is reported in lines 8 through 21 of Form 1040. Most lines are supported by another IRS form or schedule or a special worksheet. You are required to report all income you receive. You should take special care to report all income reported to you on various forms of Form W-2, Form 1099, and Schedule K-1, because copies are sent by the payers to the IRS. See Tables 1-1 and 1-2 at the beginning of this chapter for guidelines.

**8a through 9b, Interest and dividends.** You MUST prepare a Schedule B if you have taxable interest or taxable dividends of more than \$1,500, or you have any capital gains distributions or excludable series EE savings bond interest to report. If you don't need to prepare a Schedule B, however, you can enter the numbers directly on the following three lines when you use the Road Map or normal full-screen method of data entry.

**8a TAXABLE interest income (Schedule B).** (Road Map line, supported by Schedule B.) If you don't prepare a Schedule B, you can enter interest here directly; otherwise *line 4 of Schedule B will be posted here and will override any entry you make here.* (Schedule B includes Form 1099-INT Worksheets for you to complete based on the Forms 1099-INT received.)

**8b TAX-EXEMPT interest income.** (Road Map line, supported by Schedule B.) With few exceptions, all tax-exempt interest is reported here, even though it is not taxed. If you don't prepare a Schedule B, enter tax-exempt interest here directly; otherwise *the tax-exempt interest shown below line 4 of the on-screen Schedule B will be posted here and will override any entry you make here.* You should include all interest from municipal bonds and exempt-interest dividends from a mutual fund or other regulated investment company, but do NOT include other nontaxable dividends nor interest earned on your IRA. *(Excluded interest from series EE savings bonds appears in the section "Certain Nontaxable Income" following line 22, not here.)*

**9a Ordinary dividends (Schedule B).** (*Road Map line, supported by Schedule B.*) If you don't prepare a Schedule B or Form 8814, enter all taxable dividends here directly (excluding capital gain distributions); otherwise *the amount shown on line 6 of Schedule B or line 9 of Form 8814 will be posted here and will override any entry you make here.* (Schedule B and Form 8814 include Form 1099-DIV Worksheets for you to complete based on the Forms 1099-DIV received.)

**9b Qualified dividends.** (*Road Map line, supported by Schedule B.*) If you don't prepare a Schedule B or Form 8814, enter here ordinary dividends that qualify to be taxed at capital gains tax rates; otherwise *the qualified dividends shown below line 6 of the on-screen Schedule B or line 9 of Form 8814 will be posted here and will override any entry you make here.* This entry can be no more than line 9a because it is the *part* of line 9a that qualifies for the capital gains tax.

Even if you aren't required to file Schedule B, we recommend completing it to ensure the full automation of the return because our on-screen Schedule B includes amounts on Forms 1099-INT and 1099-DIV that are not a part of the official Schedule B but are required by other forms, such as Schedules A and D, Form 6251, and forms that depend on a modified AGI in their calculations. (Schedule B is not printed with the return when lines 1 and 5 of Schedule B are both zero and lines 7a and 8 are both No, but must be retained in the on-screen return for the mentioned automation.)

**Modification of lines 9a and 9b by Form 8814.** If you file Form 8814 to report your childrens' interest and dividends on your own return and those dividends include any qualified dividends, *the amounts on lines 9a and 9b both reflect a fraction of those dividends* in accordance with IRS Pub. 929. When this is the case Schedule B is automatically created upon the final recalculation of the return and you *must* use Schedule B to report any *other* dividends. See our instructions for Form 8814 for details.

**10 Taxable refunds of state and local income taxes.** Refunds received for any taxes that were deducted on Schedule A in a prior year, such as a state or local income tax refund, may be taxable income. The full refund is reported to you by the taxing agency on a Form 1099-G. But your entry here may be less than the amount shown on that form, as follows:

**If you did not itemize deductions for the year to which the refund applies,** you should enter zero here. None of the refund is taxable because you did not deduct the taxes previously paid.

**If your itemized deduction for the year to which the refund applies exceeds the standard deduction by less than the refund,** you should enter the itemized deduction less the standard deduction.

**If your itemized deduction for the year to which the refund applies exceeds the standard deduction by the refund or more,** you should enter the full refund here.

See IRS Form 1040 Instructions for more information on computing the amount to enter, including qualifications for the Tax Benefit Rule for high-income taxpayers. (Property tax refunds are entered at line 21, *not* here.)

**11 Alimony received.** You must generally report as taxable income any alimony or separate maintenance payments you received. Nevertheless, some payments are not considered taxable alimony, so you should check IRS Pub. 504 (*Divorced or Separated Individuals*) if in doubt. (You must give the payer your social security number or else you may be liable for a \$50 penalty.)

**SPOUSE part of line 11.** If any of the payments shown in line 11 are paid to the spouse, enter that amount here.

**12 Business income or loss (C/C-EZ).** (Road Map line, supported by Schedule C.) Five separate Schedules C are available for reporting income and losses from five separate businesses. The sum of net profit or loss from all copies is posted here. If any of the copies are spouse's copies and the filing status is married filing jointly, the sum includes spouse amounts and the spouse amounts are stated separately on the next line as well. If any copies of Schedule C qualify for the short Schedule C-EZ, those copies are automatically printed as Schedule C-EZ when the official return is printed. **NOTE: Even when you press the Itemize Key at the spouse line, you gain access to all five copies of Schedule C, not just the spouse's copies.**

**13 Capital gain or loss (Schedule D).** (Road Map line, supported by Schedule D.) The sale of stocks and bonds is reported on Schedule D. After you complete Schedule D, the net amount is posted to this line, subject to a \$3,000 limit on losses (\$1,500 if married filing separately).

**Schedule D can be omitted.** (auto-calc, supported by Schedule D.) The IRS now allows you to omit Sch. D from the return if the income to be reported on the schedule is only from line 1a and 8a of Schedule D, box 2a of Forms 1099-DIV, boxes 2b, 2c, and 2d are zero, and, if filing Form 4952, the amount on line 4g of that form includes all net capital gain from investments if the form includes any qualified dividends. The software makes this determination for you and answers this question accordingly. **If the answer is Yes, the corresponding box is checked on the official Form 1040 and Schedule D is intentionally omitted from the printed return.** (If there is no amount on line 13, the answer will be No and the box will not be checked.)

**14 Other gains or losses (Form 4797).** (Road Map line, supported by Form 4797.) Sales of business property are reported on Form 4797. After you complete the form, the amount on line 18b of Form 4797 is posted here. If you have no Form 4797 for the return but you have an amount on line 35 or 42a of Form 4684, the Form 4684 amount appears here and the code "F4684" is printed next to line 14 on the official printout for the IRS. Otherwise the Form 4684 amount is posted to line 14 of Form 4797 and reflected in the result posted here from Form 4797.

**15a through 16b, IRA distributions, rollovers, pensions, and annuities.** All but two of the following lines are supported by the 1099-R Worksheet. Whichever line you itemize, the same set of worksheets is accessed. You must complete a separate worksheet page for each separate Form 1099-R that you receive.

**15a Total IRA distributions.** (Supported by the 1099-R Worksheet, Figures 2-4a through 2-4c.) The total of gross IRA distributions from all worksheets, described below, appears here.

**Spouse's part of line 15a.** *(Supported by the 1099-R Worksheet.)* The total of gross IRA distributions from spouse worksheets alone appears here. (Your and spouse's distributions are separated so that Form 8606 can be properly automated.)

**15b Taxable amount of IRA distributions.** *(Road Map line, supported by Form 8606.)* Form 8606 is automatically created under a wide variety of conditions, as detailed in our instructions for Form 8606. Before a Form 8606 exists for you, this line is taken from the taxable IRA distributions on all 1099-R Worksheets. Once a Form 8606 exists, however, the taxable amounts computed on Form 8606 are used here in place of the worksheet amount for the corresponding spouse. **CAUTION: If conversions are involved, be sure to identify them on Form 8606 so that you are not improperly taxed or unduly penalized.** *If under age 59-1/2, also see our instructions for Form 5329 to ensure that no penalty is assessed.* (Even if you are not required to file a Form 1040, you must still file a Form 8606 if during the tax year you made any nondeductible contributions to an IRA, you received distributions and made any nondeductible contributions to any IRA in the past, you converted a traditional IRA to a Roth IRA, received any Roth distributions or recharacterized any Roth contributions.)

**Spouse's part of line 15b.** *(Road Map line, supported by Form 8606.)* Before a Form 8606 exists for spouse, this line is taken from the taxable IRA distributions on spouse's 1099-R Worksheets. Once a Form 8606 exists for spouse, however, the taxable amounts computed on Form 8606 override any spouse amount from the worksheets.

**16a Total pensions and annuities.** *(Supported by the 1099-R Worksheet.)* The sum of total pensions and annuities from all worksheets appears here.

**Spouse's part of line 16a.** *(Supported by the 1099-R Worksheet.)* The sum of total pensions and annuities from all worksheets for spouse appears here.

**16b Taxable amount of pensions and annuities.** *(Supported by the 1099-R Worksheet.)* The sum of taxable pensions and annuities from all worksheets appears here.

**Spouse's part of line 16b.** *(Supported by the 1099-R Worksheet.)* The sum of taxable pensions and annuities from all worksheets for spouse appears here.

In addition to the visible lines above, the federal and state taxes withheld are separately summed from all the worksheets. The totals for federal tax withheld are then used in line 64 of Form 1040, and the totals for state tax withheld is used in line 5 of Schedule A. **TIP: Line 15a or 16a may be zero on the official printout of Form 1040 even though line 15b or 16b is not,** in order to conform with a strange IRS requirement to enter zero on line 15a or 16a if the IRA or pension is fully taxable. **CAUTION:** If you had any loans against your pension or annuity, see IRS Pub. 575 (*Pension and Annuity Income*) for information on additional taxes you may owe.

1099-R Worksheet, Figures 2-4a through 2-4c. Most information for the worksheets is available from the identified boxes on Form 1099-R. However, the box for taxable amount may be blank or wrong, as noted below. Only lines marked with an asterisk (\*) are required entries for a paper return. All other entries are required for e-file returns only, and should match the amounts shown on the 1099-Rs received. The 1099-R Worksheet is now displayed on 3 separate screens in order to accommodate all the entries required for e-file. Use the Page-Down key to view successive screens (and the PageUp key to go back). TIP: Be sure to report amounts reported to you on a Form RRB-1099-R as amounts from a qualified employee plan for lines 16a and 16b. However, report amounts reported to you on a Form RRB-1099 as social security benefits for line 20a. See IRS Pub. 575 for details.

Screen 1 of 4:

If SPOUSE'S, check here. You must answer Yes if this worksheet is completed for spouse, so that the distributions for you and spouse are separately identified as required for the proper automation of Forms 5329 and 8606.

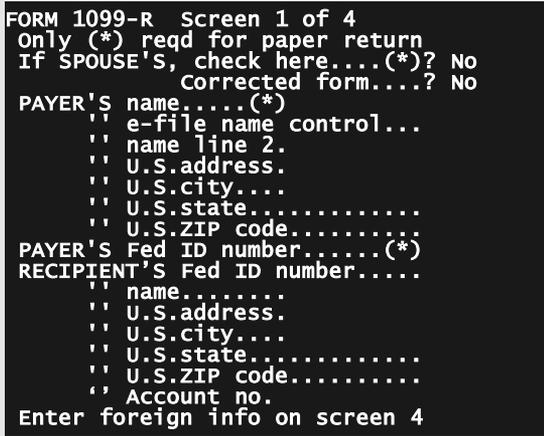


Figure 2-4a. 1099-R Worksheet, Screen 1

**PAYER'S name.** Enter the payer's name in 25 characters or less. The remaining items in the PAYER'S box of Form 1099-R are required only for an e-filed return:

...**e-file name control.** For an e-file return, you MUST enter a 4-character name control here. This is usually the first 4 characters of the preceding name, but there are special rules for certain types of business names. If you have any doubts, see our 5-page document Instructions for Entry of Name Controls for Businesses, which is available online on the E-FILE ALERTS page of our "Check for Updates" website (accessible from the *Tax Preparer Control Panel*).

...**name line 2.** Use this line for in care of addresses or a continuation of the payer's name, in 25 characters or less. e-file TIP: This line is no longer allowed by the IRS to contain an address continuation as it was in prior years.

**NEW: Foreign addresses now entered separately.** The IRS has devised new formats for entering foreign addresses for payers and recipients for an e-file return. You are no longer allowed to use that same data entry lines as you would for U.S. addresses. We therefore now provide separate data entry lines for foreign address on the last screen of the 4-screen 1099-R Worksheet.

...**U.S. address.** Enter address in 25 characters or less. *If you choose to enter the payer's foreign address instead, leave this and the following 3 entries blank and enter the foreign address on screen 4 of this worksheet. **CAUTION:** Do not enter both U.S. and foreign addresses, even if the payer has addresses in both locations, or else the e-file return will be rejected.*

...**U.S. city.** Enter city in 25 characters or less.

...**U.S. state.** Enter 2-letter state code.

...**U.S. ZIP code.** Enter ZIP code in 10 characters or less.

**PAYER'S Federal ID number.** Enter payer's federal identification number in the standard XX-XXXXXXX format.

**RECIPIENT'S Federal ID number.** Enter the recipient's SSN in the standard XXX-XX-XXXX format. This and the remainder of the RECIPIENT'S box of Form 1099-R are required only for an e-file return:

...**name.** Enter name in 25 characters or less.

...**U.S. address.** Enter address in 25 characters or less. *If you choose to enter your foreign address instead, leave this and the following 3 entries blank and enter the foreign address on screen 4 of this worksheet. **CAUTION:** Do not enter both U.S. and foreign addresses, even if you have homes in both locations, or else the e-file return will be rejected.*

...**U.S. city.** Enter city in 25 characters or less.

...**U. S. state.** Enter 2-letter state code.

...**U.S. ZIP code.** Enter ZIP code in 10 characters or less.

...**Account number.** Enter the recipient's account number from which the distribution was made, if one appears on the 1099-R received.

Screen 2 of 4:

**1 Gross distribution.** Enter the total distributions shown in box 1. This includes rollovers and premature distributions as well as regular distributions. However, do NOT include any lump-sum distributions that you report on Form 4972 for special treatment under 5 or 10-year averaging (in Part III of Form 4972). However, if you elect only Part II of Form 4972 (20% capital gain election for certain taxpayers born before 1936) but not Part III, you should complete this worksheet and identify the amount for Form 4972 below line 3. (To qualify for special treatment on Form 4972 the taxpayer must meet certain age requirements and the distribution must be of a qualified type which excludes IRAs and any distributions with a partial rollover.)

**Amount rolled over within 60 days.** If the gross amount was immediately all rolled over into another qualified plan IRA, or will be rolled over within 60 days after receiving it, none of it is taxable. You must identify the amount rolled over here so that it

FORM 1099-R Screen 2 of 4		
1	Gross distribution.....(*)	0
	Amt rolled ovr in 60days(*)	0
2a	Taxable amount.....(*)	0
2b	Taxable amt not determined? No	
	Total distribution...? No	
3	Capital gain.....(*)	0
	Reporting box 3 on 4972 (*)? No	
4	Fed tax wthld.....(*)	0
5	Employee contribn.....(*)	0
6	Net unrealized appreciat'n.	0
7	Distribution code.....	
	IRA/SEP/SIMPLE.....(*)? No	
	Roth(even if not above)(*)? No	
7	IRA/SEP/SIMPLE/ROTH distribn	No
8	Other.....	0
	Your % of other.....	
9a	Your % of total distributn	0
9b	Total employee contributns	0
10	Alloc.to IRR within 5 yrs.	0
11	1st yr.desig.Roth contrib.	0

Figure 2-4b. 1099-R Worksheet, Screen 2

will be excluded from taxable income at line 15b or 16b. If the distribution is from an IRA, the rollover will be reflected in Form 8606 as well for proper tax treatment of IRA contributions and distributions. Any amount you enter here will be flagged to the IRS in the official Form 1040 printout by the word ROLLOVER beside the appropriate line (15a or 16a) so that the appearance of reduced taxable amount on line 15b or 16b is explained. Special treatment for Midwestern disaster area victims: If you received a disaster recovery assistance distribution and later repay some or all of it, the repayment is treated as a qualified rollover so that you are not taxed on that amount. You must therefore include in this line any repayments of qualified disaster recovery assistance distributions so that they are treated properly on the return. (If an IRA, also see our details for Form 8606.)

**2a Taxable amount.** Enter the taxable part of the above distribution here. (Note that the amount you elect to report in Part II of Form 4972 will be excluded below line 3 of this worksheet, so you should enter the full taxable amount before the exclusion here.) This is generally the amount re-

ported in box 2a of Form 1099-R, but the taxable amount shown on Form 1099-R could be wrong, and might even be zero if there was no attempt by the payer to determine the amount! It is YOUR responsibility to enter the correct amount here. If part of your IRA contribution for the year is not deductible on line 32, part of the distribution may be nontaxable even though it is not a rollover. Exception: If the distribution is from an IRA (identified by your entry for box 7, below), any amount you enter here will be ignored if you have a Form 8606 for this taxpayer. The taxable amount will be computed on Form 8606 and posted to line 15b upon final recalculation of the return. Instructions for computing the taxable amount appear in various IRS publications, and depend on the specifics of the payments. See:

IRS Pub. 525, Taxable and Nontaxable Income, for military disability pensions,

IRS Pub. 575, Pension and Annuity Income, for survivors under a joint and survivor's annuity,

IRS Pub. 590-A, Contributions to Individual Retirement Arrangements (IRAs) and IRS Pub. 590-B, Distributions from Individual Retirement Arrangements (IRAs), for all types of IRAs, including the new ones,

IRS Pub. 721, Tax Guide to U.S. Civil Service Retirement Benefits, for annuities starting before July 2, 1986,

IRS Pub. 939, Pension General Rule (Nonsimplified Method), for annuities starting after July 1, 1986 that do not qualify for the Simplified General Rule, and

IRS Instructions for Form 1040, line 16b, for lump-sum distributions and for annuities starting after 7/1/86 that do qualify for the Simplified General Rule.

**2b Taxable amount not determined?** A Yes answer means that the payer did not or could not determine the taxable amount for box 2a and therefore left box 2a blank. This and the next answer are used only for e-file output.

**Total distribution?** A Yes answer means that this distribution closed out your account.

**3 Capital gain.** This is the part of 2a that stems from capital gains. If the distribution is a lump-sum distribution and the pension owner was born before 1936, this amount could received favorable tax treatment, as described next. (This box will be blank for IRAs because IRAs are not eligible for the special treatment.)

**Reporting box 3 on Form 4972?** If you qualify as described above, you may elect to report the amount on line 3 as a capital gain in part II of Form 4972, rather than including it in the taxable amount for line 16b of Form 1040. If you make this election, answer Yes here so that the amount will be excluded from line 16b of Form 1040. *TIP: If you elect 10-year averaging in Part III of Form 4972, you should not be completing this worksheet at all because the entire distribution will be taxed through Form 4972 instead.*

**4 Federal income tax withheld.** Enter the withholding shown in box 4. This amount will be reflected in Form 1040 line 64. *You must attach*

a copy of the Form 1099-R to the return if it shows ANY Federal income tax withheld.

- 5 Employee contribution.** The amount shown in box 5 of Form 1099-R is usually the amount of any pension contributions taxable to you when made. However, in recent years the IRS has expanded the meaning of this box so that it can apply to more than the gross distributions in box 1. You therefore may not be able to rely on this entry to help you determine the proper taxable amount for line 2a.
- 6 Net unrealized appreciation.** This amount represents securities of the employer's company received with the distribution, and is not generally taxed until the securities are sold.
- 7 Distribution code.** This will be a number or letter that describes the type of distribution to the IRS. If the code is 2, 3, 4, G, or H, your distribution is generally not taxable. See the box titled "You may be qualified to omit Form 5329" in our instructions for Form 5329 to see how to ensure that distributions for these codes are subject to a penalty tax on Form 5329.

**IRA/SEP/SIMPLE?** Answer Yes if the distribution is from a *traditional* IRA, a SEP, or a SIMPLE.

**Roth (even if not above)?** Answer Yes if the distribution is from a Roth IRA *or any other kind of IRA transaction for which box 7 is not checked on the Form 1099-R, including IRA recharacterizations.* **CAUTION: In spite of the label for this line, answering Yes here does NOT identify the distribution as a Roth IRA but just an IRA for which box 7 is not checked.** The *sole* purpose of this question is to ensure that the information on this form is associated with lines 15a and 15b of Form 1040 and is used on Form 8606 to compute the proper taxable amount. **For a Roth IRA, also identify the IRA distributions as a Roth IRA distribution on the Form 8606 for this recipient; otherwise the software will assume the distribution is from a traditional IRA.**

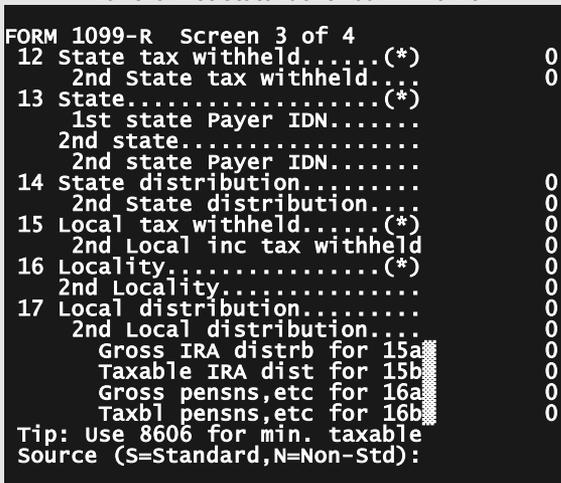
- 7 IRA/SEP/SIMPLE/ROTH distribution? (auto-calc)** Based on the preceding two answers, if a Yes appears here the distribution flows to Form 8606 for the appropriate spouse, for the proper computation of tax for line 15b.
- 8 Other.** This is the value any annuity contract received as a part of the distribution. It is not taxable in the current year, but is needed for Form 4972 if you choose the 10-year averaging method for a lump-sum distribution.
- Your % of other.** If the annuity contract reported in line 8 was made to more than one person, this is the percentage of the annuity contract distribution attributable to you.
- 9a Your % of total distribution.** If the distribution was part of a total distribution made to more than one person, the percentage you received is shown here.
- 9b Total employee contributions.** This is the amount of the employee's total investment in certain annuities.

**10 Amount allocable to IRR within 5 years.** This amount relates to Forms 5329 and 8606.

**11 1st year of designated Roth contributions.** Enter the 4-digit year of the first contribution.

**Screen 3 of 4:**

**12 State income tax withheld.** Enter any withholding shown in box 12 for the first state identified in line 13.



**2nd State tax withheld.** Enter the withholding shown in box 12 for the second state identified in line 13.

**13 State.** Enter the 2-letter state code for distributions subject to state income tax.

**1st State Payer IDN.** Enter the

**Figure 2-4c. 1099-R Worksheet, Screen 3**

payer's state ID number shown in box 13.

**2nd State.** Enter the 2-letter state code for the second state.

**2nd State Payer IDN.** Enter the payer's state ID number shown in the bottom half of box 13.

**14 State distribution.** Enter the distribution subject to state income tax for the 1st state. This will usually be blank or the same as box 1.

**2nd State distribution.** Enter the distribution subject to state income tax for the 2nd state.

**15 Local tax withheld.** Enter the withholding for a locality as shown in box 15.

**2nd Local income tax withheld.** Enter the withholding for the 2nd locality, if any.

**16 Locality.** Enter the locality shown in the top half of box 16.

**2nd Locality.** Enter the locality shown in the bottom half of box 16.

**17 Local distribution.** Enter the distribution subject to local income tax for the 1st locality.

**2nd Local distribution.** Enter the distribution subject to local income tax for the 2nd locality.

**Gross IRA distributions for 15a. (auto-calc)** Taken from the entry for gross distributions (box 1) when the answer to the IRA/SEP/SIMPLE/ROTH question is Yes. Even though the IRS instruc-

tions state that no entry is required here when the distribution is fully taxable, the amount is posted here to ensure the proper automation of Forms 5329 and 8606.

**Taxable IRA distributions for 15b.** *(auto-calc)* Taken as the lesser of line 2a or line 1 less rollovers when the answer to the IRA/SEP/SIMPLE/ROTH question is Yes. *TIP: Any amount posted from this line of the worksheet to Form 1040 is overridden by computations on Form 8606 for this spouse. Form 8606 is recommended to ensure the lowest allowed taxable result.*

**Gross pensions, annuities, etc., for 16a.** *(auto-calc)* Taken from the entry for gross distributions (box 1) when the answer to the IRA/SEP/SIMPLE/ROTH question is No. Even though the IRS instructions state that no entry is required here when the distribution is fully taxable, the amount is posted here to ensure the proper automation of Schedule R and Form 5329.

**Taxable pensions, annuities, etc., for 16b.** *(auto-calc)* Taken as the lesser of line 1 less rollovers or line 2a when the answer to the IRA/SEP question is No.

**Screen 4 of 4:**

**Foreign addresses.** The last screen is used to enter a foreign address for the payer and/or recipient when a U.S. address was not entered on screen 1. *Do not enter both foreign and U.S. addresses for the same payer or recipient, even when both apply, or else your e-file return will be rejected by the IRS.*

**Payer's foreign address:**

**...foreign address.** Enter foreign address in 30 characters or less.  
**...foreign city.** Enter foreign city in 30 characters or less.  
**...foreign province or state.** Enter the foreign province or state in 15 characters or less.



Figure 2-4d. 1099-R Worksheet, Screen 4

**...foreign country code.** Enter 2-letter country code. *See Table 2-6 on page 2-22 for Official Country Codes.*

**...foreign postal code.** Enter a foreign postal code up to 15 characters in length.

**Recipient's foreign address:**

**...foreign address.** Enter foreign address in 30 characters or less.  
**...foreign city.** Enter foreign city in 30 characters or less.  
**...foreign province or state.** Enter the foreign province or state in 15 characters or less.  
**...foreign country code.** Enter 2-letter country code. *See Table 2-6 on page 2-22 for Official Country Codes.*  
**...foreign postal code.** Enter a foreign postal code up to 15 characters in length.

**Source (S=Standard, N=Non-Standard).** This entry is required for e-file only, and is normally S. Enter N only if the 1099-R is altered, typed, or handwritten rather than computer-generated.

The posting to lines 15a, 15b, 16a, 16b, and the withholding lines is automatic once you complete the worksheets.

**17 Rents, royalties, partnerships, estates, trusts, etc. (Schedule E).** *(Road Map line, supported by Schedule E.)* Rental income and most regular income reported to you on a Schedule K-1 is typically reported on Schedule E. The single Schedule E that is built into the software supports an unlimited number of properties.

**18 Farm income or loss (Schedule F).** *(Road Map lines, supported by Schedule E.)* Five separate Schedules F are available for reporting income and losses from five separate farms. The sum of net profit or loss from all copies is posted here. If any of the copies are spouse's copies and the filing status is married filing jointly, the sum includes spouse amounts and the spouse amounts are stated separately on the next line as well. ***NOTE: Even when you press the Itemize Key at the spouse line, you gain access to all five copies of Schedule F, not just the spouse's copies.***

**19 Unemployment compensation.** Unemployment compensation is fully taxable. You should receive a Form 1099-G from the government unemployment agency, from which you can determine the following entries:

**Unemployment compensation (1099-G, box 1).** Enter the total amount shown on box 1 of the Form 1099-G *for you and spouse* received from the unemployment agency.

**2014 overpayment REPAID.** Enter here any amount you paid back to the government during the tax year *only if it is for an overpayment received in the same year.* This amount will be flagged on the official printout of Form 1040 and subtracted from the preceding income. (Repayment of unemployment compensation that was reported as income *in an earlier year* is *not* reported here. Instead, it is usually reported as a deduction on line 20 of Schedule A, or, for some repayments over \$3,000, a specially computed tax credit is claimed on the "Other special payments" line following line 73 of Form 1040, as detailed in IRS Pub. 525, *Taxable and Nontaxable Income*, in its section on Repayments.)

**Federal tax withheld on Form 1099-G.** Enter any backup withholding shown in box 4 of the Form 1099-G. This entry will be reflected in the total withholding at Form 1040 line 64.

**19 Unemployment compensation.** *(auto-calc)* Computed as the unemployment compensation less the above REPAID amount, but no less than zero.

**20 Social security benefits.** The taxable part of any social security benefits is computed automatically based on your entry:

**20a Social security benefits, total received.** Enter total benefits shown on all Forms SSA-1099 and RRB-1099 received, less any 2014 benefits repaid in 2014. *(CAUTION: Do not report here amounts on Form RRB-1099-R, which are treated as amounts from a qualified employee plan at lines 16a and 16b of Form 1040. Only amounts on Form RRB-1099 are treated as social security benefits and reported here. See IRS Pub. 575.)*

**Federal tax withheld on Form SSA-1099.** Enter withholding shown on Form SSA-1099 or RRB-1099. This amount will be reflected in Form 1040 line 64.

**Reduction to line 20b for Lump Sum Election (LSE).** If the payment you reported in line 20a includes a lump-sum (retroactive) payment received in 2014 that includes benefits for an earlier year, you may be able to reduce the taxable amount on line 20b by separately figuring the taxable amount attributable to the earlier year. For details, see the section "Lump-Sum Election" in IRS Pub. 915 (*Social Security and Equivalent Railroad Retirement Benefits*). Any amount you enter here is subtracted from the automatically computed taxable amount for line 20b and is flagged on the official printing with the code LSE to the left of line 20a.

**20b Taxable amount of social security benefits.** *(auto-calc)* Computed automatically using the IRS Social Security Benefits Worksheet, which is built into the software and fully automatic, less the preceding entry. The result can be as high as 85% of the amount on line 20a, but a combination of low income, low amount on 20a, and a filing status other than married filing separately can substantially reduce this amount.

*CAUTION: The law may be more complex than you realize, so you should refrain from overriding the result on line 20b,* unless one of the special circumstances cited below apply. The automatic calculation includes often-overlooked subtleties, including a special calculation for those covered by a retirement plan at work (including self-employment) who also receive social security benefits and contribute to an IRA. It also takes into account required additions to AGI, including foreign earned income exclusion, foreign housing deduction or exclusion, and excluded income from U.S. possessions. The ONLY taxpayers who are generally justified in overriding this line are those who repaid benefits in 2014 in excess of the actual benefits received. See IRS Pub. 915 for details and applicable worksheets.

**21 Other income.** All taxable unearned income not reported elsewhere is reported here. ONLY UNearned income should be reported here. The IRS requires you to use Schedule C, E, or F for earned income, no matter how small the amount. The first few lines are reserved for specific types of unearned income so that the software can automate their impact on certain other deductions, taxes, and credits.

**Forms 2555 and 2555-EZ.** *(If Premium Level, Road Map line supported by Form 2555.)* The amount to report here is the amount of foreign income and housing allowance excluded from taxation through Form 2555. It is entered here as a negative number so that it reduces taxable income. It is used in the modified AGI of several calculations on the return. The amounts for these lines are shown on line 43 of Form 2555 and line 18 of Form 2555-EZ. (Note that Form 2555-EZ is a simplified form of Form 2555 which is printed in place of Form 2555 when appropriate.)

**Gambling income.** *(Supported by the W-2G Worksheet, Figures 2-5a and 2-5b.)* Only the gambling winnings are reported here, not reduced by gambling losses. Gambling losses are claimed at line 28 of Schedule A, not here, but no more than the winnings reported here. Your winnings may have been reported to you on a Form W-2G. If you received a Form W-2G, you **MUST** file a copy of it with the return. The gross winnings entered in line 1 of the W-2G Worksheets is shown here and reflected in the total for Form 1040 line 21.

**Federal tax withheld on Form W-2G.** *(Supported by the W-2G Worksheet.)* Any backup withholding entered in line 2 of the W-2G Worksheets is shown here and reflected in Form 1040 line 64.

**State tax withheld on Form W-2G.** *(Supported by the W-2G Worksheet.)* Any backup withholding entered in line 14 of the W-2G Worksheets is shown here and reflected in Schedule A line 5.

**Form 8814 income.** *(Road Map line, supported by Form 8814.)* Form 8814 is used to report investment (unearned) income of your children when you are not required to file a separate return for the child. Fifteen separate copies of Form 8814 are built into the software for reporting the qualifying unearned income of up to 15 children. The sum of investment income reported on all such Forms 8814, excluding capital gains distributions, is posted here.

**HSA income.** *(If Premium Level, Road Map line supported by Form 8889.)* Taxable distributions from Health Savings Accounts (HSAs) are reported here, from Form 8889, line 16

**MSA income.** *(If Premium Level, Road Map line supported by Form 8853.)* Taxable distributions from Archer Medical Savings Accounts (MSAs) are reported here, from Form 8853, line 8.

**MedMSA income.** *(If Premium Level, Road Map line supported by Form 8853.)* Taxable distributions from Medicare Advantage MSAs are reported here, from Form 8853, line 12.

**LTC income.** *(If Premium Level, Road Map line supported by Form 8853.)* Taxable payments from Long-Term Care (LTC) Insurance Contracts are reported here, from Form 8853, line 26.

**Personal rental income.** This is income from rental of personal property if you were *not* in the business of renting such property. You must enter the gross rental income here. Expenses related to this income are deducted above line 36, not here. These amounts affect the computation of the Earned Income Credit, which depends on a modified version of AGI.

**Jury duty.** Enter all jury duty fees received. Do NOT reduce your entry by any amount given to an employer; instead, report these amounts as an adjustment at line 34.

**You: ESA/QTP distributions.** Enter here any taxable distributions you received from Coverdell Education Savings Accounts (ESAs) and taxable earnings received from Qualified Tuition Programs (QTPs). An entry here is subject to a 10% penalty through our automatically created Form 5329, although you may qualify for an exception on Form 5329 .

**Spouse: ESA/QTP distributions.** Enter here the same type of income as above when paid to the spouse. It is treated the same way as described above, but using the spouse's Form 5329.

All other taxable UNEARNED income not reported elsewhere should be reported on the following two lines, including reimbursed medical expenses, recovered bad debts that were deducted in a prior Schedule D, and income from prizes, election board duty, and any refund of property tax deducted in a prior year. *Enter net operating loss (NOL) carried over (forward or back) from another tax year on the following lines as a negative unearned income, even though it may have been negative EARNED income in the year it occurred, because it cannot be used to reduce earned income in other tax years.*

**TIP:** There are *intentionally* no lines for *EARNED* income for line 21 because the IRS requires you to report all earned income other than wages in the separate schedules to which they relate:

**Self-employment income from a sole-proprietorship** must be reported on Schedule C or F,

**Self-employment from a partnership** must be reported in Part II of Schedule E.

All other earned income must be included in line 7 of Form 1040.

**You: Other (unearned) income.** Enter here any taxable unearned income for YOU not reported in lines 7 through 20 or any of the preceding entries for line 21, *providing details in a supporting statement for this line*. Examples for the description column of the support include NOL, Loss on excess defer dist, Indian gaming proceeds, Indian tribal distrib, and Native American distrib. *See Tables 2-1 and 2-2 on pages 2-3 and 2-4 for other examples.*

**Spouse: Other (unearned) income.** Enter here taxable unearned income for SPOUSE not reported in lines 7 through 20 or any of the preceding entries for line 21, *providing details in a supporting statement for this line*. (See preceding paragraph for "You" for examples.)

**Other income (except Form 2555).** *(auto-calc)* The sum of all income items shown above without any reduction from Form 2555 or 2555-

EZ. (The amounts from Forms 2555 and 2555-EZ are shown separately in the official printout of Form 1040 even though they are included in the below total for line 21.)

**21 Other income.** *(auto-calc)* Computed as the preceding line reduced by the exclusions shown previously from Forms 2555 and 2555-EZ.

**22 TOTAL INCOME.** *(auto-calc)* The sum of all totals on lines 7 through 21.

**W-2G Worksheet, Figures 2-5a and 2-5b.** All information for the worksheets is available from the identified boxes on Form W-2G. Only lines marked with an asterisk (\*) are required entries for a paper return. All other entries are required for e-file returns only, and should match the amounts shown on the W-2Gs received. The W-2G Worksheet is displayed on 2 separate screens in order to accommodate all the entries required for e-file. Use the PageDown key to view successive screens (and the PageUp key to go back).

### Screen 1 of 3:

**If SPOUSE'S, check here.** Answer Yes if spouse was the recipient of the gambling income.

**PAYER'S name.** Enter the payer's name in 30 characters or less. The remaining items in the PAYER'S box of Form W-2G are required only for an e-filed return:

**...e-file name control.** If you plan to e-file the return you MUST enter a 4-character name control here. This is usually the first 4 characters of the preceding name, but there are special rules for certain types of business names. If you have any doubts, see our 5-page document [Instructions for Entry of Name Controls for Businesses](#), which is available online on the E-FILE ALERTS page of our "Check Web for Updates" site (accessible from the *Tax Preparer Control Panel*).

**...name line 2.** Use this line for in care of addresses or a continuation of the payer's name, in 25 characters or less. *e-file TIP: This line is no longer allowed by the IRS to contain an address continuation as it was in prior years.*

**NEW: Foreign addresses now entered separately.** The IRS has devised new formats for entering foreign addresses for payers and winners for an e-file return. You are no longer allowed to use that same data entry lines as you would for U.S. addresses. We therefore now provide separate *data entry lines for foreign address on the last screen* of the 3-screen W-2G Worksheet.

**...U.S. address.** Enter address in 25 characters or less. *If you choose to enter the payer's foreign address instead, leave this and the following 3 entries blank and enter the foreign address on screen 3 of this worksheet.* **CAUTION:** Do not enter both U.S. and foreign addresses, even if the payer has addresses in both locations, or else the e-file return will be rejected.

**...U.S. city.** Enter city in 25 characters or less.

**...U.S. state.** Enter 2-letter state code.

**...U.S. ZIP code.** Enter ZIP code in 10 characters or less.

**...U.S. telephone number.** Enter in the (XXX) XXX-XXXX format. No more than 10 numbers are recognized by the IRS for e-file.

**PAYER'S Federal ID number.** Enter payer's federal identification number in the standard XX-XXXXXXX format for EIN.

**WINNER'S name.** Enter the winner's full name in 30 characters or less. This and the remaining parts of the WINNER'S box of Form W-2G are required only for an e-file return:

**...U.S. address.** Enter address in 25 characters or less. *If you choose to enter your foreign address instead, leave this and the following 3 entries blank and enter the foreign address on screen 3 of this worksheet.* **CAUTION:** Do not enter both U.S. and foreign addresses, even if you have homes in both locations, or else the e-file return will be rejected.

**...U.S. city.** Enter city in 25 characters or less.

**...U. S. state.** Enter 2-letter state code.

**...U.S. ZIP code.** Enter ZIP code in 10 characters or less.

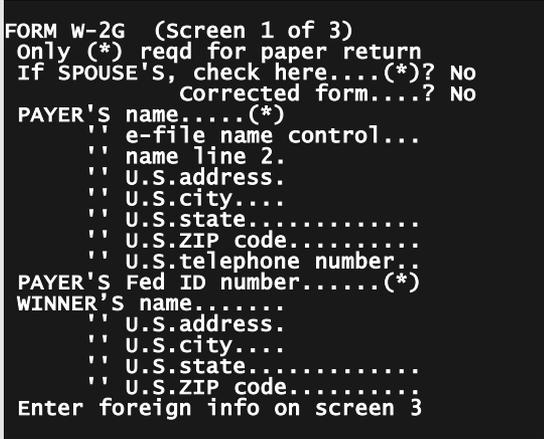


Figure 2-5a. W-2G Worksheet, Screen 1

FORM W-2G (Screen 2 of 3)		Screen 2 of 3:
1	Gross winnings.....(*)	1 Gross win-
4	Fed income tax withheld. (*)	nings. Enter
3	Type of wager.....	total winnings
2	Date won.....	shown in box
5	Transaction.....	1.
6	Race.....	<i>TIP: The numbering for</i>
7	Winnings identical wages...	<i>the next 3 lines con-</i>
8	Cashier.....	<i>forms with the box</i>
9	WINNER'S SSN.....	<i>numbers on the IRS</i>
10	Window.....	<i>2014 Form W-2G. They</i>
11	First I.D.....	<i>are out-of-order here</i>
12	Second I.D.....	<i>for compatibility with</i>
13	PAYER'S state.....	<i>data created before the</i>
	PAYER'S state IDN.....	<i>numbers were correct-</i>
15	State income tax withheld(*)	<i>ed.</i>
14	State winnings.....	

Figure 2-5b. W-2G Worksheet, Screen 2

4 Federal income tax withheld. Enter withholding shown in box 4.

3 Type of wager. Enter type as shown in box 3.

2 Date won. Enter in the standard mm/dd/yyyy format.

5 Transaction. Identify transaction.

6 Race. Enter as indicated.

7 Winnings from identical wagers. Enter as indicated.

8 Cashier. Enter as indicated.

9 WINNER'S SSN. Enter in the standard XXX-XX-XXXX format.

10 Window. Enter as indicated.

11 First I.D. Enter as indicated.

12 Second First I.D. Enter as indicated.

13 PAYER'S state. Enter standard 2-letter code for the state.

PAYER'S state IDN. Enter as indicated.

*TIP: The numbering for the next 2 lines conforms with the box numbers on the IRS 2014 Form W-2G. They are out-of-order here for compatibility with data created before the numbers were corrected.*

15 State income tax withheld. Enter withholding for the state indicated in line 13.

14 State winnings. Enter the winnings taxable to the state indicated in line 13. This amount will generally be the same as the amount in box 1 if the gambling concern resides in the same state as the winner.

**Screen 3 of 3:**

**Foreign addresses.** The last screen is used to enter a foreign address for the payer and/or winner when a U.S. address was not entered on screen 1. *Do not enter both foreign and U.S. addresses for the same payer or winner, even when both apply, or else your e-file return will be rejected by the IRS.*

**Payer's foreign address:**

**...foreign address.** Enter foreign address in 30 characters or less.

**...foreign city.** Enter foreign city in 30 characters or less.

**...foreign province or state.** Enter the foreign province or state in 15 characters or less.

**...foreign country code.** Enter 2-letter country code. *See Table 2-6 on page 2-22 for Official Country Codes.*

**...foreign postal code.** Enter a foreign postal code up to 15 characters in length.

**Winner's foreign address:**

**...foreign address.** Enter foreign address in 30 characters or less.

**...foreign city.** Enter foreign city in 30 characters or less.

**...foreign province or state.** Enter the foreign province or state in 15 characters or less.

**...foreign country code.** Enter 2-letter country code. *See Table 2-6 on page 2-22 for Official Country Codes.*

**...foreign postal code.** Enter a foreign postal code up to 15 characters in length.

**Source (S=Standard, N=Non-Standard).** This entry is required for e-file only, and is normally S. Enter N only if the W-2G is altered, typed, or handwritten rather than computer-generated.



Figure 2-5c. W-2G Worksheet, Screen 3

**CERTAIN NONTAXABLE INCOME.** Selected nontaxable income is reported here to ensure the proper limitations on various credits and deductions.

**Nontaxable combat pay (see Form W-2).** If you (or spouse if filing jointly) were a member of the U.S. Armed Forces who served in a combat zone during the tax year, certain pay is excluded from income as shown in box 12 of your Form W-2 as code Q. You must enter that amount here. It affects the computation of earned income for the Earned Income Credit (line 66a), the Additional Child Tax Credit (Schedule 8812), and the Dependent Care Credit (Form 2441), subject to certain elections. The amount you enter here is shown at line 66b only if you make an election there to include it in earned income when computing the EIC, through your answer to the election question above line 66a. It is used in Schedule 8812 if not used in the EIC, and it is always used in Part II of Form 2441. (It is normally used in Part III of Form 2441 as well, but you can elect out of its use there.) Enter on this line the total for both spouses combined.

**Spouse part of above.** If any of the total amount entered above is from the spouse's Form W-2, enter that amount here.

**Excluded benefits from Form 8839.** (*If Premium Level, Road Map line supported by Form 8839.*) Excluded benefits are employer-paid amounts for adoption expenses, from line 26 of Form 8839 (Adoption Credit). This entry affects modified AGI used in computations of taxable social security benefits, IRA deductions, student loan deductions, and taxes and limitations on all kinds of IRAs on Form 8606.

**Scholarships, etc., not reported.** Enter all scholarships, fellowships, assistance allowance, etc., that are not included in taxable income. (Do not include gifts or inheritances.) This entry can affect your student loan interest deduction at line 33.

**Puerto Rico income not reported.** This is income not reportable on your U.S. return due to an agreement with Puerto Rico. It generally applies to income earned in Puerto Rico. It affects the modified AGI used in the computation of the child tax credit, taxable social security benefits, and student loan deductions.

**American Samoa income not reported.** This is income not reportable on your U.S. return due to an agreement with American Samoa. It generally applies to income earned in American Samoa, and is figured using Form 4563 (*Exclusion of Income for Bona Fide Residents of American Samoa*). It affects the modified AGI used in the computation of the child tax credit, taxable social security benefits, and student loan deductions.

**Nontaxable earnings from ESAs and QTPs.** Earnings from Coverdell Education Savings Accounts (ESAs) and Qualified Tuition Programs (QTPs) must be reported here, even though nontaxable, because they affect the proper application of limitations on education deductions: Educator Expenses at line 23, Student Loan Interest Deduction at line 33, and Tuition and Fees Deduction at line 34.

**Excluded bond interest (Schedule B, line 3).** (*Auto-calc line, supported by Schedule B.*) The excludable interest on series EE savings bonds is

posted here from line 3 of Schedule B. You must use Form 8815 to figure the amount for Schedule B and file the schedule with your return, even if total taxable interest and dividends is under \$1,500. This entry is used in modified AGI for several computations, including IRA limitations and education deductions.

**ADJUSTMENTS TO INCOME.** Deductions that directly reduce adjusted gross income are claimed in lines 23 through 36 of Form 1040.

**Educator expenses deduction.** If you were an eligible educator in 2014, you can deduct up to \$250 of unreimbursed (out-of-pocket) expenses at this line. You must be a grade K through 12 teacher and the expense must have been for books, supplies, and other supplementary materials.

**YOUR qualified educator expenses.** Enter qualified expenses if you were an eligible educator.

**SPOUSE qualified educator expenses.** Enter qualified expenses if the spouse was an eligible educator.

**23 Educator expenses. CAUTION.** *(auto-calc)* No more than \$250 is allowed for each eligible spouse, so the maximum for this line is \$500. However, the total may be further reduced by certain nontaxable income if the amount by which the expenses exceed \$250 each is less than the relevant nontaxable income, including nontaxable earnings from ESAs and QTPs, and excludable interest from series EE savings bonds.

**24 Certain business expenses of reservists, performing artists, and fee-basis government officials.** *(Road Map line, supported by Form 2106.)* Tax payers in these targeted groups do not have to itemize deductions on Schedule A to deduct business expenses, but are allowed an adjustment here instead. See Form 2106 for details. (Five separate Forms 2106 are available, one for each employer, and can be printed as Form 2106-EZ if qualified.)

**25 Health savings account deduction (Form 8889).** *(If Premium Level, Road Map line supported by Form 8889.)* If you or someone other than your employer contributed to your Health Savings Account (HSA), claim your HSA deduction here, from Form 8889, line 13.

**26 Moving expenses (Form 3903).** *(Road Map line, supported by Form 3903.)* Three Forms 3903 are accessible at this line, one for each move in the year.

**27 Deductible part of self-employment tax.** *(auto-calc line, supported by Schedule SE)* Computed as line 6 of Section A or line 13 of Section B of each spouse's Schedule SE. For 2014, the deduction is precisely half of the self-employment tax on Form 1040, line 57.

**Self-employed SEP, SIMPLE, and qualified plans deduction.** If self-employed, enter here tax deductible contributions to qualified plans (including Keogh plans) or your own SEP *if you are the employer contributing to your own plan*. The ceilings on these deductions depend on the type of plan, and can be quite involved, but you *must* be self-employed to qualify for a deduction here. See IRS Pub. 560 (*Retirement Plans for the Self-Employed*) for details. **CAUTION:** *Unless you are the employer, contributions to your SEP payments are NOT deductible here:* employer contributions to employee plans are already excluded

from income on your W-2, and your contributions are considered as IRA contributions and deducted at line 32, not here.

**YOUR payments to self-employed SEP, etc.** Enter here all contributions made in your behalf up to your allowed ceiling. TIP: If the plan is a defined benefit plan, you should make your entry in a supporting statement for this line and enter "DB" in the description column, in order to satisfy the reporting requirements of the IRS.

**SPOUSE payments to self-employed SEP, etc.** Enter here all contributions made in spouse's behalf up to spouse's allowed ceiling. (See the above TIP as well.)

**28 Self-employed SEP, SIMPLE, and qualified plans.** *(auto-calc)* Computed as the sum of the above two lines, excluding any entry for a spouse who has NO self-employment income. CAUTION: The person claiming a deduction on this line must be self-employed. The software assumes that a spouse is *NOT* self-employed and zeroes the amount for line 28 for that spouse if it finds that the spouse's net earned income excluding wages is zero.

**Self-employed health insurance deduction.** Qualified self-employed taxpayers can now deduct up to 100% of the cost of health insurance for themselves and their immediate family. To qualify, the insurance must have been established under your business, but can include coverage for your spouse and dependents in addition to you. *Amounts paid for any months you were eligible for your employer's (or your spouse's employer's) subsidized health plan do not qualify.*

**Your self-employed health insurance.** Enter here the amount paid for qualified health insurance established under your sole proprietorship. CAUTION: *You cannot include any amounts paid for insurance not set up under your business as self-employed.*

**Spouse self-employed health insurance.** Enter here the amount paid for qualified health insurance established under spouse's sole proprietorship. CAUTION: *You cannot include any amounts paid for insurance not set up under spouse's business as self-employed.*

**29 Self-employed health insurance deduction.** *(auto-calc)* The deduction is computed here using the IRS's *Self-Employed Health Insurance Deduction Worksheet* —Line 29 in the IRS 2014 Form 1040 Instructions. As a result, if you have no self-employment income, your entry for your health insurance will not be included here. Similarly, if spouse has no self-employment income, your entry for spouse's health insurance will not be included. (The part of "self-employed health insurance" you entered above that is not deductible here is automatically included in line 1 of Schedule A.) You may have to override the calculation for line 29 and use the procedure in IRS Pub. 535 (*Business Expenses*) if

- 1) you have more than one source of self-employment income (that is, more than one sole proprietorship),
- 2) you have income from an S corporation in which you are a more than 2% shareholder or you have income from more than one source of self-employment (since the deduction is limited to earned income from the business under which the insurance plan is established),
- 3) you file Form 2555 or 2555-EZ (*Foreign Earned Income*), or 4563 (*Exclusion of Income For Bona Fide Residents of American Samoa*), or you exclude income from sources within Puerto Rico,

- 4) you claim a net operating loss (NOL) deduction (see IRS Pub. 536, *Net Operating Losses*),
- 5) the insurance includes amounts for qualified long-term care,
- 6) the plan was set up under an S Corporation from which you receive wages and are a more than 2% shareholder, or
- 7) your tax year ended on a date other than December 31, 2014 (which is not allowed by *Tax Preparer* because it is almost never allowed by the IRS for individuals).

See IRS Publication 535 (*Business Expenses*) for details.

**30 Penalty on early withdrawal of savings.** (*Road Map line, supported by Schedule B.*) Penalties paid because of early withdrawal of certificates of deposits should be entered on the Form 1099-INT Worksheet that supports line 1 of Schedule B, and the amount will be posted here automatically.

**31a, Alimony paid.** If you claim a deduction for alimony paid, you must identify the recipient as follows:

**31b SSN of Recipient.** Enter recipient's social security number in the standard format (000-00-0000). *If you don't provide this SSN, you may be subject to a \$50 penalty.* If you paid alimony to more than one person, skip this line and use a supporting statement for the *next* line to identify the recipients and amounts. (Once you itemize the next line, any entry you made here is erased so that a cross-reference to the support can be printed where this entry would otherwise be printed.)

**31a Amount paid.** If paid to only one person, enter here the amount you claim as a deduction. If paid to more than one person, you must itemize the alimonies in a supporting statement for this line. Use only the first 11 spaces of the description column for SSNs (an e-file requirement), and enter the corresponding deductible alimonies in the amount column. *CAUTION: Not all alimony is tax deductible.* Child support payments, for example, are almost always taxable. Check IRS Publication 504 (*Divorced or Separated Individuals*) if in doubt.

**Roth IRAs are not deductible.** The adjustment at line 32 of this section is relevant only to traditional IRAs. Contributions to Roth IRAs are *NOT* tax-deductible. However, distributions from these accounts are generally not taxed if you follow the IRS rules. You are allowed to convert all or part of your traditional IRA to a Roth IRA, but, because the traditional IRA was most likely tax-deductible, you are taxed on the conversion. Contributions to Roth IRAs are limited in much the same way as traditional IRAs, and the two must be considered together when determining the limitations. You can use our Form 8606 to determine the Contributions Limit on your Roth IRAs, but only after entering your traditional contributions below. See our details for Form 8606 for more information on contributions to and distributions from Roth IRAs, and how conversions from traditional to Roth IRAs are taxed.

**IRA CONTRIBUTIONS.** (*For traditional IRAs only.*) Tax-deductible contributions to an Individual Retirement Arrangement (IRA) are severely restricted for some taxpayers. For 2014, the nominal limit on your contribution is \$5,500, plus an addi-

tional \$1,000 if age 50 or more, but no more than your taxable compensation (called "modified earned income" and computed using a number of IRS-defined adjustments). However, if you or spouse were covered by a retirement plan at work (including self-employment), the maximum contribution may be reduced if your income is high enough. ("Retirement plan" in this context includes qualified pension and profit-sharing plans, including 401(k)s, and self-employed coverage through Keogh, SEP, or SIMPLE plans.) The maximum contribution for a taxpayer who is covered at work is phased out once income exceeds specific thresholds. When income exceeds the threshold by \$10,000 or more, *NO* deduction is allowed. The income used for these limits is modified AGI, which is defined fully only in IRS Pub. 590-A. For tax year 2014:

- **Phaseouts begin at \$60,000 and finish at \$70,000** if single, head of household, married filing separately and lived apart from spouse all year
- **Phaseouts begin at \$106,000 and finish at \$116,000** if married filing jointly, for the spouse covered at work, or qualifying widow(er)
- **Phaseouts begin at \$0 and finish at \$10,000** if married filing separately and lived with spouse anytime in the year
- **Phaseouts begin at \$181,000 and finish at \$191,000** if married filing jointly, for the spouse *NOT* covered at work

All limitations are applied automatically by the software at line 32, using the worksheets and instructions in IRS Pub. 590-A, which are more complete than those in the IRS Form 1040 instructions. Any amounts not allowed are posted to Form 8606 for consideration as nondeductible contributions to your IRAs. Note that an employee's contribution to his or her own SEP is treated just like IRA payments, and no distinction between the two is made. You must therefore include such SEP payments in the following two lines.

**2014 contributions to YOUR IRA.** Enter here your TOTAL contributions, unless you voluntarily choose not to deduct some of your deductible contributions or you were 70-1/2 or older at the end of the year. If you elect not to claim all of your deductible contributions, you must enter only the part you choose to deduct here and enter the remainder on your Form 8606. If you were 70-1/2 or older at the end of the year you can neither deduct any contributions nor treat them as nondeductible contributions through Form 8606.

**2014 contributions to SPOUSE IRA.** As above, but for spouse.

**Covered?** 1=You, 2=Spouse, 3=Both. If either spouse was covered by a retirement plan during the tax year you must enter a number from 1 to 3. All others should leave the entry at zero.

**YOUR allowed IRA deduction.** *(auto-calc)* Computed as the allowed IRA deduction for you using the IRS's IRA Worksheets, which are built into the software and fully automatic for most taxpayers. The deduction is automatically zero for any spouse whose age entry on our Form 1040 is 71 or older, since no deduction is allowed for those who were 70-1/2 or older at the end of the tax year.

**SPOUSE allowed IRA deduction.** *(auto-calc)* Computed as the allowed IRA deduction for spouse, if married filing jointly, using the same IRS IRA Worksheets as noted above.

**32 IRA deduction.** *(auto-calc)* Computed as the sum of the preceding two amounts. See IRS Pub. 590-A (*Contributions to IRAs*) for subtleties in the calculations.

**Additional contributions on Form 8606.** When the IRA deduction allowed is less than the contributions made, Form 8606 is generated by software to determine the amount of disallowed contributions that are allowed as nondeductible contributions to your IRA. Those that are not allowed even as nondeductible contributions are subject to penalties through Form 5329. *CAUTION: Even though Form 8606 is automatically generated, you may have to access it to report the current value and past basis of your IRA accounts.* Moreover, if you voluntarily choose not to deduct some deductible amounts, you must enter on the above IRA contribution lines only the amounts to be deducted, and enter the remainder on the Form 8606 for the appropriate spouse yourself. (Form 8606 is accessible through the Road Map at line 15b of Form 1040. Form 5329 is accessible through the Road Map at line 59 of Form 1040, but Form 8606 must be complete before Form 5329 can give meaningful results. Two copies of each form are built into the software: one for you, and one for spouse.)

**Student loan interest deduction.** This deduction generally allows you to deduct a limited amount of interest on a student loan if the loan is used for qualified higher education expenses. *TIP: It is no longer required that you paid at least part of the interest on the loan within the first 5 years that payments were required.*

**2014 interest on qualified loan.** Enter the total amount of qualified interest paid in 2014. See the IRS Form 1040 instructions for detailed requirements. Up to \$2,500 is deductible for tax year 2014. Note that there is NO deduction allowed if married filing separately or either spouse is claimed as a dependent on someone else's return.

**33 Student loan interest deduction.** *(auto-calc)* The deduction is computed using the instructions in IRS Pub. 970, which are more complete than those in the IRS Form 1040 instructions. The computation includes a reduction in the maximum \$2,500 deduction as modified AGI increases above certain thresholds. For 2014, the result is NO deduction when modified AGI exceeds \$160,000 if married filing jointly, or \$80,000 for all others.

**34 Tuition and fees (Form 8917).** *(Road Map line, supported by Form 8917)* Under this benefit, you can deduct up to \$4,000 of your expenses for higher education for you, your spouse, or your dependent, provided your adjusted gross income does not exceed specified levels. *Form 8917 is required to claim this deduction.* The form requires you to supply the name, SSN, and expenses for each student. All computations are now performed on that form. *(This deduction is not allowed for returns with a filing status of married filing separately. It is also not allowed for a student for whom you claim an education credit through Form 8863 in the same tax year).*

**35 Domestic production activities deduction (Form 8903).** Created by the *American Jobs Creation Act of 2004*, this line is used to claim a deduction of up to 9% of qualified income for 2014, but limited to no more than the lesser of taxable income or 50% of wages paid. The income must be derived from an activity in the U.S., but the definition of "manufacturing" includes film, com-

puter software, and sound recordings in addition to tangible property. You must support the amount you enter here with a completed Form 8903 (not built into the software)

**Other adjustments for line 36.** There are a number of valid adjustments for which the IRS provides no line but instructs you to include in line 36 and identify on the dotted line for line 36. The amounts you enter here will be identified as required:

**FORM 2555.** (*If Premium Level, Road Map line supported by Form 2555.*)

This is the foreign housing expense that is allowed as a deduction, shown on line 50 of Form 2555. Any amount here is flagged on the official Form 1040 printout by **FORM 2555** beside line 36. This entry is used in modified AGI for several calculations in the return.

**PPR (personal property rental expense).** If you made an entry for income from the rental of personal property at line 21, you can deduct the expenses related to that income here. Any entry here is flagged on the official Form 1040 printout by **PPR** beside line 36. This amount affects the computation of the Earned Income Credit, which depends on a modified version of AGI.

**JURY PAY (jury duty pay you gave to your employer).** If you reported jury pay as income on line 21, but you were required to reimburse it to your employer because the employer paid you during jury duty, you can deduct the amount you paid here. Any entry here is flagged on the official Form 1040 printout by **JURY PAY** beside line 36.

**MSA (amount from Form 8853 for Archer MSAs).** (*If Premium Level, Road Map line supported by Form 8853.*) Archer MSAs (Medical Savings Accounts) are a form of self-insurance for the self-employed and employees of small companies. Contributions can be deducted up to a limit that is generally 65% to 75% of the deductible for the plan, but you are allowed no deduction if your employer made any contributions to your Archer MSA during the tax year. The amount on line 5 of a Form 8853 you complete is reported here and flagged on the official Form 1040 printout by **MSA** beside line 36.

**Other adjustments (itemize).** For all other adjustments (except those from MSAs on Form 8853, reported later) you must identify the adjustment in a supporting statement for this line, using the description column to enter a short literal or phrase that identifies the adjustment. Literals defined by the IRS include:

**Contributions to Sec. 501(c)(18) Pension Plans.** If an amount appears in box 12 identified as code H, this amount is the amount of elective deferral to a section 501(c)(18) tax-exempt organization plan. For this kind of deferral, the amount is included as taxable income in box 1 of your W-2, and therefore included in line 7 of Form 1040. However, you can deduct the amount here, up to the legislated limitation on elective deferrals (generally \$17,500 for 2014 and \$18,000 for 2015). *Enter 501(c)(18)(D) and the allowed amount in a supporting statement for this line.* (This is the only kind of salary deferral that is deducted here. All other deferred compensation is omitted from box

1 of W-2, and therefore already omitted from line 7 of Form 1040. See IRS Pub. 525, *Taxable and Nontaxable Income*, for details.)

**Forestation/reforestation amortization: RFST.** If you do not have to file a Schedule C or F for the activity, you can claim a deduction for the amortization of a forestation or reforestation here. *Enter RFST and the allowed amount in a supporting statement for this line.*

**Repayment of sub-pay.** If you paid back supplemental unemployment benefits (sub-pay) that you previously received under the Trade Act of 1974 but were not eligible for because you subsequently became eligible for regular unemployment payments, and you reported the previously received payments as income on a prior tax return, you can deduct that amount here. *Enter SUB-PAY TRA and the amount of repayment in a supporting statement for this line.*

**Fees for unlawful discrimination claims.** If you paid attorney and court costs for an unlawful discrimination claim you made, you can deduct those costs here (but no more than the taxable income received from the claim). See IRS Pub. 525 for more information. *Enter UDC and the eligible costs in a supporting statement for this line.*

**Fees for IRS award for information.** If you paid attorney and court costs in connection with an award from the IRS for information leading to the detection of a tax law violation, you can deduct the costs here (but no more than the taxable income from the award). *Enter WBF and the eligible costs in a supporting statement for this line.*

**TOTAL OTHER for line 36.** *(auto-calc)* Computed as the sum of adjustments reported on the above lines. If you have more than one adjustment in this total, a supporting statement cross-reference will appear on the dotted line for line 36 rather than the IRS literals, and all details will appear in an automatically-generated supporting statement when the official Form 1040 is printed.

**36 Add lines 23 through 35.** *(auto-calc)* Computed as the sum of lines 23 through 35 plus the above "TOTAL OTHER for line 36," *this is the Total Adjustment to Income.*

**37 Subtract line 36 from line 22.** *(auto-calc)* Computed as line 22 less line 36, *this is the Adjusted Gross Income (AGI) for the return.*

**Press PageDown for 1040 page 2 / Press PageUp for 1040 page 1.** Form 1040 is treated in the software like two separate forms: 1040 page 1 and 1040 page 2. However, you can navigate between the two as if they were one if you entered Form 1040 through the Road Map. That is, you can access 1040 page 2 from the last screen 1040 page 1 by pressing the PgDn key. Conversely, if you entered 1040 page 2 this way you can return to 1040 page 1 by pressing the PgUp key while viewing the first screen of 1040 page 2.

**FORM 1040 PAGE 2.** Form 1040 page 2 is used to show Tax, Credits, Other Taxes, Payments, and Refund or Amount You Owe, as follows.

**TAX.** Tax before credits is computed in lines 38 through 47.

**38 Amount from line 37 (AGI).** *(auto-calc)* Identical to line 37, if this result is negative you may elect a net operating loss (NOL) carryforward or carryback. CAUTION: If you choose a carryforward, you must let the IRS know NOW in order to use the carryforward next year. See IRS Pub. 536 (*Net Operating Losses*) for details. You can satisfy this requirement through a supporting statement for this line by accessing it with the Override Key then detaching the override with the Detach Override Key.

**39 Special filers.** The following entries affect the standard deduction:

**39a Total age and blind claims.** *(auto-calc)* This entry is determined from your answers at the start of our Form 1040 for each spouse. (The appropriate check boxes for line 39a are marked on the official print-out on the basis of those answers, even though they are not shown here.)

**39b Are you subject to special MFS or dual-status alien restrictions?** Answer Yes here only if EITHER you are married filing separately and your spouse itemizes OR you are a dual-status alien (unless, if married filing jointly, your spouse is a U.S. citizen or resident and you jointly agree to be taxed on your combined world-wide income). *TIP: If you must answer Yes, your standard deduction will be zero, making it beneficial for you to itemize deductions on Schedule A if you have ANY deductions at all.*

**40 Itemized deductions or standard deduction.** The itemized and standard deduction are compared here to determine the largest legal deduction:

**Itemized deductions (Schedule A).** *(Road Map line, supported by Schedule A.)* Schedule A is used to support a claim for itemized deductions, including deductions for interest, taxes, medical expenses, contributions, employee expenses, and moving expenses. (Although you can change this entry and see the immediate effect on the total tax for tax planning purposes, the amount from Schedule A will override your entry upon final recalculation of the return.)

**Schedule A exceeds standard deduction?** *(auto-calc)* Answered Yes only if the above itemized deductions exceed the standard deduction. (Note that the standard deduction is zero if the answer to line 39b is Yes.)

**Election on Schedule A, line 30?** *(auto-calc line, supported by Schedule A)* Taken from Schedule A, as indicated, a Yes answer indicates that you elected to use itemized deductions on Form 1040 *even when the standard deduction is higher*. (Some states do not allow you to itemize deductions on the state return unless you itemize deductions on the federal return, so you may make the election on Schedule A to minimize your state income tax.)

**Schedule A used for line 40?** *(auto-calc)* If the answer to the preceding line or line 39b is Yes, the itemized deduction on Schedule A, line 29, is used for line 40 irrespective of its amount. Otherwise, the larger of the itemized deduction or the standard deduction is used for line 40.

**Gross income on Form 1040, line 22.** *(auto-calc)* Taken from Form 1040, as indicated, this and the next amount are used in the computation of a Section 931 or 933 adjustment, below.

**Excluded U.S. Possession income.** *(auto-calc)* Taken from our section of Form 1040, page 1, titled CERTAIN NONTAXABLE INCOME (which follows line 22 of Form 1040), this is the income from Puerto Rico and American Samoa that has been excluded from income on the Form 1040 return.

**Standard Deduction Modification—Section 931/933?** *(auto-calc)* A modification applies only if Schedule A is not used for line 40 and there is an amount on the preceding line. If so, the standard deduction must be reduced in proportion with the amount of excluded income, above, compared to the total “Gross income on Form 1040, line 22.” The computation is performed in accordance with IRS Pub. 570 (*Tax Guide for Individuals With Income From U.S. Possessions*). When a Yes answer appears here, the standard deduction for line 40 is reduced and the phrase “STD.DED.MOD-Sec.931/933” appears on the official printout below the label for line 40. (Section 931 applies to American Samoa, and Section 933 applies to Puerto Rico.)

**40 ITEMIZED or STANDARD DEDUCTION.** *(auto-calc)* If the answer to “Schedule A used for line 40?” is Yes, the itemized deduction from Schedule A is used here. Otherwise, the standard deduction is used based on the IRS Standard Deduction Charts and Worksheet, which are built into the software and fully automatic, but reduced in proportion to excluded U.S. possession income if the preceding answer is Yes. See Table 1-4 for the base standard deduction amounts, which depend on the filing status, age claims, blind claims, and your dependency status.

**41 Subtract line 40 from line 38.** *(auto-calc)* Computed as indicated.

**42 Exemptions.** **Multiply \$3,950 by the number on line 6d.** *(auto-calc)* For 2014, the amount of exemptions is just the number of exemptions times \$3,950 for most taxpayers. However, the phaseout of exemptions for high-income taxpayers has returned. See IRS instructions for details.

**43 TAXABLE INCOME.** Taxable income is normally computed as line 41 less line 42. However, there are two amounts that can alter that computation:

**Contributions to a CCF.** If you are a commercial fisherman and set up a capital construction fund (CCF) with the National Marine Fisheries Service (NMFS), you can reduce your taxable income by certain contributions to this fund. However, you cannot do this directly on the Schedule C or C-EZ where you report fishing income because the reduction is not allowed to reduce the self-employment tax that is based on net income on Schedule C or C-EZ. Instead, you must enter the allowed contributions here where they will reduce taxable income for line 43. If you make an entry here, the flag CCF and amount will appear on the official printout on the dotted line for Form 1040, line 42, to indicate to the IRS why taxable income is reduced. See IRS Pub. 595 (*Capital Construction Fund for Commercial Fishermen*) for more information.

**Minimum taxable income from Schedule Q, line 2c.** *(auto-calc)* If you are the holder of a real estate mortgage investment conduit (REMIC), you will generally receive a Schedule Q (Form 1066) that reports to you an “excess inclusion” on line 2c. This amount must be reported in

Part IV of your Schedule E, where it is entered in column (c) of line 38. The sum of all amounts entered on line 38(c) of Schedule E is the minimum taxable income you must report on your tax return. This amount is posted here automatically from Schedule E, and is used to insure that the taxable income for line 43 is never lower than this amount. If the amount that appears here is more than line 41 less the sum of line 42 and "Contributions to a CCF," then this amount is used for taxable income for line 43.

**43 TAXABLE INCOME.** *(auto-calc)* Normally computed as line 41 less the sum of line 42 and "Contributions to a CCF." However, if there is an amount from Schedule Q, line 2c, above, and it is greater than the result of the normal computation, the Schedule Q amount is used for line 43 instead. If Schedule Q, line 2c, is used for line 43 instead of the normal computation, the flag SCH Q will appear on the official printout on the dotted line for Form 1040, line 43, to indicate this fact to the IRS.

**44 TAX.** Tax calculations involve much more than just the tax tables, as seen by all the variations represented by the following lines:

**Foreign Earned Income Worksheet line 2 (Form 2555).** *(auto-calc)* Filers who claim a foreign earned income or housing exclusion (via Form 2555 or 2555-EZ) must use the *Foreign Earned Income Tax Worksheet* to figure their tax. The effect of this worksheet is to raise the tax for some high-income taxpayers with foreign earned income. The entry for line 2a of the worksheet is the sum of lines 45 and 50 of Form 2555. The software gets these amounts from the Form 2555 components of lines 21 and 36 of Form 1040, where these amounts are reported, and posts them here.

**Foreign Earned Income Worksheet line 3.** *(auto-calc)* Computed as taxable income on line 43 plus the preceding amount, this is the revised taxable income for computing tax for line 44. This amount will be the same as line 43 if the *Foreign Earned Income Worksheet* does not apply. **CAUTION:** *The official worksheet allows a reduction in this result (via line 2b on the worksheet) for any itemized deductions or exclusions you could not claim solely because they are related to excluded income (via Form 2555, as reflected in Form 1040, page 1). If this case applies to you, you could override this line and reduce the result by these amounts. However, you must do so with caution because, once you invoke an override, you entry for this line will not change as taxable income on line 43 changes. Therefore, if you want to reduce the result shown here, you should wait until the return is complete (or at least until you are sure that line 43 reflects the taxable income that will apply for the final return) to invoke any override on this line.*

**Taxes computed via:**

**Tax Table.** *(auto-calc)* The regular tax based on the IRS tax tables is displayed when taxable income is less than \$100,000. (You cannot *choose* whether to use the tax table or the tax rate schedule; law

requires use of the tax table for incomes less than \$100,000 and the tax rate schedule otherwise. *If you had an entry above for line 2 of the Foreign Earned Income Tax Worksheet, the tax may be higher than the table would imply.*)

**Tax Computation Worksheet.** *(auto-calc)* The regular tax based on the IRS Tax Computation Worksheet is displayed here when taxable income is \$100,000 or more. *(If you had an entry above for line 2 of the Foreign Earned Income Tax Worksheet, the tax may be higher than the Tax Computation Worksheet would imply. Note that the Tax Computation Worksheet gives the same results as the more traditional Tax Rate Schedules.)*

**Qualified Dividends and Capital Gain Tax Worksheet or Schedule D Tax Worksheet.** *(Auto-calc line, supported by the Schedule D Tax Worksheet.)* If line 13 shows a gain from Schedule D and part of that gain stems from long-term holdings, the tax will be computed using the computations on Schedule D Tax Worksheet (modified by the *Foreign Earned Income Tax Worksheet* when applicable). The worksheet will also be used when there are qualified dividends on line 9b of Form 1040 or capital gain distributions on Form 1099-DIV (reported in the software on the 1099-DIV Worksheet for Schedule B, line 5). The result is generally a lower tax than would otherwise result because of the new tax rates for capital gains. Note that even when Schedule D need not be filed with the return, the calculation will still be performed using the Schedule D Tax Worksheet by the software when applicable. However, Schedule D will not be printed with the official return if the IRS conditions for omitting it are satisfied. See our details at line 13 of Form 1040 for more information. **CAUTION:** *If a tax appears here, be sure to verify whether you need to make an entry in Part III of our Schedule D for lines 4e and 4g of Form 4952 or an adjustment to the automatically calculated amounts for unrecaptured sec. 1250 gain, because they can affect the tax result. (If you had an entry above from line 2 of the Foreign Earned Income Tax Worksheet, the tax may be higher than the Qualified Dividends and Capital Gain Tax Worksheet would imply.)*

**Schedule J.** *(Road Map line, supported by Schedule J.)* Schedule provides for the averaging of farm income over the prior three years of tax returns, for a potentially lower tax. *The amount that appears here is used for line 44, below, if Form 8615 is not used.*

**Form 8615, line 18.** *(Road Map line, supported by Form 8615.)* Form 8615 MUST be used by all children under age 18 (and some older children under age 24) and over with more than \$2,000 of unearned income for 2014 (such as taxable interest and dividends). However, the form will not calculate and the "Form 8615" box will not be checked on the Form 1040 printout unless the age you entered as "Your age at year-end" in the Taxpayer Information section of our Form 1040 was less than 18.

**Form 8615 tax as adjusted.** *(auto-calc)* Computed as the above amount from Form 8615, line 18, less the amount on line 9 of the IRS For-

ign Tax Worksheet (computed automatically based on amounts shown on screen 2 of Form 1040, page 2), but no less than zero, this is the Form 8615 tax used for line 44. (See IRS instructions for Form 8615, line 18, for details.)

**RESULTING TAX FOR LINE 44.** *(auto-calc)* Normally the amount from the "Tax Table" or the "Tax Computation Worksheet," whichever applies, this amount is overridden by the last non-zero tax amount appearing on the preceding lines. This is the Regular Tax for the return, but is only one of five taxes that contribute to line 44 of Form 1040. The other four taxes follow:

**a Additional Tax from Form 8814.** *(Road Map line, supported by Form 8814.)* If you chose to include a child's interest and dividend income in your own income rather than filing a return for the child, you must use Form 8814 for each such child to determine the amount of additional tax you owe. The form can be prepared for any child under age 18 who had ONLY income from interest and dividends in 2014 had total income of more than \$1,000 but less than \$10,000, had neither estimated tax payments nor income tax withheld for 2014, and had no overpayment of 2013 tax applied to the 2014 return. The form can also now be used for certain children up to age 24 if a student not earning more than half of his or her own support. 15 copies of Form 8814 are built into the software to handle up to 15 children you qualify under these guidelines. *TIP: This form is not mandatory, and is sometimes not advisable because it may result in a higher overall tax than would a separate return filed for the child.* Because it raises AGI for the parent, it can reduce itemized deductions on Schedule A, passive loss allowances on Form 8582, child credit on Form 2441, IRA deductions, etc. Its use also results in a higher state income tax for some states, including California, but a lower tax for others, such as Alaska.

**b Additional Tax from Form 4972.** *(If Premium Level, Road Map line supported by Form 4972.)* If you received a lump-sum distribution from a qualified retirement plan and were born before Jan. 2, 1936, you can generally lower your tax by using Form 4972 to figure your tax, rather than including the distribution in regular income. The tax computed on Form 4972 (either line 7 or line 30, depending on the method you elect) is reported here.

**c Additional Tax from section 962 election.** If you made an election under section 962 (as a domestic shareholder of a controlled foreign corporation) to be taxed at corporate rates, you must enter the additional tax due in a supporting statement for this line that explains your computation. See section 962 of the tax code for details. *e-file TIP: For e-file, you must use only the description column for your explanation, but be sure to enter the amount for line 44c in the amount column.*

**Education Credit Recapture (ECR).** The IRS does not provide a line for reporting nor a form for computing this recapture tax, but it must be

included in the total for line 44. A recapture results for 2014 if you claimed an education credit (American Opportunity, Hope, or Lifetime Learning) for a prior tax year but received a refund or tax-free educational assistance in 2014 for some of the expenses claimed. If you make an entry on this line, the flag ECR and amount will appear on the official printout below line 44c. See IRS *2014 Instructions for Form 8863* for details on computing this recapture tax.

**44 TAX.** *(auto-calc)* Computed as the sum of the preceding five tax amounts.

**45 ALTERNATIVE MINIMUM TAX (Form 6251).** *(Road Map line, supported by Form 6251.)* Form 6251 is automatically generated when a minimum tax exists based on your adjusted gross income, exemptions, and filing status. ***CAUTION:*** *This form is required under many more circumstances than those which generate it automatically, and even when it is automatically generated you may have to provide additional information on tax preferences.*

**46 Excess advance premium tax credit repayment (Form 8962).** *(If Standard or Premium Level, Road Map line supported by Form 8962.)* This line, *new for tax year 2014*, is used to report the net tax resulting on Form 8962 (*Premium Tax Credit*) after reconciling the allowed *Premium Tax Credit (PTC)* with the advance payments received in the form of reduced health care premiums. It applies only to those who signed up for health care through the government-run marketplace (or "exchange"). *If the advance payments were less than the allowed credit, a credit results at line 69 of Form 1040 and no tax results here.*

**47 Add lines 44, 45, and 46.** *(auto-calc)* Computed as indicated, this is the total tax *including* the alternative minimum tax.

**CREDITS.** Nonrefundable personal and business tax credits are generally applied at lines 48 through 55. However, refundable credits like the earned income and fuel tax credits, are treated like tax payments, later, instead.

**48 Foreign tax credit (Form 1116).** *(If Standard or Premium Level, Road Map line supported by Form 1116.)* If you paid income tax to a foreign country, you would normally complete Form 1116 to claim a credit for this payment. However, *the IRS allows you to claim the foreign tax credit without completing and filing Form 1116 under some circumstances.* If all of your foreign income was from interest or dividends, was reported to you on Form 1099-INT, 1099-DIV, or Schedule K-1, and the foreign taxes paid as shown on those forms does not exceed \$300 (\$600 if married filing jointly), then you may be able to omit the complex Form 1116. Our Form 1099-INT and 1099-DIV Worksheets (which support Schedule B and Form 8814) collect the information necessary to compute the credit. Once you complete those worksheets and answer the additional qualification questions on screen 3 of our Schedule B, the allowable credit will appear here automatically.

**CAUTION: Form 1116 overrides entries on Schedule B and Form 8814.** If you have created a Form 1116 for the return, the results on Form 1116 will always override any amounts you reported on our Forms 1099-INT and 1099-DIV Worksheets for Schedule B or Form 8814, even when you are eligible to omit Form 1116. Therefore, if you do not need Form 1116, you must remove it from the return with our file manager unless you accurately complete Form 1116 so that the amount on line 48 is correct.

**49 Credit for child and dependent care expenses (Form 2441).** *(Road Map line, supported by Form 2441.)* The IRS requires that you supply detailed information about the care provider and the persons cared for on Form 2441, so you **MUST** access this form to claim the credit. You can access Form 2441 here to provide the required supporting detail. The result on line 13 of Form 2441 is posted here automatically.

**50 Education Credits (Form 8863).** *(Road Map line, supported by Form 8863.)* This form provides two distinct credits for expenses you paid for higher education for yourself, your spouse, or your dependents: American Opportunity Credit and Lifetime Learning Credit. You must fully complete the worksheets we provide on that form in order to claim the credits. Only the nonrefundable portion of the credit appears here (from line 19 of Form 8863); the refundable portion is posted to line 68 (from line 8 of Form 8863).

**51 Retirement savings contribution credit (Form 8880).** *(Road Map line, supported by Form 8880.)* This credit is designed to give a break to low-income filers who contribute to an IRA or other qualified plan. The credit can be as high as \$1,000. You must complete Form 8880 to claim the credit. *If your only eligible contributions are contributions to a traditional IRA, you will not have to access Form 8880 because it is automatically created and completed for you based on your IRA deductions at Form 1040 line 32 and any allowed voluntary contributions you reported on Form 8606.*

**52 Child tax credit.** *(auto-calc)* The credit is computed automatically once you identify, on our Dependents' Worksheets for line 6c, all children who are qualified for this credit. *Since tax year 2009, the child must be your dependent to qualify you for the Child Tax Credit; a child tax credit is no longer available for non-dependents.* The credit is nominally \$1,000 per child for 2014, but a number of factors may limit this amount. The computations reflect the most of the subtleties of the worksheets in IRS Pub. 972, which are much more complete than the simplified worksheet in the IRS Form 1040 Instructions and include a phaseout of the credit at high incomes, starting at \$110,000 if married filing jointly, \$55,000 if married filing separately, and \$75,000 otherwise. The phase-out amounts to a \$50 reduction in credit for each \$1,000 or part thereof by which modified AGI exceeds the threshold. The credit is also limited to tax after certain other credits are deducted. If the latter limitation applies, you may have an additional credit at line 67 through Schedule 8812.

**Residential energy credits from Form 5695.** Two separate credits are now reported on Form 5695, and they are shown separately here because they individually affect other forms in different ways:

**Line 32 of Form 5695.** *(If Standard or Premium Level, Road Map line supported by Form 5695.)* You may be eligible for the *Nonbusiness Energy Property Credit* if you installed certain energy saving improvements to your main home in 2014, such as insulated windows and doors, special roofing, or energy-efficient fuel for heating or cooling. The maximum credit is 10% of your costs, and no more than \$500 for all improvements and property combined and subject to tax liability limitations (with no carryover provision). You must complete Part II of Form 5695 to claim the credit. The result at line 32 of the form is reported here.

**Line 17 of Form 5695.** *(If Standard or Premium Level, Road Map line supported by Form 5695.)* You may be eligible for a *Residential Energy Efficient Property Credit* if you installed certain equipment in your home in 2014, such as solar, fuel cell, wind, and geothermal heat pump equipment. This maximum credit is 30% of your costs, subject to tax liability limitations (with carryover of the disallowed amount to 2015). There is no limitation to the total credit before the application of the tax liability limitation except for fuel cell property. You must complete Part I of Form 5695 to claim the credit. The result at line 17 of the form is reported here.

**53 Residential energy credits (Form 5695).** *(auto-calc)* Computed as the sum of the preceding two amounts, this is the total credit from Form 5695.

**Credit subtotal (lines 48 through 53).** *(auto-calc)* Computed as the sum of the lines 48 through 53.

**Business and other credit.** Most general business credits are consolidated on Form 3800, but some are now reported only on line 54c, below, because of recent IRS changes in the forms:

**α Credit on Form 3800.** *(Road Map line, supported by Form 3800.)* Complete this form whenever you have a business credit listed in line 1 of Form 3800. There are two dozen business credits consolidated on this

form, where limitations to tax liability are applied. *CAUTION: You must always file Form 3800 when you have any credit to report on the form. You are no longer allowed to omit the form and use line 54c when you have only one credit to report on the form.*

**b Credit on Form 8801.** *(If Premium Level, Road Map line supported by Form 8801.)* You may be eligible for a credit for prior-year minimum tax if you paid an alternative minimum tax in 2013. The result on line 25 of Form 8801 is reported here. *There is also a refundable credit from Form 8801; see Form 1040, line 71c for details.*

**c Credit from others.** Because the IRS has strengthened the role of Form 3800, there are now very few credits that you can claim on this line. Only credits from stand-alone forms that include tax limitations in their calculations, like those that follow, are now reported on line 54c.

**Credit on Form 8396.** *(If Premium Level, Road Map line supported by Form 8396.)* If you are eligible for a Mortgage Interest Credit because you entered a qualified mortgage credit certificate program to buy, rehabilitate, or make improvements to your home, and you were issued a mortgage credit certificate, you are eligible for this credit. You must complete Form 8396 to claim the credit, which is shown on line 9 of the form.

**Electric vehicle credit: Form 8834.** The credit from Form 8834 is a carryover of amounts for the Qualified Electric Vehicle Credit and the Plug-in Electric Vehicle Credit disallowed in the past due to passive activities limitations. The original credits expired at the end of 2007 and 2011, respectively.

**D.C. First-time Homebuyer Credit: Form 8859.** This credit for first-time homebuyers in Washington, D.C. expired at the end of 2011. However, if you have any carryforward of unused credit, you may be able to claim some or all of it here. You must complete Form 8859 to claim the credit and report line 3 of the 4-line form here.

**Line 15 ONLY of Form 8910.** *(If Standard or Premium Level, Road Map line supported by Form 8910.)* This form (*Alternative Motor Vehicle Credit*) provides a credit for placing into service targeted vehicles, including hybrid cars. Both personal and business credits are available, depending on the use of the vehicle. The personal credit on line 22 of Form 8910 is reported here. *The business/investment use part of the credit is reported on line 1r of Form 3800, not here.*

**Line 19 ONLY of Form 8911.** This form (*Alternative Fuel Vehicle Refueling Property Credit*) provides a credit for placing into service certain refueling property. Both personal and business credits are available, depending on the use of the property. The personal credit on line 19 of Form 8911 (not built into the software) is reported here. *The business/investment use part of the credit is reported on line 1s of Form 3800, Part III, not here.*

**Clean Renewable Energy and Gulf Tax Credit Bonds Credit: Form 8912.** This form provides a credit to bondholders in lieu of interest for bonds used for targeted uses. The result on line 20 of Form 8912 (not built into the software) is reported here.

**Line 23 ONLY of Form 8936.** *(If Premium Level, Road Map line supported by Form 8936.)* This form (*Qualified Plug-in Electric Drive Motor Vehicle Credit*) provides a credit for placing into service a vehicle driven by a traction battery and recharged from an offboard source. Both personal and business credits are available, depending on the use of the vehicle. The personal credit on line 23 of Form 8936 is reported here. *The business/investment use part of the credit is reported on line 1y of Form 3800, not here.*

**Credit for elderly or permanently and totally disabled: Schedule R.** *(Road Map line, supported by Schedule R.)* Schedule R is automatically generated and completed for the elderly when it results in a credit, but you must access it yourself to claim the credit for the disabled and to report nontaxable pensions not shown on Form 1040. The result on line 22 of Schedule R is posted here.

**Itemize for any other.** **CAUTION:** *The IRS does not allow for any other credits on this line, and e-file does not support it. We provide this line only for special circumstances in which the IRS specifically directs you to use this line for some other credit.* You must identify any other eligible credit in a supporting statement for this line, generally using only the form number or a short acronym. If there is only one item in your supporting statement and no other items, above, for line 54c, the description you enter in the support will be printed in the blank space on Form 1040 for line 54c. Otherwise it will appear in a cross-referenced supporting statement for the line.

**c Credit from others.** *(auto-calc)* Computed as the sum of the amounts on the preceding three lines.

**54 Other credits.** *(auto-calc)* Computed as the sum of credits on lines a, b, and c, above.

**55 Add lines 48 through 54. TOTAL CREDITS.** *(auto-calc)* Computed as the sum of lines 48 through 54 PLUS the above special credit.

**56 Subtract line 55 from line 47.** *(auto-calc)* Computed as line 47 less line 55, but no less than zero.

**OTHER TAXES.** All taxes not reported prior to line 48 are reported on lines 57 through 63.

**57 Self-employment tax.** Schedule SE is automatically generated for any spouse who is liable for the tax, based on entries elsewhere in the return. However, the automation can be blocked through your entries on the Control Form, either directly or by claiming one of the exemptions noted below.

**57 Self-employment tax.** (*Road Map line, supported by Schedule SE.*)

Two Schedules SE are available: one for each spouse. **CAUTION:** Even though Schedule SE is automatically generated, you may still have to access it to make special adjustments for church income or unreported tips or to elect one of the optional methods.

**SE flag for IRS.** (*auto-calc*) If the answers on the Control Form show that either spouse claims that all self-employment income received in the year is exempt from the self-employment tax because of a filed and approved Form 4029 (for claiming conscientious objection to social security insurance) or Form 4361 (for claiming ministerial exemption to social security insurance), the corresponding code "F4029" or "F4361" will appear here and on the official printout to the left of line 57. In addition, no Schedule SE will be generated for that spouse, and, if one already exists, its results will be zeroed.

**58 Unreported social security and Medicare taxes.** If you reported all tip income to your employer, the social security tax due on that income should already have been deducted from your wages and reported on your W-2 worksheets. However, if your W-2 shows an amount for allocated tips (box 8), or you have other unreported tip income, you must pay social security tax and Medicare tax on that income. *You must also report here (on line 58b) the social security tax you owe because your employer failed to withhold it from your income.*

**a Tax on unreported tips from Form 4137.** (*If Premium Level, Road Map line supported by Form 4137.*) Unless you owe RRTA tax instead, you must complete Form 4137 and report here the tax on tip income on line 13 of that form. **CAUTION:** If the amount on line 3 of Form 4137 differs from the allocated tips shown in box 8 of your W-2 (which you should have entered on line 8 of your W-2 Worksheet for line 7), you MUST enter the difference on the line "Adjust to 8 for 1040" below line 8 of your W-2 Worksheet because this difference is taxable income that must be reflected in Form 1040 line 7.

**b Uncollected tax from Form 8919.** If you are an employee whose employer did not withhold social security and Medicare taxes from your wages, you must complete the separate Form 8919 (*Uncollected Social Security and Medicare Taxes on Wages*) and pay the taxes yourself. Enter here the result on line 13 of Form 8919 (not built into the software).

**Tax on unreported tips for RRTA.** If you owe RRTA tax, your employer should figure and collect the tax for you, based on information you provide the employer. Otherwise, you must report the tax on tip in-

come you owe here. (An entry here will be flagged on the printed return with the code "RRTA" beside line 57.)

**58 Unreported social security and Medicare taxes.** (*auto-calc*) Computed as the sum of the preceding three amounts.

**59 Tax on an IRA or a qualified retirement plan (Form 5329).** (*Road Map line, supported by Form 5329.*) Two copies of Form 5329, one for each spouse, are built into the software. Although automatically created if you contributed too much to your IRAs this year, you will have to complete the form yourself if you are liable for additional taxes due to premature distributions or excess accumulations for IRAs and other retirement plans, pensions, and annuities.

**60 Additional taxes.** Three other taxes are reported here:

**α Household employment taxes from Schedule H.** (*Road Map line, supported by Schedule H.*) Household employment taxes are posted here from Schedul H. This schedule is designed to help the IRS enforce the rules for deducting and paying employment taxes, such as the social security tax, for household maids and other domestics. **CAUTION:** *Anyone who paid \$1,900 or more in 2014 to any one household worker, who withheld any Federal income tax during 2014 on behalf of the worker, or who paid \$1,000 or more in any one quarter to all workers combined, MUST FILE SCHEDULE H, and must have an employer identification number (EIN) from the IRS. To get an EIN you must file Form SS-4 with the IRS.* (You can get a Form SS-4 by downloading it from the IRS web site at [www.irs.gov/formspubs](http://www.irs.gov/formspubs) or by calling 1-800-TAX-FORM to have it sent to you. It is also included on the CD-ROM for our Standard and Premium Level software.

**β First-time homebuyer credit repayment (Form 5405).** (*If Standard or Premium Level, Road Map line, supported by Form 5405.*) Any recapture tax from Form 5405 is reported here. Recapture tax results from either (1) premature sale or change of use of a main home for which credit was claimed on a prior Form 5405, or (2) required payment of 1/15<sup>th</sup> of credit claimed for 2008. The result on line 8 of the form is reported here.

**61 Health care: individual responsibility.** (*If Standard or Premium Level, Road Map line supported by Form 8965.*) This line, *new for tax year 2014*, is used to report the tax due for failing to buy required health insurance without qualifying for a full exemption from the individual responsibility to do so. Form 8965, *Health Coverage Exemptions*, is used to support any exemptions on a monthly basis, which can reduce or eliminate any tax for failing to meet the requirements. The computation of tax for this line does not appear on the IRS form, but is computed using the *Shared Responsibility Payment Worksheet* that appears in the *IRS Instructions for Form 8965*. We have added this worksheet to the on-screen Form 8965 in this software, and the result on line 14 of that worksheet is reported here.

**OR Full-year coverage for ALL.** If all members of your tax household (defined in the *IRS 2014 Instructions for Form 8965*) maintained minimum essential coverage for the entire year, you can answer Yes here and no tax will apply for line 61.

**62 Taxes from...** This line is used to report any other taxes that must be included in the total at line 63. On the IRS's printed form, these taxes are separated into 3 parts: 60a, 60b, and 60c. In the IRS's e-file format, however, all taxes for line 62 are grouped together without any such separation. Since we support both formats, we show lines 60a and 60b on the screen under the first format (at the bottom of screen 5), and show these two amounts with all other amounts for line 62 on screen 6.

- a Tax from Form 8959.** *(If Standard or Premium Level, Road Map line, supported by Form 8959.)* This form assesses an additional Medicare tax of 0.9% of income above certain high-income levels.
- b Tax from Form 8960.** *(If Standard or Premium Level, Road Map line, supported by Form 8960.)* This form assesses an additional 3.8% tax on net investment income when AGI exceeds certain high-income levels.
- c All others.** All other taxes are reported here, including various recapture, penalty, and other taxes. The most popular ones are shown on screen 6 of Form 1040, page 2, ready for your data entry or access to supporting forms. All remaining taxes are entered in a supporting statement for the last accessible line on the screen.

Screen 6 follows the IRS's e-file format. The first two lines under this format are a repeat of the two lines shown at the bottom of screen 5 as lines 60a and 60b. All other lines are designed for taxes not reflected anywhere else on Form 1040, including tax credit recapture, penalties, and interest owed. The labels for all of these lines are IRS-specified acronyms required for e-file and recommended for printouts.

**FROM FORM 8959 (Additional Medicare Tax).** *(auto-calc)* Taken from line 60a on the previous screen, this is the new Medicare surtax on taxpayers with high earned income.

**FROM FORM 8960 (Net Investment Income Tax).** *(auto-calc)* Taken from line 60b on the previous screen, this is the new surtax on taxpayers with high investment income.

**LIHCR (Low-income Housing Credit Recapture).** *(If Premium Level, Road Map line supported by Form 8611.)* If you are liable for a recapture of the low-income housing credit because you disposed of or reduced the qualified basis of property on which you previously claimed the credit (through Form 8586), you must complete Form 8611 (Recapture of Low-Income Housing Credit). The result on line 14 of that form is reported here.

**ICR (Investment Credit Recapture).** *(If Premium Level, Road Map line supported by Form 4255.)* If you are liable for a recapture of the investment credit because, before the end of its useful life or recovery period, you disposed of or discontinued the business use of property on which you previously claimed the credit (through Form 3468), you must complete Form 4255 (Recapture of Investment Credit). The result on line 13 of that form is reported here.

**FMSR (Federal Mortgage Subsidy Recapture).** *(If Premium Level, Road Map line supported by Form 8828.)* If you are liable for a recapture of a Federal Mortgage Subsidy because you sold your home in 2014

and it was financed (at least in part) by a tax-exempt qualified mortgage bond, you must complete Form 8828 (Recapture of Federal Mortgage Subsidy). The result on line 23 of that form is reported here.

**IECR (Indian Employment Credit Recapture).** If you are liable for a recapture of this credit because you terminated within 1 year an employee who qualified you for the credit (through Form 8845, not built into the software), you must enter here the amount of credit attributable to the wages for that employee.

**ECCFR (Employer-Provided Child Care Facilities Credit Recapture).** You are liable for a recapture of this credit if, within 10 years of your credit claim, the child care facility that qualified you for the credit (*via* Form 8882, not built into the software) ceases to qualify as a child care facility or changed ownership. If so, enter the previously claimed credit here.

**NMCR (New Markets Credit Recapture).** If you are liable for a recapture of this credit because the entity that qualified you for the credit (through Form 8874, not built into the software) ceases to qualify or was redeemed, enter the previously-claimed credit here.

**HSA (Tax on distributions from Health Savings Accounts - Form 8889).** *(If Premium Level, Road Map line supported by Form 8889.)* If you received distributions from HSAs that exceed the amount of unreimbursed medical expenses, you may owe an additional 10% tax on it (over and above the regular tax on the distribution). You must complete Part II of Form 8889 to compute the tax. The result on line 17b of that form is reported here.

**MSA (Tax on distributions from an Archer MSA - Form 8853).** *(If Premium Level, Road Map line supported by Form 8853.)* If you received any distribution from your Archer MSA that was not used for qualified medical expenses, you may owe an additional 15% tax on it (over and above the regular tax on the distribution). You must complete Section A of Form 8853 to compute the tax. The result on line 9b of that form is reported here.

**MED MSA (Tax on distributions from a Medicare+Choice MSA - Form 8853).** *(If Premium Level, Road Map line supported by Form 8853.)* If you received any distribution from your Medical+Choice MSA that was not used for qualified medical expenses, you may owe a 50% tax on it (over and above the regular tax on the distribution). You must complete Section B of Form 8853 to compute the tax. The result on line 13b of that form is reported here.

**FROM FORM 8697 (Interest owed under sec. 460(b)(2)).** If you owe interest under the look-back method of sec. 460(b)(2) on certain long-term contracts, you must complete Form 8697 (not built into the software) to figure the interest and report it here. Enter the amount on Part I, line 10, or Part II, line 11, of the form here.

**FROM FORM 8866 (Interest owed under sec. 167(g)(2)).** If you owe interest under the look-back method of sec. 167(g)(2) for property placed in service after September 13, 1995 and depreciated under

the income forecast method, you must complete Form 8866 (not built into the software) to figure the interest and report it here. Enter the amount on line 10 of the form here.

**ADT (Tax on Accumulation Distribution of Trusts - Form 4970).** *(If Premium Level, Road Map line supported by Form 4970.)* If you are the beneficiary of undistributed income from a trust, you may have to complete Form 4970 to determine the tax on the accumulation distribution of the trust. The result on line 28 of that form is reported here.

**UT (Uncollected Employee Social Security and Medicare or RRTA Tax on Tips).** Even though you reported all tips to your employer, you may not have had enough wages for the tax to be deducted by the employer. The amount of uncollected tax that you still have to pay should be reported to you with the code A or B in box 12 of your W-2. Similarly, you will have to pay a tax on part of the cost of life insurance arranged through a former employer if you receive a W-2 with code M or N in box 12. Report here any tax identified as code A, B, M, or N in box 12 of your W-2.

**EPP (Excess Golden Parachute Payments).** If you received an excess parachute payment as a key employee of a corporation changing control, you are liable for a tax amounting to 20% of the excess. This amount of tax may be reported to you in box 12 of Form W-2 with a code K. Alternatively the full excess may be shown in box 13 of a Form 1099-MISC, identified as EPP, and the tax to be reported is 20% of that amount.

**HDHP (Tax from Form 8889, line 21).** *(If Premium Level, Road Map line supported by Form 8889.)* The tax to be reported here is a penalty tax for failure to maintain HDHP coverage in a health savings account (HSA). This tax is figured in Part III of Form 8889, and the result on line 21 is reported here.

**FITPP (Charity deduction recapture tax).** If you contribute a fractional interest in tangible personal property (FITPP) to a charity but do not contribute the remaining interest to a qualified organization within the allowed time, you must report the deduction as income on line 21 of Form 1040 and pay interest and a 10% penalty through your entry here. See "Fractional Interest in Tangible Personal Property" in IRS Pub. 526 (*Charitable Contributions*).

**Itemize with codes for other taxes.** If you must report any other taxes not included on any line on Form 1040 that precedes this data entry line, you must do so in a supporting statement for this line. You would generally enter only the related form number or a short acronym in the description column and the tax in the amount column. Examples include:

**Sec. 72 penalty (Excess Benefits Tax).** If you are or were a 5% owner of a business and received premature distribution from a Keogh plan, employer's qualified plan, or annuity contract, you may be liable for a 10% penalty on the distribution, as detailed in IRS Pub. 560 (*Retire-*

*ment Plans for the Self-Employed*). If so, enter **SEC 72(M)(5)** in the description column and the penalty in the amount column.

*Interest on tax due on installment sale.* If you sold property under an installment sale and qualified for the installment because you elected to pay interest on tax due on the sale, enter **453A(C)** in the description column and the reportable interest in the amount column.

*Recapture of the credit for qualified electric vehicles.* If a vehicle for which you formerly claimed the credit no longer qualifies for the credit, you may have to recapture part or all of the credit. If so, enter **8834R** in the description column and the recapture tax in the amount column. See IRS Pub. 535 and IRC Section 30(e)(5) for details..

*Recapture of the credit for qualified plug-in electric drive motor vehicles.* If a vehicle for which you formerly claimed the credit no longer qualifies for the credit, you may have to recapture part or all of the credit. If so, enter **8936R** in the description column and the recapture tax in the amount column. See IRS Sec. 30(D)(5) for details.

For more example, see IRS Instructions for line 60c in the IRS 2014 Instructions for Form 1040. Note that you are not restricted to the IRS examples. Any other tax you owe that is not reported elsewhere should be reported in your support for this line, providing any self-explanatory acronym or description up to 30 characters long in the description column and the tax in the amount column.

**62 Taxes from lines 60a, 60b, and 60c.** *(auto-calc)* Computed as the sum of all amounts on screen 6, this is also the sum of amounts for lines 60a, 60b, and 60c of the printed form.

**63 Add lines 56 through 62. TOTAL TAX.** *(auto-calc)* Computed as the sum of lines 56 through 62.

**PAYMENTS.** Prior tax payments and credits not already deducted are reported on lines 64 through 74.

**Federal income tax withheld.** Tax withholdings that you reported on various W-2s and 1099s are included here automatically, but you may have to enter amounts for withholding not reported elsewhere.

**1099-R Federal income tax withheld.** *(auto-calc)* Taken from your entries for Federal tax withheld on the 1099-R Worksheets for lines 15a through 16b.

**1099-INT, 1099-DIV, 1099-G, and SSA-1099 part of Federal income tax withheld.** *(auto-calc)* Taken from your entries for Federal tax withheld on the 1099-INT and 1099-DIV Worksheets for Schedule B, on the line above Form 1040 line 19 for Federal tax withheld on Form 1099-G, and on the line above Form 1040 line 20b for Federal tax withheld on Forms SSA-1099 and RRA-1099.

**1099 Federal tax withholding not shown above.** The software already posts, above, withholding you entered elsewhere for Forms 1099-R, 1099-INT, 1099-DIV, 1099-G, and SSA-1099. However, if you have backup withholding shown on any other type of Form 1099, such as box 4 of Form 1099-MISC, you would enter it here.

**FORM 1099 Federal income tax withheld.** *(auto-calc)* Computed as the sum of the preceding three lines, this is the total of all payments reported to you on various Forms 1099.

**1065 SCHEDULE K-1 Federal tax withheld.** This is backup withholding from a partnership, identified as code O in box 15 of the Schedule K-1 (Form 1065) you receive as a partner.

**1120S SCHEDULE K-1 Federal tax withheld.** This is backup withholding from an S corporation, identified as code O in box 13 of the Schedule K-1 (Form 1120S) you receive as a shareholder.

**1041 SCHEDULE K-1 Federal tax withheld.** This is backup withholding from estates and trusts, identified as code B in box 13 of the Schedule K-1 (Form 1041) you receive as a beneficiary.

**FORM W-2/W-2G Federal income tax withheld.** *(auto-calc)* Taken from your entries for Federal tax withheld on the W-2 Worksheets for line 7 and the W-2G worksheets for line 21.

**FORM 8959 Federal income tax withheld.** *(If Standard or Premium Level, Road Map line supported by Form 8959.)* The tax shown on line 24 of a Form 8959 (*Additional Medicare Tax*) you prepare is reported here. You would generally have an amount here if you had wages from any one employer that exceeded \$200,000.

**Other Federal tax withholding for line 64.** Enter any withholding not reported elsewhere. This could include, for example, backup withholding shown as code O in box 15 of Schedule K-1 (Form 8865) from a foreign partnership. *Limitation for e-file: In its e-file specifications, the IRS does not allow for withholding from any source other than the ones listed above this line. Therefore, if you have an entry for this line, you cannot e-file this return and must file a paper return.*

**64 Federal income tax withheld.** *(auto-calc)* Computed as the sum of all lines above that are not indented: "FORM 1099," "1065 SCHEDULE K-1," "1120S

SCHEDULE K-1," "1041 SCHEDULE K-1," "FORM W-2/W-2G," "FORM 8959," and "Other Federal income tax withholding for line 64."

**65 2014 estimated tax payments and amount applied from 2013 return.** (*auto-calc. supported by Control Form.*) This amount is taken from the Control Form, where any estimated tax payments made for 2014 must be entered. *Access to the Control Form is provided after the next two lines.* The next two lines are provided to explain estimated tax payments in line 65 for which application to your return may not be obvious:

**If estimated tax payments were made with:**

**different name, itemize detail here.** If you changed your name (because of marriage or divorce, for example) and made estimated tax payments under your former name, you must explain in a supporting statement for this line, include the payment dates and the name and SSN under which you made the payments, using only the description column of the support in your explanation.

**different spouse, enter former spouse's SSN.** If newly divorced in 2014 and you made any estimated tax payments jointly with your former spouse, enter that person's SSN (a) here if you were remarried to another spouse in 2014, or (b) on 1040 page 1 if you were not remarried in 2014.

**Press I to enter payments for line 65.** (*Road Map line, supported by Control Form.*) In order for an amount to appear on line 65, above, ***you MUST provide detail on the payments for line 65 on our Control Form.*** The payments eligible for line 65 include tax you chose to apply from an overpayment on the prior-year tax return plus the quarterly estimated payments you made for 2014, including the one due January 15, 2015. Enter all eligible payments in the section on the Control Form titled FEDERAL ESTIMATED TAX PAID.

**Earned income credit:**

**Use combat pay in EIC calculation?** You can elect to include nontaxable combat pay in your 2014 earned income, as if it were taxable income, when computing the earned income credit. If you make this election, the combat pay you entered below line 22 of Form 1040 will be included in 2014 earned income when computing the earned income credit, and will be shown on line 66b. This will be to your benefit only if your income is sufficiently low, so you should make this choice judiciously. You should also take into account the effect on any results from Schedule 8812 because if you do not make the election here, you must include combat pay in earned income on Schedule 8812, which could result in a lower credit on that form. The software automatically ensures that Schedule 8812 uses the opposite election choice from the one you choose for EIC.

**66a Earned income credit (Schedule EIC).** (*Road Map line, supported by Schedule EIC.*) ***CAUTION for Paid Preparers:*** Returns signed by a paid preparer and claiming the earned income credit must now include Form 8867 with the filed return. See the shaded box that follows the details for line 66b. A credit is generally available to you if you had earned income in 2014, had investment income of no more than \$3,350, and one of the following conditions is met:

- (A) one child lived with you and both your earned income and your adjusted gross income are less than \$38,511 (\$43,941 if married filing jointly), OR
- (B) two children lived with you and both your earned income and your adjusted gross income are less than \$43,756 (\$49,186 if married filing jointly), OR
- (C) three or more children lived with you and both your earned income and your adjusted gross income are less than \$46,997 (\$52,427 if married filing jointly), OR
- (D) no child lived with you, but you (or spouse if filing jointly) are at least age 25 but under age 65 and both your earned income and your adjusted gross income are less than \$14,590 (\$20,020 if married filing jointly). **CAUTION:** You must enter the proper ages in the Taxpayer Information section of our Form 1040 for the credit to be properly computed.

For 2014, the maximum credit is \$6,143 with three or more qualifying children, \$5,460 with two qualifying children, \$3,305 with one qualifying child, and \$496 with no qualifying child (as long as you meet the age requirements). *Even though IRS Schedule EIC is used by the IRS only for providing information on a qualifying child, the software uses the schedule to hold all information relevant to the credit and to ensure that all complexities of the calculations are performed. This schedule is virtually automatic in computing the credit for most taxpayers. However, you must supply information on the qualifying children on Dependents' Worksheets at line 6c of Form 1040 if you are claiming the credit based on children.* Note that a couple a special flags may be printed on the official Form 1040 based on special circumstances. For example, if you made an entry on any W-2 Worksheet at line 7 for clergy social security not in box 3 (that is, wages that are liable for the social security tax but on which social security tax was not withheld), special rules apply which are automatically enforced by the software. If a credit results and the cited W-2 entry exists, the word CLERGY is printed on the official printouts next to line 66a, as required by the IRS. If the credit is zero because of information not obvious on the official printout, a NO appears on the official printout next to line 66a to let the IRS know that you completed Schedule EIC and zero credit resulted. Otherwise the IRS will flag the return for a notice to the taxpayer that there is an error in the computation. Factors that can cause a NO here include answers on our Schedule EIC that disqualify you, such as filing Form 2555 or being a qualifying child of someone else, or, if childless, being in the wrong age bracket. **CAUTION:** *If the taxpayer's claim for the Earned Income Credit was reduced or disallowed by the IRS for any year after 1996, you must attach a completed copy of Form 8862 (built into the Premium Level) in order to claim the credit for 2014.*

**66b Nontaxable combat pay election.** *(auto-calc)* If you answered Yes to the question "Use combat pay in EIC calculation?" that appears on the screen above line 66a, the amount you entered for "nontaxable combat pay" below line 22 of Form 1040 appears here; otherwise zero. If an amount appears here it will be included in earned income when computing the EIC.

**Due diligence requirements for paid preparers (Form 8867).** Because of a long history of abuse, the IRS now places special responsibilities on paid pre-

parers for collecting the proper information to justify claims for the earned income credit. Since the 2012 filing season, the IRS requires that paid preparers file Form 8867 (*Paid Preparer's Earned Income Credit Checklist*) with a return signed by them. Because of this, Form 8867 is automatically created whenever a Schedule EIC exists for the return. However, it is printed with the complete return only if there is a credit on Form 1040, line 66a, and you have identified the return (on Form 8867) as prepared by a paid preparer. Even though it is automatically generated, and Parts I through III are completed for you automatically (except for the paid preparer question), you must manually complete Part IV of the form in order to satisfy the IRS's requirement for due diligence. And you may need to supply more information on screen 1 of the form if someone other than the signing preparer was responsible for the proper computation of the earned income credit. (*You can access Form 8867 through the Road Map from screen 1 of our Schedule EIC.*)

**67 Additional child tax credit.** (*Road Map line, supported by Schedule 8812.*) This form for an additional child tax credit is built into the software and fully automatic. It is automatically generated and completed when it applies and potentially provides an additional credit when the regular child tax credit at line 52 is limited due to a low net tax after deducting certain credits.

**68 American opportunity credit from Form 8863, line 8.** (*Road Map line, supported by Form 8863.*) Form 8863 now reflects two credits, the American Opportunity Credit and the Lifetime Learning Credit. The American Opportunity Credit includes a refundable provision for some taxpayers, which means that some taxpayers can get a credit even when they have no tax liability. The refundable portion of the credit is posted here from line 8 of the 2014 Form 8863. (The nonrefundable portion of the credit is posted to line 50 of Form 1040 from line 19 of Form 8863.)

**69 Net premium tax credit (Form 8962).** (*If Standard or Premium Level, Road Map line supported by Form 8962.*) This line, *new for tax year 2014*, is used to report the net *Premium Tax Credit (PTC)* resulting on Form 8962 after reconciling the gross allowed credit with the advance payments received in the form of reduced health care premiums. It applies only to those who signed up for health care through the government-run marketplace (or "exchange"). *If the advance payments were more than the allowed credit, a tax results at line 46 of Form 1040 and no credit results here*

**70 Amount paid with request for extension to file.** You should report here payments made with any of three forms of extension request:

**Amount paid with Form 2350.** (*If Premium Level, Road Map line supported by Form 2350.*) This extension request applies to you only if you need extra time in order to meet residency tests for the foreign earned income exclusion. If approved, an extension is granted to a date 30 days after you expect to meet the residency tests. The amount you paid with the form, shown on line 5 of Form 2350, is reported here.

**Amount paid with Form 4868.** (*Road Map line, supported by Form 4868.*) If you want to apply for an automatic 6-month extension of time to

file, you should complete Form 4868. You must file that form along with any tax you expect to owe by the regular filing deadline for the return. Once you have completed the form, the amount you paid with the form appears here.

**70 Amount paid with extensions request.** *(auto-calc)* Computed as the sum of the preceding two lines.

**71 Excess social security, and tier 1 RRTA tax withheld.** *(auto-calc)* The excess withheld is computed based on the amount of properly-withheld social security tax and the social security-equivalent RRTA Tier 1 tax shown on the W-2 Worksheets you completed at line 7 of Form 1040. The excess withheld is the amount by which the amounts for you and spouse *separately* exceed the legislated \$7,254.00 maximum for 2014 (No excess should exist unless you or spouse had more than one employer and total wages over \$117,000. See the instructions for our W-2 Worksheet for details.) See IRS Pub. 505 (*Tax Withholding and Estimated Tax*) for more details. **CAUTION:** *This line can no longer be used to claim excess withholding from a Tier 2 RRTA tax. Instead, you must now use Form 843 (available from the IRS web site at [www.irs.gov/formspubs](http://www.irs.gov/formspubs)), which is a generic form for claiming overpayments from the IRS.*

**72 Credit for federal tax on fuels (Form 4136).** *(If Premium Level, Road Map line supported by Form 4136.)* Use Form 4136 to claim credit for federal excise tax paid on fuels used for certain nontaxable purposes like farming and fishing. The total on line 17 of that form is reported here.

**73 Other credits.** Three other special amounts are reported here:

**a Credit from Form 2439.** If you received a Form 2439 (from a RIC or REIT) reporting tax paid on your share of undistributed long-term capital gains, enter here the amount in box 2 of the form.

**b Reserved.** *(auto-calc)* This line is reserved by the IRS for future use, so it is always computed as zero. It was formerly used for the Adoption Credit (Form 8839), which is now reported on line 55c because it is now a nonrefundable credit.

**c Reserved.** This line is reserved by the IRS for future use, so it is always computed as zero. It was formerly used for the Health Coverage Tax Credit (Form 8885), which expired at the end of 2013.

**d Other payment of tax.** Enter here any other payment of tax not reflected elsewhere. If you make an entry here, box 73d will be checked and the word TAX will be printed on the official printout.

**Credit under sec. 1341(a)(5)(B).** Enter here any tax credit stemming from a repayment of more than \$3,000 of income you reported as taxable income in a prior year. This credit is available under section 1341(a)(5)(B) of the tax code. See the section titled *Repayments* near the end of IRS Pub. 525 (*Taxable and Nontaxable Income*) for qualifications for the credit and details on how to figure it. If you enter an amount here, box 73d will be checked and the code 1341 will be printed on the official printout. *(Repayments of \$3,000 or less are claimed as expenses on the form where the income was reported in*

a prior year. You also have the option of claiming repayments over \$3,000 this way instead of claiming a credit here.)

**73 Credits from a, b, c, and d. (*auto-calc*)** Computed as the sum of lines 71a, b, c, and d *plus* "Credit under sec. 1341(a)(5)(B)."

**Tax paid to Virgin Islands (Form 8689).** If you have income from the Virgin Islands but were *not* a bona fide resident of the Virgin Islands, you are required to file Form 8689 (not built into the software) with your Form 1040 return and file the return with *both* the U.S. and the Virgin Islands. A portion of the tax you figure on Form 1040 is allocated to the Virgin Islands through Form 8689, and any amount due to or refund available from the Virgin Islands is figured on that form as well. In order to prevent double taxation, you must enter here the amounts on lines 40 and 44 of Form 8689, which are all the taxes you paid to the Virgin Islands for the year (including tax withheld by the Virgin Islands, estimated tax payments you made to the Virgin Islands, and the amount you paid with the return you sent to the Virgin Islands). See IRS Pub. 570 for details. The amount you enter here is reflected in the total at line 74 and is printed on the dotted line for line 74 with the flag "8689." **CAUTION:** *If you are a bona fide resident of the Virgin Islands, you should not use Form 8689 but must instead file your Form 1040 return with the Virgin Islands only, and pay all tax figured on Form 1040 to the Virgin Islands.*

**Other special payments (itemize).** You may be able to claim a tax credit for other payments you made. For example, if you repaid more than \$3,000 of income you reported as taxable income in a prior year, such as excess unemployment compensation or advance commissions not earned, you may have the option of claiming a credit here rather than deducting the amount from income elsewhere. The credit amounts to the tax you would have saved had you not been taxed on the income in the prior year. To claim the credit, enter "IRC 1341" and the amount of credit in a supporting statement for this line. See *Repayments* in IRS Pub. 525 (*Taxable and Nontaxable Income*) for details.

**74 Add lines 64 through 73. TOTAL PAYMENTS. (*auto-calc*)** Computed as indicated, this is the total of payments already made or credited.

**REFUND.** If line 74 exceeds line 63, a refund may be available.

**75 Amount you OVERPAID. (*auto-calc*)** Line 74 less 63, but no less than zero.

**2015 estimated tax (Form 1040-ES). (*Road Map line, supported by Form 1040-ES.*)** Your total estimated tax for the next tax year is figured on Form 1040-ES using the tax rates and other regulations for the next tax year. If you want to apply any of the excess payment on line 75 to estimated taxes, use the percentage entry below to control the maximum amount to be applied. *If you complete no Form 1040-ES but you want to apply some of the refund to next year's estimated tax, enter 100% below and the dollar amount to apply here.*

**% of above estimated tax to prepay.** This entry controls the amount of any overpayment appearing on line 75 that will be applied to 2015 estimated taxes via line 77, below. If you complete a Form 1040-ES, you will typically enter 25% here so that the first quarter's estimated tax payment is automatically

made. Or, if you prefer, you could pay up to the amount of estimated taxes for the entire year by entering 100% here. *If you complete no Form 1040-ES but you want to apply some of the refund to next year's estimated tax, enter 100% here and the dollar amount to apply above.*

**76a Amount of line 75 you want REFUNDED TO YOU.** *(auto-calc)* Computed as line 75 less any penalty from Form 2210 on line 79 and less line 77.

**Itemize HERE and use Form 1310 (to claim a refund for deceased person).** *(If Premium Level, Road Map line supported by Form 1310.)* If the return is for a deceased taxpayer and you are claiming the refund on line 76a for the decedent's estate, you must file Form 1310 with the return to make the claim. No monetary amounts appear on the form. It is merely an affidavit of your right to the claim, and access to the form is provided here for the Premium Level for convenience.

**Direct Deposit Information.** Complete the following lines to direct the IRS to deposit any refund directly in your bank account.

**Do you want refund deposited into more than one account?** If Yes, you should skip lines 76b through 76d, below, and instead complete and attach Form 8888 to supply the required information for the multiple bank accounts. *CAUTION: The IRS has announced that if the return is delayed for any reason, the entire refund may be deposited into the first account listed on Form 8888 rather than split among accounts in the way you request! (The option to use Form 8888 is not available for an e-filed return.)*

**76b Routing number.** This 9-digit number identifies the bank to which any refund will be sent. If a checking account, the number is the first set of numbers printed at the bottom of your checks.

**76c Type: 1=Checking, 2=Savings.** Enter 1 or 2 to identify the type of bank account. This entry is forced to zero if a 9-digit routing number is not entered above.

**76d Account number.** Enter full account number, including the bank's branch number. If a checking account, the number is the second set of numbers printed at the bottom of your checks. (Be sure not to include the last set of numbers, which is your check number.)

**77 Amount of line 75 to be APPLIED TO YOUR 2015 ESTIMATED TAX.** *(auto-calc)* Computed as the lesser of line 75 less line 79 or the portion of estimated tax you choose to prepay.

**e-file ONLY.** If you will e-file the return and have purchased Bank Products with your software, you can potentially offer RAL or QIK checks to your clients. The bank application is completed through your EFI2014 transmission software by navigating through its menus.

**Type: 0=None, 1=RAL, 2=QIK.** Answer 1 or 2 only if you have purchased Bank Products with your software and have been approved by the bank to offer the services. Enter 1 if you will give the client an advance on his or her refund by means of a refund authorization loan (RAL); enter 2 if you will deduct your fee from the client's refund check by means of a QIK check.

# HowardSoft

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## Form 1040

**Itemize here for e-file form.** *(For Standard and Premium Level, Road Map line supported by e-file form)* The sole purpose of this line is to provide easy access to our [main e-file form](#). In order to e-file a return you must complete this form, which we use to collect a broad range of information that the IRS requires, including your Electronic Filing Identification Number (EFIN). This is also the form on which you provide PIN signatures, which are now required for all e-file returns. *Paper signatures are no longer accepted for e-file returns.*

**AMOUNT YOU OWE.** If line 63 plus 79 exceeds line 74, you owe more tax.

**78 Subtract line 74 from line 63.** *(auto-calc)* In spite of the IRS label for this line, computed as line 63 plus penalty on line 79, below, less line 74, but no less than zero, in accordance with IRS instructions.

**Are you paying the full amount due?** *The IRS now requests that you enclose a Form 1040-V voucher along with any payment.* However, you may choose to pay less than the full amount due, and penalties will apply only to the balance not paid. If you are paying the full amount on line 78, answer Yes here and the full amount will be printed on a Form 1040-V voucher for the return.

**Amount to be paid.** If you answered Yes above, the amount from line 78 appears here. But if you answered No, you must enter the amount you will pay and that amount will appear on the printed Form 1040-V.

**Pay by check or money order using Form 1040-V.** If you choose to pay by check or money order, you should send the payment with Form 1040-V (printed by the software with Form 1040, page 2) to the address shown in the IRS instructions for Form 1040-V. Note that these addresses are different from those in the IRS instructions for Form 1040 for many states.

**79 Estimated tax penalty.** *(Road Map line, supported by Form 2210.)* If line 78 is \$1,000 or more, or you did not pay enough estimated tax on every one of the quarterly payment due dates, you may be liable for a penalty. Form 2210 is automatically generated upon the final recalculation of the return, and made a permanent part of the return if a penalty exists. You will have to access Form 2210 if you want to report annualized income installments (for a lesser penalty when most of your income is received in the second half of the year) or to provide additional information to qualify you for the more favorable Form 2210-F. After Form 2210 or 2210-F is completed, the penalty is posted to this line, and lines 76a, 77, and 78 are readjusted accordingly.

**THIRD PARTY DESIGNEE.** Information you supply below will appear at the bottom of page 2 of the official printout of Form 1040. Your designee can be anyone you choose to allow to communicate with the IRS for you, including a friend or relative. The person you designate here is allowed to give the IRS any missing information from the return, to call the IRS for information about the processing or status of the return, and respond to IRS notices concerning errors in the preparation of the return, but does not otherwise represent you before the IRS. **IMPORTANT:** If you do not want anyone other than you (or spouse if filing joint-

ly) to be allowed to discuss your return with the IRS, answer No to the next question and leave the following three text entries blank.

**Do you want PAID PREPARER as your designee?** Answer Yes only if you want the paid preparer for this return to be allowed to discuss the return with the IRS. If you answer Yes, you can leave the following three entries blank. When an official printout of Form 1040, page 2, is generated, the entries will be automatically taken from the paid preparer's information in your Program Settings.

**Designee's name.** Enter the name of the individual. *TIP: If you answer Yes to the paid preparer question and leave this entry blank, your entry for "Name of Preparer" in your Program Settings will be used in the official printout.*

**Designee's phone number.** Enter the phone number complete with area code. *TIP: If you answer Yes to the paid preparer question and leave this entry blank, your entry for "Telephone number" in your Program Settings will be used in the official printout.*

**Designee's personal identification number (PIN).** The PIN is selected by the designee and can be any 5 digits of his or her choosing. *TIP: If you answer Yes to the paid preparer question and leave this entry blank, your entry for "Preparer's PTIN" in your Program Settings will be used to generate a unique 5-digit PIN, which will be the same for all returns. The paid preparer must record this PIN and use it in order to communicate with the IRS about this return.*

The question on the official form "Do you want to allow another person to discuss this return with the IRS?" is automatically checked on the official printout when you supply a "Designee's name" or answer Yes to the paid preparer question.

**SPECIAL IDENTIFICATION.** These entries are used to identify the person signing a decedent return:

**Filing as surviving spouse?** If married filing jointly and the other spouse died during the tax year you must answer Yes here for the return to be accepted for e-file. *For e-file, a Yes is required here if a joint return and one of the spouses died during the year.*

**Personal representative?** If not married filing jointly and the taxpayer died during the tax year you must answer Yes here for the return to be accepted for e-file. *For e-file, a Yes is required here if a joint return and both spouses died during the year, or other than joint and the taxpayer died during the year.*

**If spouse could not sign, itemize signature statement.** If married filing jointly and one spouse cannot sign, the other spouse must *explain in a supporting statement for this line* why and state his or her authorization to sign for the other spouse. Only disabling health reasons are generally allowed. *Use only the description column in the support for your explanation.*

**Power of Attorney signing?** Answer Yes if a third party is signing the return as a result of a legal power of attorney.

**Name Power of Attorney.** Enter the name of the person signing in 35 characters or less.

**IRS Identity Protection PIN.** You should make an entry here only if you were issued an Identity Protection Personal Identification Number (IP PIN) by the IRS as a victim of identity theft. Enter the unique 6-digit IP PIN shown on the IRS Letter 4869C you received *for the tax year of the return*. For paper returns ONLY: If married filing jointly and both taxpayers received an IP PIN, enter the number issued to the first taxpayer shown on Form 1040. (The IP PIN you are issued is valid *only* for the tax year stated in the letter.)

**If e-file, spouse's Identity Protection PIN.** (for e-file returns ONLY) Unlike the paper Form 1040, the IRS provides a separate entry for a spouse's Identity Protection PIN, for use by married taxpayers who file jointly when the spouse has her own number. An entry here is ignored for paper returns, since the IRS has not yet redesigned the paper Form 1040 to accommodate it.

Any entries you make above are reflected in the signature block at the bottom of page 2 of Form 1040.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Schedule A / Itemized Deductions

**Purpose.** Schedule A is used to itemize deductions when your actual deductible expenses exceed the standard deduction. It supports claims for such deductions as medical expenses, taxes, interest, contributions, and employee expenses. Since the software automatically gives you the maximum deduction, it is usually worthwhile to complete Schedule A even when you think that the total itemized deduction will be less than the standard deduction (shown in Table 1-4 in Chapter 1.) *This schedule is accessible through the Road Map at the line following line 39b on Form 1040.* It is automatically created when the total of amounts for Schedule A from other forms and schedules in the software exceed the standard deduction. Amounts considered in deciding whether to auto-create this schedule include: state estimated tax on the Control Form, state withholding on the W-2 and 1099-R Worksheets for Form 1040, investment expense or deductible foreign tax from Schedule B, deductible amounts from REMICs shown on line 38(e) of Schedule E, and deductible amounts from Forms 2106, 4684 and 4797. Even though automatically created under a broad set of circumstances, you will generally want to access this schedule to provide details in itemized lists for specific lines.

**Beware of the impact of tax year and AGI.** Several automatically computed limitations depend on the tax year and adjusted gross income (AGI). The numbers you see on the screen may therefore not be the final numbers for the schedule if you subsequently change either tax year or AGI.

**MEDICAL AND DENTAL EXPENSES.** Medical and dental expenses are deducted here, subject to a floor of 10% of AGI for 2014 (7.5% if either spouse is over 65). You can deduct medical and dental expenses for you, spouse, dependents, a child not claimed as your dependent only because of the rules for separated parents, or a person not claimed as your dependent only because that person's income was \$3,900 or more or that person filed a joint return.

### **Insurance:**

**Self-employed insurance not on Form 1040, line 29.** *(auto-calc)* If not all insurance entered above Form 1040, line 29 is allowed at line 29, the remainder appears here.

**Other insurance.** Include here all other amounts for medical and dental insurance premiums.

**Deductible INSURANCE.** *(auto-calc)* Computed as the sum of the preceding two amounts.

### **Long-term Care Contracts:**

**YOUR long-term care premiums.** Enter premiums paid for main taxpayer.

**Deductible for YOU.** *(auto-calc)* You can deduct long-term care premiums only up to amounts defined by the IRS for various age groups, as shown on page A-2 of the IRS 2014 *Instructions for Schedule A*. For 2014, the limit ranges from \$370 per year for taxpayers under 41 years of age to \$4,660 for taxpayers over 70.

**SPOUSE long-term care premiums.** Enter premiums paid for spouse.

**Deductible for SPOUSE.** *(auto-calc)* The same limitations as applied for you are applied here for your spouse, ranging from \$370 per year if spouse's age is under 41 to \$4,660 if over 70 for 2014.

**OTHER long-term care premiums.** You are allowed to deduct premiums you paid for others as well, including all your dependents. We provide an extra entry for one such person.

**Age of OTHER at year-end.** Enter the age at the end of the tax year of the person whose premiums you paid.

**Deductible for OTHER.** *(auto-calc)* The limitation is applied as before for one other person. You will have to override the amount if you paid premiums for more than one other person.

**Car Expenses (to get care):**

**Car (owned) expense - actual.** You can deduct the actual gas and oil costs of using your own car to get medical care, or an amount based on a standard mileage rate, whichever is greater. Enter the actual costs here. The software will use this amount only if it is greater than the standard mileage amount computed below.

**Miles traveled to get care.** Enter total round-trip miles traveled in your own car to get medical care in 2014.

**Maximum allowed (actual or standard).** *(auto-calc)* Computed as the greater of the actual expenses entered or the standard mileage amount computed at the rate of 23.5 cents per mile. (The rate for 2015 will drop to 23 cents per mile.)

**Parking fees and tolls.** Whichever method of car expense deduction you use, you can also deduct these parking fees and tolls here.

**TOTAL deductible car expenses.** *(auto-calc)* Computed as the sum of the preceding two lines.

**Table 2-7. Deductible Medical and Dental Expenses**

Ambulance service
Capital expense, medically required, reduced by any associated increase in property value
Contact lenses - and replacement insurance
Dental services - including cleaning of teeth
Dentures
Eyeglasses
Guide dog
Hearing aids
Lodging expenses (except meals) for hospital or medical care (up to \$50 per night per person)
Medical care not reported on Form 2441
Medical expenses to stop smoking
Medical insurance premiums - including the voluntary premiums paid for Medicare B
Nursing home medical care
Orthopedic shoes
Prescriptions, medicines, drugs, vitamins if prescribed
Professional services - physicians, dentists, chiropractors, nurses, optometrists, etc.
Prosthesis

Psychiatric care  
 Special schooling for a physically, mentally, or emotionally handicapped child or dependent  
 Telephone adaptation for hearing impaired  
 Therapy for medical treatment  
 Transportation - either actual expenses, or at the standard mileage rate, plus parking fees and tolls

*Note: All deductions subject to prescribed limits. See Pub. 502 for deductions for handicapped persons.*

**MEDICAL AND DENTAL EXPENSES (summary):**

**Insurance.** *(auto-calc)* Taken as the previously computed "Deductible INSURANCE."

**Long-term care contracts.** *(auto-calc)* Computed as the sum deductible amounts computed previously for YOU, SPOUSE, and OTHER.

**Car expenses.** *(auto-calc)* Taken as the previously computed "TOTAL deductible car expenses."

**Other medical and dental expenses.** Enter here amounts for prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, etc. See Table 2-7. Be sure to include travel costs to get medical care (except for costs for your own car entered previously), including lodging expenses for hospital-related medical care up to \$50 per night. Do *NOT* include health insurance premiums entered previously. (You cannot deduct off-the-shelf medication except for insulin, nor life insurance nor income protection payments.)

**1 Medical and dental expenses.** *(auto-calc)* Computed as the sum of the preceding four amounts.

**2 Amount on Form 1040, line 38.** *(auto-calc)* Taken from Form 1040 as indicated, this is the AGI for the return.

**3 Multiply line 2 by 10% or 7.5%.** *(auto-calc)* Normally computed as 10% of AGI. However, if you (or spouse if filing jointly) are over 65, computed as 7.5% of AGI.

**4 Subtract line 3 from line 1.** *(auto-calc)* Computed as indicated but no less than zero, this is the net deductible medical and dental expense.

**TAXES YOU PAID.** Only a few taxes to state and local governments are still deductible here, such as state, local, or foreign income taxes, state, local, or foreign real estate taxes, and the portions of automobile license fees that are ad valorem taxes. *Most other taxes are no longer deductible, but sales taxes are deductible in lieu of income taxes.*

**TIP: State and local sales tax still deductible in lieu of state and local income tax.** The sales tax deduction reintroduced by the *American Jobs Creation Act of 2004* is still available as an itemized deduction, thanks to the *Tax Relief Act of 2010*. It has not been made permanent, but it has been regularly extended by legislative action. You can take a deduction for *either* state and local sales tax or state and local income tax, *but not both*. (Before 1986, sales

## Schedule A

tax was deductible in addition to income tax, but no sales tax was deductible for 1986 through 2003.) The *main beneficiaries of the reinstated law are residents of Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming, all of which have no state income tax, as well as New Hampshire and Tennessee, both of which tax only dividend income.*

**Remember local sales tax.** If you plan to take advantage of this law by using IRS tables (in the IRS Instructions for Schedule A) rather than your actual expenses, it is important to realize that *the main IRS tables reflect only the state portion of the sales tax.* We therefore provide a *Sales Tax Worksheet* to help you maximize your deduction by increasing the amounts in the IRS tables to reflect your local sales tax. For details, see our instructions for line 5 of Schedule A.

### **INCOME TAX Option for line 5:**

**Itemize to access Control Form.** (*Road Map line, supported by Control Form.*) You MUST use our Control Form to report any estimated tax payments for tax year 2014 that are deductible here. The amounts deductible for tax year 2014 will appear on the next line. (Note that any part of the estimated tax payment for the final quarter of 2014 made after December 31, 2014 cannot be deducted here, but will be deductible on the return for tax year 2015.)

**State estimated tax on Control Form.** (*auto-calc*) State estimated tax payments you entered on the Control Form as being paid in 2014 appear here.

**State and local withholding on W-2, W-2G, and 1099-R.** (*auto-calc*) State and local tax withholding you entered on the W-2 Worksheets that support line 7 of Form 1040, the W-2G Worksheets that support line 21 of Form 1040, and the 1099-R Worksheets that support lines 15a through 16b of Form 1040 appear here.

**Other non-federal income tax paid.** Enter here any state and local income tax payments made in 2014 but not included above. Also use this line for negative adjustments. For example, *enter as a negative number any tax included above that is tax on income not subject to federal tax.* Also enter as a negative amount any excess tax collected that you will claim on your state return, such as state disability insurance collected by more than one employer.

**Income taxes.** (*auto-calc*) Computed as the sum of the above three lines.

### **SALES TAX Option for line 5:**

**Actual Expense Method.** You can generally deduct sales taxes based on the state and local sales tax you *actually* paid for 2014. However, you must keep your actual receipts to back your claim if you use this method.

**Actual sales taxes paid.** Enter the amount of sales tax actually paid based on your receipts. However, if any amount is based on a rate other than the general sales tax rate, see IRS *2014 Instructions for Schedule A* for information on determining the amount to enter. **CAUTION:** *Only sales tax on personal purchases qualify. Sales tax on purchases for your trade or business are deducted on the form or*

*schedule you use to report income for that business, such as Schedule C or Schedule F.*

**Optional Table Method.** Alternatively, you can deduct sales taxes based on your income and exemptions using the IRS tables in the *2014 Instructions for Schedule A*. However, the income to use is not always your AGI, and the tables generally reflect only the state portion of sales taxes. We therefore provide here additional calculations and a worksheet to help you maximize your deduction.

**AGI on Form 1040, line 38.** *(auto-calc)* Taken from Form 1040 as indicated, this is the starting point for determining the income to use when using the IRS tables.

**Nontaxable income on Form 1040.** *(auto-calc)* Computed as the sum of tax-exempt income on line 8a of Form 1040, nontaxable part of IRA distributions on line 15a of Form 1040, nontaxable part of pensions and annuities on line 16a of Form 1040, nontaxable part of social security benefits on line 20a of Form 1040, and the amount of nontaxable combat pay you entered below line 22 of Form 1040.

**Other nontaxable income.** Enter eligible nontaxable income not shown above, including worker's compensation and public assistance payments you received.

**Income for Sales Tax Tables.** *(auto-calc)* Computed as the sum of the above three lines. You must use this income together with the number of exemptions you claim on line 6d of Form 1040 in order to determine allowable state sales tax from the IRS tables.

**Why a Sales Tax Worksheet?** We provide a custom-designed Sales Tax Worksheet for the purpose of determining the additional local tax you can deduct over and above the state amount in the IRS table, and for prorationing sales tax from multiple states. The IRS table reflects a local sales tax for some states with a uniform tax code, but does not include rate for any localities that charge more than the uniform rate for the state. Therefore, our worksheet has the tax rate assumed by the IRS built into its calculations, so when you enter the full sales tax rate you actually paid, the software can determine the proper prorated amount of additional tax you are allowed to deduct. Our worksheet can therefore help you maximize your deduction by increasing the amounts in the IRS Sales Tax Tables to reflect your actual local sales tax rate. And if you lived in more than one state, the worksheet will compute the prorationing among states detailed on page A-3 of the IRS Instructions for you. Note that our worksheet takes the place of lines 1 through 6 of the IRS Worksheet on page A-4; you still must enter the amount corresponding to line 7 of the IRS Worksheet on our line labeled "Tax on specified items," described later.

**IRS Worksheet vs. Our Worksheet.** If you lived in Alaska, Arizona, Arkansas, Colorado, Georgia, Illinois, Louisiana, Missouri, New York State, North Carolina, South Carolina, Tennessee, Utah, Virginia, or West Virginia in 2014, it may be to your advantage to use the IRS Worksheet on page A-5 of the IRS Instructions rather than our Sales Tax Worksheet because the IRS has special tables with higher deductions for those localities. If you choose to do this, enter amounts from the IRS worksheet on the following lines of our Schedule A:

**State tax from IRS tables:** Line 1 of the IRS worksheet.

**Local tax from worksheet:** Line 6 of the IRS worksheet.

**Tax on specified items:** Line 7 of the IRS worksheet.

The result on the line "TOTAL for Optional Method" should then match the amount on line 8 of the IRS worksheet.

**State tax from IRS tables.** *(Supported by the Sales Tax Worksheet, Figure 2-6.)* You can enter an amount here rather than using the supporting worksheets if you lived in the same state for the entire year and the IRS tables include all of your local sales tax. (The IRS tables include local sales tax for states that have a uniform local sales tax, but your locality could have an additional tax.) Otherwise, you should use the supporting worksheets to ensure that your deduction is properly prorated among different states or localities and increased to reflect your actual local tax rates. When you return from the worksheets, the total that appears here is the sum of prorated portions of line 1 from all worksheets combined. **TIP:** If you choose to use the IRS worksheet in the Schedule A instructions instead of ours, you should enter the amount on line 1 of the IRS worksheet here rather than itemizing and using our worksheet. (The set of worksheets you

*access by itemizing here is the same set of worksheets you access by itemizing the next line.)*

**Local tax from worksheet.** *(Supported by the Sales Tax Worksheet, Figure 2-6.)* The IRS allows you to deduct, in addition to the amount in the state tables, a prorated amount for local tax not reflected in the tables. The IRS complicates the determination because some of the amounts in the state tables already reflect some local sales taxes while others do not. We therefore provide a more straightforward worksheet that deviates from the IRS worksheets by basing its calculations on the full rate you actually paid (including both state and local sales tax). When you return from the worksheets, the total that appears here is the sum of prorated portions of line 2d from all worksheets combined. *TIP: If you choose to use the IRS worksheet in the Schedule A instructions instead of ours, you should enter the amount on line 6 of the IRS worksheet here rather than itemizing and using our worksheet.* *(The set of worksheets you access by itemizing here is the same set of worksheets you access by itemizing the preceding line.)*

**W/S ERROR-Total days over 1 year.** *(auto-calc)* If an amount appears here, it means that you have an error in at least one of your worksheets in its entry for "Days in 2014 resident here" on the Sales Tax Worksheet. The total number of days for all worksheets combined should not exceed the total number of days in the year (365 for 2014) or else the prorating of table amounts among residences will be incorrect.

**Tax on specified items.** In addition to the table amounts, you are allowed a deduction for sales tax paid on certain big-ticket items you purchased during the tax year. Qualifying purchases include the purchase of a motor vehicle, aircraft, boat, home, and home building materials, but there are restrictions on the amount you can deduct. Only sales tax on personal purchases qualify. Sales tax on purchases for your trade or business are deducted on the form or schedule you use to report income for that business, such as Schedule C or Schedule F. *TIP: If you choose to use the IRS worksheet in the Schedule A instructions instead of ours, you should enter the amount on line 7 of the IRS worksheet here.*

**TOTAL for Optional Method.** *(auto-calc)* Computed as the sum of the preceding three data entry lines, this result corresponds to line 8 of the IRS worksheet in the *2014 Instructions for Schedule A.*

**Result for best method:**

**b General sales taxes.** *(auto-calc)* Computed as the greater of "Actual sales taxes paid" for the Actual Expense Method or "TOTAL for Optional Method" for the Optional Table Method.

**CAUTION** for Alaska, Arizona, Arkansas, Colorado, Georgia, Illinois, Louisiana, Missouri, New York, North Carolina, South Carolina, Tennessee, Utah, Virginia, and two cities in West Virginia (Huntington and Williamstown). The IRS has created special tables for local tax for some areas in these states, shown on the last page of the IRS 2014 Instructions for Schedule A. They generally result in a higher deduction than our Sales Tax Worksheet, so you should use those tables in conjunction with the IRS State and Local General Sales Tax Deduction Worksheet on page A-4 of those instructions, using the table amounts in line 2. You would then enter the result on line 7 of that worksheet on our Schedule A line labeled "Local tax from worksheet" rather than itemizing that line.

**Sales Tax Worksheet, Figure 2-6.** Use a separate worksheet for each separate locality in which you resided during the tax year. The sales tax carried back to Schedule A when you exit will be an amount prorated in accordance with the number of days you resided in each locality. (This worksheet is patterned after the IRS State and Local General Sales Tax Deduction Worksheet, but includes only lines 1 through 2d so that the proper prorationing among multiple worksheets can be performed.) *TIP: The purpose of this worksheet is only to determine a prorated additional local tax deduction to which you may be entitled and the prorationing for multiple states. If your locality has no local sales tax, or the IRS tables already reflect your local sales tax, you need not use this worksheet unless you lived in more than one state, but enter the amount from the IRS tables on our Schedule A line labeled "State tax from IRS tables" instead.*

<p><b>State for THIS worksheet.</b> You must enter here the 2-character state code where you resided during the portion of the tax year represented by this worksheet. <u>This entry is critical to the calculations.</u> The calculations depend on the rates assumed by</p>	<p><b>SALES TAX WORKSHEET</b> State for THIS worksheet.. Locality for THIS worksht. Days in 2014 resident here (365 days is max for 2014) Use following two numbers In IRS tables to determine proper entry for line 1. Income for IRS tables.... 0 Exemptions on 1040 line 6d 0 1 State sales tax from tables 0 Supply following for add'l Deduction for local tax. State rate assumed by IRS. 0 Full rate you actually pd. 0 2a Local gen sales tax rate(%) 0 2b State gen sales tax rate(%) 0 2c Line 2a divided by 2b in % 0 2d Local general sales taxes.. 0 -&gt; LINE 1 PRORATED FOR SCH. A. 0 -&gt; LINE 2d PRORATED FOR SCH. A. 0</p>
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**Figure 2-6. Sales Tax Worksheet**

the IRS in their "2014 Optional State Sales Tax Tables," which are automatic on this worksheet once you properly enter the state. Codes for all 50 states plus Washington, D.C. are recognized.

**Locality for THIS worksheet.** This entry is provided in order to distinguish the separate worksheets you complete, but is not used in the calculations. You must enter the sales tax rate you pay in your locality above line 2a.

**Days in 2014 resident here.** Enter the number of days you resided in the above locality during the tax year. *You must enter the number of days here or no deduction will be computed!* This entry is used for prorating sales taxes among different worksheets. Therefore, *if you use just one worksheet, enter 365 here (for 2014).* **CAUTION:** *Take care that the sum of entries for all worksheets combined does not exceed the total number of days in the year (365 for 2014). Otherwise the deduction you compute will be more than is allowed by the IRS. (We flag this error by showing the amount by which your total exceeds a full year at the bottom of screen 2 of Schedule A, in the result for "W/S ERROR-Tot. days over 1 yr.")*

**Use the following information in the IRS tables (on pages A-14 through A-16 of IRS 2014 Instructions for Schedule A) in order to determine the proper entry for line 1:**

**Income for IRS tables.** *(auto-calc)* Taken from the line "Income for Sales Tax Tables" computed on Schedule A, this is the income you must use when reading the IRS tables.

**Exemptions on Form 1040, line 6d.** *(auto-calc)* Taken from Form 1040 as indicated, this is the number of exemptions you must use when reading the IRS tables.

**1 State sales tax from tables.** Enter the amount for the above income and exemptions for your state from the IRS "2014 Optional State Sales Tax Tables" in the IRS Instructions for Schedule A.

**Supply the following information for an additional deduction for local tax:**

**State rate assumed by the IRS.** *(auto-calc)* This is the rate assumed by the IRS, for the state you entered above, in the IRS's "2014 Optional State Sales Tax Tables," *which may already reflect some or all of your local sales tax.* It is the basis for determine how much additional tax you may be able to deduct, if any, for local sales tax. **TIP:** *This rate is shown on the screen as a percentage to only 2 decimal places; however, the calculations on this worksheet use the precise percentages in the IRS tables software, which are accurate to 4 decimal places.*

**Full rate you actually paid.** Enter the full rate here, including both local and state parts, as a percentage. This is the only rate most taxpayers know – the full sales tax rate they pay in their locality for state and local tax combined. We therefore compute the local part of this rate not reflected in the IRS tables for line 2a based on your entry here and our knowledge of the state part of your entry.

**2a Local general sales tax rate (%).** *(auto-calc)* Computed as the "Full rate you actually paid" less "State rate assumed by the IRS." (Even though it is shown on the screen as a percentage to only 2 decimal places, it is accurate to 4 decimal places in the calculations.)

## Schedule A

- 2b State general sales tax rate (%).** *(auto-calc)* Taken from "State rate assumed by the IRS," above.
- 2c Line 2a divided by line 2b in %.** *(auto-calc)* Computed as indicated and shown on the screen as a percentage to 2 decimal places, but carried to full accuracy in the calculations.
- 2d Local general sales taxes.** *(auto-calc)* Computed as line 1 times line 2c, but using the precise percentage underlying the calculation for line 2c. This is the amount by which the table amount in line 1 can be increased for local taxes.
- **LINE 1 PRORATED FOR SCHEDULE A.** *(auto-calc)* Computed as line 1 times the ratio of "Days in 2014 resident here" divided by the number of days in the year (365 for 2014), this is the amount that THIS worksheet can contribute to the total state sales tax you deduct on Schedule A.
- **LINE 2d PRORATED FOR SCHEDULE A.** *(auto-calc)* Computed as line 2d times the ratio of "Days in 2014 resident here" divided by the number of days in the year (365 for 2014), this is the amount that THIS worksheet can contribute to the total local sales tax you deduct on Schedule A.

**TAXES YOU PAID.** This section includes deductions for state and local income or sales taxes (based on the entries detailed in the preceding several pages), state, local, and foreign real estate taxes, state and local taxes on personal property, foreign income taxes, and the portions of automobile license fees that are ad valorem taxes.

- a Amount for income tax option.** *(auto-calc)* Taken as the last line in the section for the previously described *INCOME TAX Option for line 5*, labeled "a Income taxes."
- b Amount for sales tax option.** *(auto-calc)* Taken as the last line in the section for the previously detailed *SALES TAX Option for line 5*, labeled "b General sales taxes."
- Option b used for line 5?** *(auto-calc)* Answered Yes if line b, above, is greater than line a, above; otherwise, No. On the official printout of Schedule A, box 5a or 5b is checked depending on this answer.
- 5 State and local income taxes.** *(auto-calc)* Taken as line b if the preceding answer is Yes, and line a otherwise.
- State and local real estate taxes.** Enter here ONLY property tax on nonbusiness realty. (Taxes on business-owned property are deducted through Schedule C or F, and taxes on rental property are deducted through Schedule E.)
- Foreign real estate taxes.** Enter property tax on nonbusiness realty paid to a foreign government.
- 6 Real estate taxes.** *(auto-calc)* Computed as the sum of the preceding two entries.
- 7 Personal property taxes.** Include here any property taxes not included in line 6, such as the portion of your automobile license fee that is based on the value of your car (ad valorem taxes).

**8 Other taxes. Type and amount.** Other taxes qualified for deduction on the federal return are entered on the following three lines. ***REMINDER: State and local sales taxes are NOT deductible here, but may be deductible at line 5.***

**Other federal and state qualified taxes.** Enter in a supporting statement for this line ONLY taxes not included in line 5, 6, or 7 that are deductible on BOTH the federal and state tax returns.

**Form 1099 foreign tax elected.** *(auto-calc line, supported by Schedule B)* This is the amount of foreign tax withheld on Forms 1099-INT and 1099-DIV that you elected (on our Schedule B) to be deducted on Schedule A rather than claimed as a foreign tax credit on line 48 of Form 1040. See our details between Parts II and III of Schedule B for more information.

**Other foreign income taxes.** Enter in a supporting statement for this line any income taxes paid to a foreign country or a U.S. possession. This tax is NOT deductible on some state returns, such as California's.

**Other federal-deductible taxes.** Enter in a supporting statement for this line any other taxes deductible on the federal return but not the state return.

**8 Total other taxes.** *(auto-calc)* The sum of the preceding four lines.

**9 Add lines 5 through 8.** *(auto-calc)* Computed as indicated, this is the total deductible taxes.

**INTEREST YOU PAID.** Most personal interest, with the exception of mortgage interest, is no longer deductible, as summarized in Table 2-8. Mortgage interest is fully deductible if you satisfy *any* of the following ***EXCEPTIONS:***

- 1 All mortgages on your main home were taken *before* Oct. 14, 1987.
- 2 A mortgage was taken out on your main home *after* October 13, 1987, but was used to buy or improve your home *and* the amount of all mortgages on your home (including those taken out before October 14, 1987) does not exceed \$1 million (\$500,000 if married filing separately).
- 3 A mortgage was taken out on your main home *after* October 13, 1987, was *not* used to buy or improve your home, *but* the amount of the mortgage was no more than \$100,000 throughout 2014 (\$50,000 if married filing separately).

Table 2-8. Deductible Interest Expenses

Bank loans for investments  
Margin accounts with a broker  
Mortgage loans

Notes:

1. You cannot deduct interest on debts incurred to purchase or carry tax-exempt securities.
2. The deduction for interest on investment debt is limited to investment income.
3. Mortgage debt is subject to additional restrictions when incurred after Oct. 13, 1987. See IRS Pub. 936 (Home Mortgage Interest Deduction).

Lines 10 and 11 are used to report both the entire amounts and the deductible amounts for mortgage interest. **CAUTION:** *If you file Form 8829 for deducting expenses for the business use of your home, you can deduct here ONLY the amounts NOT deducted on Form 8829.*

**Home mortgage interest and points paid to financial institutions and shown on Form 1098.** Enter the *entire amount* shown on the Forms 1098 from the institutions here, not just the deductible amount. Nondeductible amounts will be entered on the following two lines. If there is any discrepancy between your entry for this line and the amount reported to you on Form 1098, you should explain in a supporting statement for this line. **CAUTION:** *If you paid any amounts to institutions that did NOT report the amount to you on a Form 1098, enter the amount below line 10, not here.*

**Amount exceeding limit.** If you don't qualify for one of the 3 exceptions, use IRS Pub. 936 (Home Mortgage Interest Deduction) to determine the part of the above interest that is classified as personal interest and therefore *NOT* deductible.

**Exclusion on Form 8396, line 3.** *(If Premium Level, Road Map line supported by Form 8396.)* If you claim a Mortgage Interest Credit, a portion of the interest you paid is not deductible. The nondeductible amount is shown on line 3 of Form 8396 and reported here.

**10 Home mortgage interest and points reported on Form 1098.** *(auto-calc)* Computed as the total entered less the above excess.

**Other home mortgage interest (NOT on a Form 1098).** *(Supported by the Mortgage Interest Worksheet, Figure 2-7.)* Enter all home mortgage interest for which you did *NOT* receive a Form 1098 here. Enter the entire amount, not just the deductible amount, but do *NOT* include points; the nondeductible part will be identified in your entry on the below line labeled "Amount exceeding limit." (Points not reported to you on a Form 1098 are reported at line 12, not here.) **CAUTION:** *If any interest for this line was paid to the person(s) from whom you bought the home, you MUST complete the Mortgage Interest Worksheet that supports this line, showing the name, address, and taxpayer identification number of the lender.*

If you did not receive a Form 1098, but someone else did, **ITEMIZE**. If you paid the interest with someone else and received no Form 1098 because it was sent to the other person, you must report that person's name and address. *For a paper return*, you should do so in a supporting statement for this line. *For an e-file return*, you must do so in a supporting statement for the preceding line, not this line, and must include the recipient's SSN. (The special procedure for e-file is necessary because the IRS does not provide separate specifications for the two purposes for itemizing your entry for line 11.)

**Amount exceeding limit.** If you do not qualify for one of the exceptions, use IRS Pub. 936 (*Home Mortgage Interest Deduction*) to determine the part of the above interest that is classified as personal interest and therefore *NOT* deductible.

- 11 Home mortgage interest not reported on Form 1098.** (*auto-calc*) Computed as the total other interest less the above amount that exceeds the limit.
- 12 Points not reported on Form 1098.** Enter only *FULLY DEDUCTIBLE* points here, but be sure to include the points excluded from line 11. Deductions for points must usually be spread over the life of the loan, unless they were paid in the current year to buy or improve your home and the loan was secured by your main home. See IRS Pub. 936 (*Home Mortgage Interest Deduction*) for details.
- Total mortgage insurance premiums.** Enter qualified mortgage insurance premiums paid in 2014 for a contract issued in 2014. See IRS Instructions for Schedule A for details on what insurance qualifies.
- 13 Qualified mortgage insurance premiums.** (*auto-calc*) Computed based on the preceding entry in accordance with the *Qualified Mortgage Insurance Premiums Deduction Worksheet—Line 13* on page A-9 of the IRS 2014 *Instructions for Schedule A*. The full amount of premiums is allowed if AGI on Form 1040, line 38, is \$100,000 or less (\$50,000 if married filing separately), but phases out as income rises above that level. No deduction is allowed when AGI exceeds \$109,000 (\$54,500 if married filing separately).
- 14 Investment interest (Form 4952).** (*If Standard or Premium Level, Road Map line supported by Form 4952.*) Interest on loans used to purchase or maintain an investment in 2014 are deductible only to the extent of investment income. You must generally use Form 4952 to determine the deductible amount. Investment interest that is subject to the passive loss rules is *NOT* reported here, but rather included with other expense when reporting the net income or loss for the activity. All or part of the result on line 8 of the form is reported here.
- 15 Add lines 10 through 14.** (*auto-calc*) Computed as indicated, this is the total interest.

**Mortgage Interest Worksheet, Figure 2-7.** If ANY interest you want to report on line 11 is interest on a seller-financed mortgage, you must report ALL interest for the line on these worksheets, whether seller-financed or not, although you are only obligated to supply the name, address, and ID number for the seller. *For e-file, you must also use this worksheet to identify another person who received a Form 1098 instead of you because you shared liability for the interest payments with that other person.*

**Name.** If neither you nor anyone else received a Form 1098 for your interest payments, enter here the name of the lender, and enter the tax ID number and address below. On the other hand, if a Form 1098 was issued for the payments,

**MORTGAGE INTEREST WRKSHEET**  
 Name lender.....  
 EIN.....  
 SSN.....  
 U.S. Address.....  
 city.....  
 state.....  
 ZIP code.....  
 \$ amount..... 0  
 If using foreign address:  
 Foreign address.....  
 city.....  
 province or state.....  
 country (2-1tr code).....  
 postal code.....

**Figure 2-7. Mortgage Interest Worksheet**

but sent to someone who shared liability for the interest payments with you, enter the name of that other person here, and enter that person's tax ID number and address below.

**EIN.** Enter the Employer Identification Number for the name entered above, using the standard xx-xxxxxxx format. *If an individual is named above, skip this line and enter that person's SSN below.*

**SSN.** If no EIN applies, enter the Social Security Number for the name entered above, using the standard xxx-xx-xxxx format. **CAUTION:** Leave this entry blank if you made an entry for EIN above, even if both apply, or else the e-file return will be rejected.

**U.S. Address.** Enter the domestic street address, if applicable, in 25 characters or less. **CAUTION:** Do not enter both U.S. and foreign addresses, even if both apply, or else the e-file return will be rejected.

**U.S. City.** Enter city in 25 characters or less.

**U.S. State.** Enter 2-letter state code.

**U.S. ZIP code.** Enter ZIP code in 10 characters or less.

**U.S. Address.** Enter the address of the lender or other person on the following lines, using either the person's U.S. address or the person's foreign address. You can enter as many as 25 characters total, 25 on the first line and 10 on the continuation line.

**\$ amount.** Enter the total amount paid during the tax year.

**If using foreign address:**

**Foreign Address.** Enter foreign street address in 25 characters or less. **CAUTION:** Do not enter both U.S. and foreign addresses, even if both apply, or else the e-file return will be rejected.

**Foreign City.** Enter foreign city in 25 characters or less.

**Foreign Province or State.** Enter the foreign province or state in 15 characters or less.

**Foreign Country (2-letter code).** Enter 2-letter country code. See Table 2-6 on page 2-22 for Official Country Codes.

**Foreign Postal Code.** Enter a foreign postal code up to 15 characters in length.

The dollar totals are carried to the line from which the worksheet is accessed.

**GIFTS TO CHARITY.** Charitable contributions are now subject to strict reporting requirements, as explained below.

**Cash and check contributions.** Enter all contributions paid by cash or check here, including out-of-pocket expenses except for those for the use of your own car (which are entered later). Although the IRS no longer requires supporting statements as a part of the return, the IRS now requires that you keep records of proof of payment, no matter how small the amount, in the form of a bank statement or written record from the charity. Note that you can deduct gifts of \$250 or more only if you have a statement from the donee showing the amount of money contributed and a description of property contributed, plus a statement on whether or not the donor received any services because of the donation. (See Table 2-9 for categories of contributions limited to specified percentages of AGI.)

**Actual expense for your own car.** You can deduct the actual gas and oil costs of using your car for volunteer work, or an amount based on standard mileage rates, whichever is greater. Enter the actual costs here and the mileage in the next line(s), and the software will use the more favorable deduction of the two.

**Miles traveled with your own car.** Enter total round-trip miles traveled during volunteer work.

**Car expenses allowed.** *(auto-calc)* Computed as the greater of (a) the actual expense entered above, or (b) the miles traveled entered above times 14 cents. (The rate for regular charity-related mileage remains at 14 cents per mile because the IRS does not have the authority to raise this rate, and Congress has not raised it for years.)

**Parking fees and tolls.** Whichever method of car expense deduction you use, you can additionally deduct these parking fees and tolls here.

**16 Gifts by cash or check.** *(auto-calc)* Computed as the sum of "Cash and check contributions," "Car expenses allowed," and "Parking fees and tolls."

**17 Other than by cash or check.** Enter non-cash contributions here, but see the next two lines if this amount exceeds \$500.

**Itemize here for Form 8283.** *(Road Map line, supported by Form 8283.)*

This line provides easy access to Form 8283, which is an informational form used to justify noncash gifts of more than \$500.

**You MUST attach Form 8283.** *(auto-calc)* This line is automatically Yes whenever line 17 exceeds \$500, to alert you that you need to complete Form 8283, which is accessible through the Road Map at the preceding line.

**18 Carryover from prior year.** Enter amounts not deducted in prior years because of the annual limitations on deductibility.

**Usual limit (half of AGI).** *(auto-calc)* Computed as 50% of AGI (Form 1040, line 38). This result is used to impose the annual limitation on deductions for contributions to one-half of adjusted gross income. However, additional limitations apply to some other contributions. **CAUTION:** *If any of the above contributions are subject to the more strict rules of 20% or 30% of AGI detailed in Table 2-9, you may have to override the next line.* See IRS Pub. 526 (*Charitable Contributions*) for details.

**19 Add lines 16 through 18.** *(auto-calc)* Computed as the lesser of half of AGI and the sum of lines 16 through 18. The result on this line is total contributions deductible this year. The amount not allowed may be carried over to next year -- to line 18 of next year's Schedule A. *(If you have not yet completed Form 1040, and AGI is still zero as a result, the amount computed at line 19 may be zero now, but the amount will be updated when the final recalculation of the return is complete.)*

**Table 2-9. Deductible Contributions**

**CONTRIBUTIONS LIMITED TO 50% OF AGI:**

- Contributions carried over from prior year(s)
- Charitable nonprofit hospitals and medical research organizations
- Churches, synagogues, other religious organizations
- Community chests, corporations, trusts, funds, or foundations organized and operated for charitable, religious, educational, scientific, or literary purposes, for the prevention of cruelty to children or animals, or to foster national or international sports competition
- Government entities (federal, state, local) if the contribution is made for public purposes only
- Tax-exempt educational organizations
- Volunteer's mileage at 14 cents per mile

**CONTRIBUTIONS LIMITED TO 30% OF AGI:**

- Capital gain property donated to the above organizations
- Expenses for a student living with you who is placed by a qualifying organization
- Gifts other than capital gain property to other than the above organizations

**CONTRIBUTIONS LIMITED TO 20% OF AGI:**

- Capital gain property donated to other than the above organizations

*For more details consult IRS Pubs. 526 (Charitable Contributions) and 561 (Determining the Value of Donated Property).*

**CASUALTY AND THEFT LOSSES.** Losses in excess of \$100 per event are deducted here. You must use Form 4684 to determine the deductible amount, where the loss from each event (from separate Forms 4684) is reduced by \$100 and the balance is reduced by 10% of AGI.

**20 Casualty or theft losses (Form 4684).** *(Road Map line, supported by Form 4684.)* Losses from the casualty or theft of personal use property are posted here from Form 4684. Losses for business and income-producing property are posted to Form 4797 or Schedule A line 23. One Form 4684 is built into the software for reporting the details of one casualty or theft, and a summary of totals from all casualties and thefts for the year. (See the details for Form 4684 if you have more than one occurrence of casualty or theft to report.)

**JOB EXPENSES AND MOST OTHER MISCELLANEOUS DEDUCTIONS.** The deductions entered in this section are subject to a floor based on 2% of AGI:

**21 Unreimbursed employee expenses.** Out-of-pocket expenses required by your job but not reimbursed by your employer are reported on one of the following two lines.

**Amount from Form 2106 or 2106-EZ.** *(Road Map line, supported by Form 2106.)* Five copies of Form 2106 are available, one for each employer. You MUST use Form 2106 to claim travel, transportation, meal, or entertainment expenses, and to report ANY reimbursements from the employer. Most expenses are deducted here, but expenses for certain special cases are posted to other lines instead: (1) The net expense on line 10 of Form 2106 for a qualified performing artist is included as a fully deductible adjustment in line 36 of Form 1040. (2) The net expense on line 10 of Form 2106 for certain handicapped employees is not subject to the usual 2% AGI floor, and is therefore included in line 28 of Schedule A, below.

**Other amounts itemized.** If you are not required to use Form 2106, you can list unreimbursed employee expenses in a supporting statement for this line instead. Examples of eligible expenses include union dues, professional dues, small tools, uniforms, etc. See Table 2-10 for more examples. If you have ANY travel, transportation, meal, or entertainment expenses, you MUST use Form 2106 for these and ALL other job expenses, NOT this line.

**21 Total employee expenses.** *(auto-calc)* The sum of the above two lines.

**22 Tax preparation fees.** Enter the cost of preparing your income tax returns. Don't forget the cost of this software if you are preparing your own return.

**23 Other expenses.** Most other deductible expenses are reported here, many of which are automatically posted from other forms.

**Other itemized.** Enter deductions not reported elsewhere in a supporting statement for this line. See Table 2-10 for examples.

**Depreciation (Form 4562).** *(Road Map line, supported by Form 4562.)*

The result on Part IV of the copy of Form 4562 that is reserved for Schedule A is automatically posted to this line.

**Amortization (Form 4562).** *(Road Map line, supported by Form 4562.)*

The result on Part VI of the copy of Form 4562 that is reserved for Schedule A is automatically posted to this line.

**Form 4684, lines 32 and 38b.** *(auto-calc line, supported by Form 4684.)* Deductible losses due to casualties and thefts for employee property are reported here. Accordingly, the part of lines 32 and 38b

of Form 4684 stemming from employee property is posted here.

**Form 4797, line 18a.** *(auto-calc line, supported by Form 4797.)* The casualty and theft losses included on Form 4797 are posted here for the employee property part of line 18a.

**Investment expense from Schedule B.** *(auto-calc line, supported by Schedule B.)* Taken from the 1099-INT and 1099-DIV worksheets that you complete in support of Schedule B.

**Amount from Schedule E, line 38(e).** *(auto-calc line, supported by Schedule E.)* This expense for a REMIC, which you report as income on Schedule E, is deductible here.

**23 Total other expenses.** *(auto-calc)* The sum of the above lines.

**24 Add lines 21 through 23.** *(auto-calc)* Computed as indicated.

**25 Amount from Form 1040, line 38.** *(auto-calc)* Taken from Form 1040 as indicated.

**26 Multiply line 25 by 2%.** *(auto-calc)* Computed as indicated.

**27 Subtract line 26 from line 24.** *(auto-calc)* Computed as indicated, but no less than zero.

**OTHER MISCELLANEOUS DEDUCTIONS.** Some miscellaneous deductions are still NOT subject to the 2% AGI floor:

**28 Other. List type and amount.** The software separates the remaining allowed deductions into three categories, as follows.

**Gross gambling losses.** The gambling losses you enter here will be limited to gambling income, as required by law, in the following lines.

**Gambling income on Form W-2G.** *(auto-calc)* Taken from your entries for gambling winnings on the W-2G Worksheets that support line 21 of Form 1040.

**Gambling income not on Form W-2G.** Enter gambling income not including in the preceding line.

**Allowable gambling losses.** *(auto-calc)* Computed as gross gambling losses but no more than the sum of the preceding two amounts for gambling income. *(For e-file, this entry is automatically identified as GAMBLING LOSSES.)*

**Disabled's expense (Form 2106).** *(Road Map line, supported by Form 2106.)* An entry appears here only for certain handicapped employees, in accordance with a special exception. See IRS Pub. 907 (*Tax Highlights for Persons with Disabilities*) and Form 2106 for details.

*(For e-file, this entry is automatically identified as IMPAIRMENT-RELATED WORK EXPENSES.)*

**Form 4684, lines 32 and 48b.** *(auto-calc line, supported by Form 4684.)* Deductible losses due to casualties and thefts for income-producing property are reported here. Accordingly, the part of lines 32 and 38b of Form 4684 stemming from income-producing property is posted here. *(For e-file, this entry is automatically identified as CASUALTY AND THEFT LOSS.)*

**Form 4797, line 18a.** *(auto-calc line, supported by Form 4797.)* The casualty and theft losses included on Form 4797 are posted here for the income-producing property part of line 18a. *(For e-file, this entry is also automatically identified as CASUALTY AND THEFT LOSS.)*

**Other not subject to the 2% floor.** Enter other allowable deductions in a supporting statement for this line, including federal estate taxes attributable to income in respect of a decedent. See the list in Table 2-10 and IRS Pub. 525 (*Taxable and Nontaxable Income*) and IRS Pub. 529 (*Miscellaneous Deductions*), for other examples of deductions not subject to the 2% floor. **CAUTION for e-file:** For this line, the IRS will accept only one of the following entries in the description column of the support: AMORTIZABLE BOND PREMIUMS, CASUALTY AND THEFT LOSSES, FEDERAL ESTATE TAX, GAMBLING LOSSES, IMPAIRMENT-RELATED WORK EXPENSES, CLAIM REPAYMENTS, UNRECOVERED PENSION INVESTMENTS, and SCHEDULE K-1. Do NOT deduct amortizable bond premiums on bonds acquired after December 31, 1987 here; instead, enter the amounts on the 1099-INT Worksheet where it will be used to reduce the amount of interest you report on Schedule B.

**28 Total other not limited.** *(auto-calc)* The sum of the above three lines.

**TOTAL ITEMIZED DEDUCTIONS.** For 2014, the deductions that can be claimed are further limited for high-income taxpayers:

**29 Is Form 1040, line 38, over \$152,525?** *(auto-calc)* Computed as indicated, a Yes answer indicates the potential for a phaseout due to high income. However, \$152,525 is only threshold for married taxpayers filing separately. The phaseout kicks in at much higher levels for other filing statuses (\$254,200 if single, \$279,650 if head of household, and \$305,050 if married filing jointly or qualifying widow(er)).

**Total before limitation.** *(auto-calc)* Computed as the sum of lines 4, 9, 15, 19, 20, 27, and 28, this is the sum of deductions on Schedule A before limitation.

**Amount disallowed.** *(auto-calc)* The limitation is computed using the IRS *Itemized Deductions Worksheet—Line 29* on page A-13 of the IRS 2014 *Instructions for Schedule A*. An amount will be disallowed only if AGI exceeds the stated threshold that applies to your filing status and you have deductions other than those on lines 4, 14, and 20, and gambling losses and casualty and theft losses in line 28.

**Balance allowed for line 29.** *(auto-calc)* Computed as "Total before limitation" less "Amount disallowed," this is the amount that will ap-

## Schedule A

pear for line 29 on the official printout of Schedule A, and will be posted to Form 1040 for consideration in the computation of line 40 of Form 1040.

- 30 Elect to itemize deductions even if less than your standard deduction?** “Balance allowed for line 29” would normally be used for Form 1040, line 40, only when it exceeds the standard deduction. However, you may choose to always have it used for line 40 because of favorable treatment on your state income tax return. To make this election, answer Yes here. *TIP: The amount for line 29 is also used unconditionally when line 39b of Form 1040 is Yes.*

If the answer to line 30, above, is Yes or the answer to line 39b of Form 1040 is Yes, “Balance allowed for line 29” is used for Form 1040, line 40. Otherwise, the greater of this amount or the standard deduction is used.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Table 2-10. Miscellaneous Deductions**

**FOR LINE 21 OF SCHEDULE A:**

Business use of part of your home (if that part used exclusively and continuously in your work and for convenience of your employer). See IRS Pub. 587.  
 If self-employed, use Form 8829 and Schedule C.  
 Dues to professional societies & business associations  
 Educational expenses for maintaining or improving skills required in your present position, or if required by your employer, by law or regulations to keep your present job or salary  
 Employment agency fees  
 Employment-seeking expenses  
 Physical exams required by the employer  
 Professional journals and dues  
 Safety equipment, small tools and supplies  
 Travel expenses incurred in finding a new job  
 Uniforms, work clothes, protective clothing (including cleaning) if not adaptable for general wear  
 Union dues

**FOR LINE 22 OF SCHEDULE A:**

Tax return preparation costs (including this software)

**FOR LINE 23 OF SCHEDULE A:**

Investment expenses (deductible if they are related to earning taxable investment income):  
     Accounting fees                      Office supplies  
     Custodian fees                      Phone & mail costs  
     Fees for collecting investment income      Proxy fight expenses  
     Financial publications              Safe-deposit box  
     Investment and tax counseling fees      for securities  
     Legal costs                          Statistical services  
   wages or salaries  
     Legal costs                          for clerical help  
 Losses on certain deposits not federally insured due to insolvency/bankruptcy of a financial institution (limited to \$20,000, or \$10,000 if filing separate)  
 Repayment under a claim of right if \$3,000 or less  
 Your share of investment expenses of a regulated investment company

**FOR LINE 28 OF SCHEDULE A (not subject to 2% of AGI floor):**

Amortizable bond premium on bonds acquired before before October 23, 1986  
 Federal estate tax attributable to ordinary income in respect of a decedent  
 Gambling losses (but no more than gambling winnings reported on line 21 of Form 1040)  
 Impairment-related work expenses of the handicapped  
 Repayment of amounts under a claim of right if over \$3,000  
 Unrecovered investment in a pension (see IRS Pub. 575)

### Schedule B / Interest and Dividend Income

**Who must use Schedule B?** The IRS requires you to file Schedule B when the total of either interest received or dividends received exceeds \$1,500, or you are claiming the exclusion of interest from Series EE U. S. Savings Bonds issued after 1989, or you had a foreign account. If not required you can enter interest and dividends on lines 8a through 9b of Form 1040 yourself. However, we strongly recommend that you complete Schedule B and its worksheets even when the IRS doesn't require it because completing the 1099-INT and 1099-DIV Worksheets for Schedule B ensures accurate data entry, provides permanent record-keeping, and simplifies reporting of amounts for other forms. In fact, we use Schedule B as a holding point for amounts on Forms 1099-INT and 1099-DIV that are used on Schedule D, Form 6251, and other lines of Form 1040 (such as capital gain distributions and foreign taxes withheld). Schedule B is accessible through the Road Map at lines 8a, 8b, 9a, and 9b of Form 1040.

**PART I, INTEREST INCOME.** All interest income is reported here, including exempt-interest dividends from mutual funds, which are treated as interest by the IRS. You should list in the worksheets noted below all interest received, whether taxable or not, and whether or not the payer reported it on Form 1099-INT, including any interest reported to you on a Schedule K-1.

**Seller-financed mortgage.** (Supported by the Seller-Financed Mortgage Worksheet, Figure 2-8.) If you sold your home and receive interest from the buyer as a condition of the sale, you must report that interest and certain identifying information about the buyer on the worksheet that supports this line. Do NOT report this interest on the 1099-INT Worksheets (next).

**Other interest (itemize).** (Supported by the 1099-INT Worksheet, Figures 2-9a and 2-9b.) You should report all other interest on the 1099-INT Worksheets that support this line. When you return from the worksheets, the gross taxable interest (from boxes 1 and 3 of IRS Form 1099-INT) appears here and several other amounts from 1099-INT appear below line 1, below.

- 1 INTEREST SUBTOTAL.** (auto-calc) The sum of the above two amounts, this is the interest received from seller-financed mortgages plus the amounts in boxes 1 and 3 of any Forms 1099-INT you received.

**ACCRUED MARKET DISCOUNT.** If you own a bond you bought on a secondary market at a discount from face value, you can elect to be taxed on the discount ratably over the time from purchase to maturity, rather than on the maturity date. To make this election, enter the accrued market discount you figured for 2014 here. See IRS Pub. 550 (*Investment Income and Expenses*) for the allowed methods of figuring the accrued market discount. **CAUTION:** This amount is *not* reported to you on a Form 1099-INT and is not entered on our 1099-INT Worksheets. You must make any applicable entry here.

**NOMINEE DISTRIBUTION.** *(auto-calc)* The total for this category from all worksheets appears here, to be printed on Schedule B as required by the IRS. See the details for the worksheet for more information.

**ACCRUED INTEREST.** *(auto-calc)* As above for accrued interest.

**OID ADJUSTMENT.** *(auto-calc)* As above for OID (Original Issue Discount) adjustments.

**ABP ADJUSTMENT.** *(auto-calc)* As above, for ABP (Amortizable Bond Premium) adjustments.

- 2 Add the amounts on line 1.** *(auto-calc)* Computed as line 1 *plus* the accrued market discount *less* the sum of nominee distribution, accrued interest, OID adjustment, and ABP adjustment. All five of these adjustments appear on the printed Schedule B following the interest subtotal at line 1 and above line 2.

**U S savings bonds, etc.** *(auto-calc)* Taken from the entries for box 3 of the 1099-INT Worksheets, this total appears here to remind you that you may be able to exclude some of this interest from taxation by preparing Form 8815, accessible from the following line.

- 3 Excludable savings bond interest from Form 8815.** *(If Premium Level, Road Map line supported by Form 8815.)* Form 8815 is used to claim an exclusion of interest for Series EE U. S. Savings Bonds issued after 1989 that you cashed during the tax year to pay for the qualified higher education of you, your spouse, or your dependents. The bond must be in your or spouse's name and the owner must have been age 24 or older at the time of bond's issue. This exclusion is not available if married filing separately. The allowed exclusion is shown on line 14 of Form 8815 and reported here. ***CAUTION: The interest to which Form 8815 applies MUST be included in line 3 of a 1099-INT Worksheet for line 1 of Schedule B.*** In fact, the software will not allow the amount shown here to be more than the amount above this line (U.S. savings bonds, etc.).

- 4 Subtract line 3 from line 2.** *(auto-calc)* Computed as indicated, this is the fully taxable interest posted to line 8a of Form 1040.

With just one exception, the remaining lines in this section are *automatically taken from the 1099-INT Worksheet totals* and used elsewhere in the return:

**Penalty on early withdrawal of savings.** *(auto-calc)* Taken from line 2 of our 1099-INT Worksheets (box 2 of Form 1099-INT), this amount is posted to line 30 of Form 1040.

**Federal withholding on Form 1099-INT.** *(auto-calc)* Taken from line 4 of our 1099-INT Worksheets (box 4 of Form 1099-INT), this amount is posted to Form 1040 as one of the components of line 64 of Form 1040.

**Investment expense on Form 1099-INT.** *(auto-calc)* Taken from line 5 of our 1099-INT Worksheets (box 5 of Form 1099-INT), this amount is posted to Schedule A as one of the components of line 23 of Schedule A.

**Foreign tax paid on Form 1099-INT.** *(auto-calc)* Taken from line 6 of our 1099-INT Worksheets (box 6 of Form 1099-INT), this amount is used in computing foreign tax credit, either through Form 1116 or,

when qualified, directly on line 48 of Form 1040. See the details on foreign tax later in this section.

**Tax-exempt interest.** *(auto-calc)* Taken from line 8 of our 1099-INT Worksheets (box 8 of Form 1099-INT), this amount is posted to Form 1040, line 8b, along with the next entry.

**OTHER for Form 1040, line 8b.** Enter here only nontaxable interest that you did not report on a 1099-INT Worksheet but which you must include in line 8b of Form 1040. This may include interest from municipal bonds or exempt-interest dividends from a mutual fund or other regulated investment company if you did not prepare a 1099-INT Worksheet for it. This amount plus the tax-exempt interest on the worksheets is posted to line 8b of Form 1040.

**Taxable ONLY by state.** *(auto-calc)* Taken from your entry below line 8 of our 1099-INT Worksheets, this amount is for the state return, not this federal return.

**AMT preference for Form 6251, line 12.** *(auto-calc)* Taken from line 9 of our 1099-INT Worksheet (usually from box 9 of Form 1099-INT), this amount is posted to Form 6251, as indicated, along with any analogous amounts from Forms 8814.

**Seller-Financed Mortgage Worksheet, Figure 2-8.**

This worksheet is used to identify the individual from whom you receive interest as a condition of sale of your property. If you do not supply here the name, address, and SSN of the buyer from whom you receive interest, you are subject to a \$50 penalty, whether or not you properly report the amount received as income.

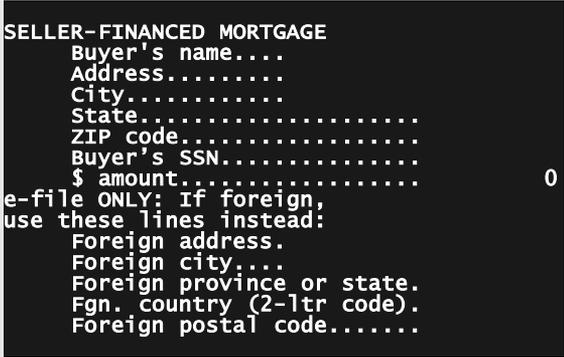


Figure 2-8. Seller-Financed Mortgage Worksheet

*CAUTION: Because of a newly-expanded format this year, as required for e-file, the information that appears here from a translated return will be incomplete; be sure to head the CAUTIONs in the following instructions.*

**Buyer's name.** Enter here the name of the individual from whom you received the interest (the borrower) in 25 characters or less.

**Address.** Enter the street address of the individual in 25 characters or less. *CAUTION: For a translated return, you must remove the city that appears at the end of this entry and enter it on the next line instead.*

**City.** Enter the city in 25 characters or less. *CAUTION: For a translated return, no entry will appear here; you must enter the city manually.*

**State.** Enter the standard 2-character code for the state. (The state will be properly translated from the prior-year return, in spite of the expanded format.)

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format. *CAUTION: For a translated return, no entry will appear here; you must enter the ZIP code manually.*

**Buyer's SSN.** Enter the buyer's social security number (SSN) in the standard xxx-xx-xxxx format. You must also give your social security number to the buyer for his or her use on Schedule A, and are subject to a \$50 penalty if you do not.

**\$ amount.** Enter the total amount paid to you during the tax year.

**e-file ONLY: If a foreign address, use these lines instead.** For a paper return, because of the restricted space on the official Schedule B, you must enter a foreign address on the preceding lines, abbreviating as necessary to fit. The following lines are ignored for a paper return. However, for an e-file return, a special format is required for foreign addresses, so you must enter a foreign address here and leave the preceding address lines blank.

**Buyer's name.** Enter here the name of the individual from whom you received the interest (the borrower) in 25 characters or less.

**Foreign address.** Enter the street address of the foreign location in 25 characters or less.

**Foreign city.** Enter the city in 22 characters or less.

**Foreign province or state.** Enter the province or state in 15 characters or less.

**Foreign country (2-letter code).** Enter the official country code for the country as shown in Table 2-6 on page 2-22.

**Foreign postal code.** Enter the postal code in 15 characters or less.

The dollar total for all worksheets combined is carried to the line from which you accessed this worksheet.

Schedule B

**1099-INT Worksheet, Figures 2-9a and 2-9b.** Report all interest received here, whether or not a Form 1099-INT was actually received for the amounts. *CAUTION: If you received any interest from a loan you financed to help sell your property, you must list that interest in the Seller-Financed Mortgage Worksheets that support the earlier line labeled "Seller-financed mortgage," not here. See Figure 2-8. TIP: All*

FORM	1099-INT Screen 1of2	
	Name of Payer	
	Account I.D.	
1	Taxable interest not in 3.	0
2	Early withdrawal penalty..	0
3	US Svgs Bonds & Treasuries	0
	GROSS TAXABLE INTEREST	0
	Nominee distribn in above.	0
	Accrued interest in above.	0
	O.I.D. adjustment to above	0
	A.B.P. adjustment to above	0
	NET TAXABLE INTEREST	0
4	Fed income tax withheld...	0
5	Investment expenses.....	0
6	Foreign tax paid.....	0
7	Foreign country.	
8	Fed tax-exempt interest...	0
	Part taxable by state	0
9	Spec.bond int.for6251,ln12	0

Figure 2-9a. 1099-INT Worksheet, Screen 1

*line numbers on the worksheet correspond to box numbers on the IRS Form 1099-INT.*

- Name of payer.** Enter payer's name in 25 characters or less.
- Account identification.** Enter account number or other note that further identifies the source of income in 25 characters or less.
- 1 Taxable interest not in 3.** Enter all taxable interest *other than* U. S. savings bonds, Treasury bills, Treasury bonds, and Treasury notes here. This amount should be reported to you in box 1 of Form 1099-INT. However, you must report all taxable interest here, *whether reported to you on a Form 1099 or not*. (The excludable portions of this total are entered on subsequent lines on this worksheet and subtracted from total interest before being carried to total interest for Schedule B, line 2.) If the interest is reported to you on a 1099-OID, enter the sum of boxes 1 and 2 of that form here. Be sure to include the amount in box 5 of any Schedule K-1 you receive from a partnership. *CAUTION: Do not include tax-exempt interest, which is now reported in box 8 of Form 1099-INT and not included in box 1, thanks to an IRS redesign of the form in 2006. See IRS Pub. 564 (Mutual Fund Distributions) for details.*
- 2 Early withdrawal penalty.** Enter penalties paid because of early withdrawal of certificates of deposits here. This amount should be shown in box 2 of Form 1099-INT and will be posted to line 30 of Form 1040.
- 3 U S Savings Bonds and Treasuries.** Enter interest on U. S. savings bonds and treasury obligations (Treasury bills, Treasury bonds, and Treasury notes), which should be shown in box 3 of Form 1099-INT.
- GROSS TAXABLE INTEREST.** *(auto-calc)* The sum of lines 1 and 3, this total is posted to "INTEREST SUBTOTAL" at line 1 of Schedule B.

**Nominee distributions in above.** Enter the interest included in the above gross amount that was received as a nominee for another here, and report the amount to the actual owner on a Form 1099-INT. (You must also file with the IRS a Form 1096 along with a copy of the 1099-DIV sent to the nominee.) This amount will be excluded on Schedule B. If you make an entry here, you must proportionately reduce the applicable remaining entries, below.

**Accrued interest in above.** Enter here accrued interest included in the above gross amount that you paid when buying a bond, which will be excluded on Schedule B.

**O.I.D. adjustment to above.** If you are reporting interest reported to you in box 1 or 6 of a Form 1099-OID, you may have to enter an adjustment here if you did not buy the obligation at its original discount or did not hold it for the entire year. See IRS Pub. 1212 (*List of Original Issue Discount Instruments*) for details on how to determine the proper adjustment. Make a positive entry here to reduce the taxable interest and a negative entry to increase the taxable interest.

**A.B.P. adjustment to above.** Enter the amount of Amortizable Bond Premium included in the above gross amount that you are deducting for bonds acquired on or after October 23, 1986. (Amortizable bond premiums for bonds acquired before that date are deducted on line 28 of Schedule A, not here.)

**NET TAXABLE INTEREST.** (*auto-calc*) The above gross amount less all above exclusions.

**4 Federal tax withheld.** Enter any backup withholding here. This amount should be shown in box 4 of Form 1099-INT and will be automatically reflected in line 64 of Form 1040.

**5 Investment expenses.** Enter the part of box 1 that is identified to you as investment expense, such as your share of investment expenses in a single class REMIC. This amount should be shown in box 5 of Form 1099-INT. You will be taxed on the full amount in box 1, but your entry here will be posted to line 23 of Schedule A as a miscellaneous deduction.

**6 Foreign tax paid.** Enter any foreign tax withheld here. This amount should be shown in box 6 of Form 1099-INT and will be used to determine the foreign tax credit when Form 1116 is not needed.

**7 Foreign country.** Enter the country to which line 6, above, applies. This entry is not used in any calculations or official printouts for the IRS, but is provided for record-keeping purposes. This country should be shown in box 7 of Form 1099-INT.

**8 Federal tax-exempt interest.** Enter tax-exempt interest, including interest on municipal bonds and exempt-interest dividends from a tax-exempt mutual fund. This amount should be shown in box 8 of Form 1099-INT and will be posted to line 8b of Form 1040.

**Part taxable by state.** Enter interest included in box 1 that is taxable by your state even though it is not taxable on the federal return, such as the interest on municipal bonds from other states. *This entry is needed ONLY for the proper completion of state returns.*

**9 Specified private activity bond interest for Form 6251, line 12.** If the federal tax-exempt amount includes tax-exempt interest from private activity bonds issued before 8/7/86, you must enter the amount here. This amount should be shown in box 9 of Form 1099-INT and will be posted to line 12 of Form 6251 as a tax preference for the alternative minimum tax. *CAUTION: Interest on private activity bonds issued in 2009 or 2010 is not a tax preference item and should not be entered on line 9 of our Form 1099-INT Worksheet, even if the payer included it in box 9 of the Form 1099-INT.*

The following entries are neither used in any calculations nor posted to any other forms. Furthermore, the IRS does not include them in their e-file specifications. They are provided only for your record-keeping and to

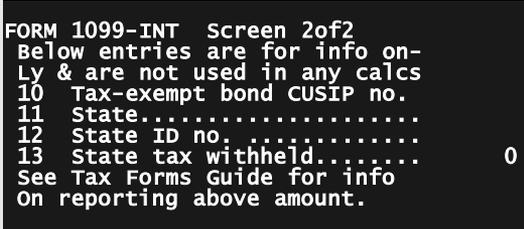


Figure 2-9b. 1099-INT Worksheet, Screen 2

remind you that you have already paid a portion of the tax you may owe to your state on the interest reported here:

- 10 Tax-exempt bond CUSIP no.** If interest from a tax-exempt bond is reported on this worksheet, enter the CUSIP number from the bond in 11 characters or less.
- 11 State.** If you are making an entry for state tax withheld on line 13, below, enter the standard 2-character code for the state here.
- 12 State identification number.** If you are making an entry for state tax withheld on line 13, below, enter any state-issued identification number here.
- 13 State tax withheld.** Enter any state tax withholding shown on Form 1099-INT. *TIP: You should report this amount on the income tax return you file for the corresponding state so that you get credit for this tax payment.*

**PART II, ORDINARY DIVIDENDS.** All dividend income is reported here, *except exempt-interest dividends from mutual funds, which are treated as interest by the IRS and should therefore be reported on our 1099-INT Worksheet instead.* This income should be reported to you on Forms 1099-DIV. Other information not relevant to Schedule B is reported on Form 1099-DIV, but *you must report here all information supplied to you on a Form 1099-DIV, whether applicable to Schedule B or not, so that the software can automatically post information required elsewhere in the return.* For example, capital gain and nontaxable amounts as well as withholding and expenses are reported to you on a Form 1099-DIV, and should be entered on our 1099-DIV Worksheet even when they are not reported on Schedule B.

**Dividends on Form 8814, line 9.** *(Road Map line, supported by Form 8814.)* If Schedule B is required for other reasons, you must now show on Schedule B a portion of your children's qualified dividends if you elect (through Form 8814) to report your children's income on your return. (Other dividends of the children are included with other income in line 12 of Form 8814, and are therefore reflected in the amount posted to line 21 of Form 1040.) The amount of qualified dividends to report is posted here from line 9 of Form 8814.

**Other dividends (itemize).** *(Supported by the 1099-DIV Worksheet, Figures 2-10a and 2-10b.)* You must list in the worksheets described later ALL dividends received, whether taxable or not, and whether or not the payer reported it on Form 1099-DIV, including any interest reported to you on a Schedule K-1. When you return from the worksheets, the total for ordinary dividends (box 1a of Form 1099-DIV) appears here.

**5 DIVIDEND SUBTOTAL.** *(auto-calc)* Computed as the sum of the preceding two lines.

**NOMINEE DISTRIBUTION.** *(auto-calc)* Posted here from all 1099-DIV Worksheets, this is the part of line 5 taxable to a nominee, not you. It will be shown on the printed Schedule B following the "DIVIDEND SUBTOTAL."

**6 Add the amounts on line 5.** *(auto-calc)* Computed as line 5 less the above nominee distribution, this is the taxable balance *posted to line 9a of Form 1040.*

**Qualified dividends on worksheets.** *(auto-calc)* Posted here from all 1099-DIV Worksheets, this is the amount from box 1b of all Forms 1099-DIV (box 1b of Form 1099-DIV) reduced by the pro rata share of any nominee distributions reported for line 5.

**Capital gain distributions.** *(auto-calc)* Posted here from line 2a of all 1099-DIV Worksheets (box 2a of Form 1099-DIV), this total is posted to Schedule D where all capital gain distributions are collected.

**Nominee distributions in CGD.** *(auto-calc)* Posted here from all 1099-DIV Worksheets, this is the part of capital gain distributions (CGD) that is a nominee distribution, and therefore not taxable to you.

**Net taxable CGD.** *(auto-calc)* Computed as capital gain distributions less the above nominee part, this is the taxable amount posted to Schedule D.

**Unrecaptured sec. 1250 gain in CGD.** *(auto-calc)* Posted here from line 2b of all 1099-DIV Worksheets (box 2b of Form 1099-DIV), and posted to Schedule D.

**Sec. 1202 gain in CGD.** *(auto-calc)* Posted here from line 2c of all 1099-DIV Worksheets (box 2d of Form 1099-DIV), and posted to Schedule D.

**Collectibles (28%) gain.** *(auto-calc)* Posted here from line 2d of all 1099-DIV Worksheets (box 2d of Form 1099-DIV), this is the 28% rate gain posted to Schedule D.

**Nontaxable distributions.** *(auto-calc)* Posted here from line 3 of all 1099-DIV Worksheets (box 3 of Form 1099-DIV).

**Federal withholding on Form 1099-DIV.** *(auto-calc)* Posted here from line 4 of all 1099-DIV Worksheets (box 4 of Form 1099-DIV) and reflected in line 64 of Form 1040.

**Investment expense on Form 1099-DIV.** *(auto-calc)* Posted here from line 5 of all 1099-DIV Worksheets (box 5 of Form 1099-DIV) and reflected in line 23 of Schedule A.

**Foreign tax paid on Form 1099-DIV.** *(auto-calc)* Posted here from line 6 of all 1099-DIV Worksheets (box 6 of Form 1099-DIV), this amount is used in computing foreign tax credit, either through Form 1116 or, when qualified, directly on line 48 of Form 1040. See the details on foreign tax later in this section.

**Qualified dividends for Form 1040, line 9b.** *(auto-calc)* Computed as the sum of "Dividends on Form 8814, line 9" and "Qualified dividends on worksheets," this is the total of dividends that qualify for the capital gains tax rate and is posted to both line 9b of Form 1040 and Part IV of Schedule D (for use in its tax computations).

**1099-DIV Worksheet, Figure 2-10.** Report all dividends, whether or not a Form 1099-DIV was actually received. *Line numbers on this worksheet correspond to box numbers on the IRS Form 1099-DIV.*

**Name of payer.** Enter 25 characters or less.

**Account identification.** Enter account number or other identifying information in 25 characters or less.

**1a Total ordinary dividends.** Enter ordinary dividends received here, whether you received a Form 1099-DIV for them or not. This amount should be reported to you in box 1a of a Form 1099-DIV or box 6a of a Schedule K-1 you receive from a partnership, corporation, etc.

**Nominee distributions in 1a.** Enter dividends received as a nominee here, and report this amount to the actual owner on a Form 1099-DIV. (You must also file with the IRS a Form 1096 along with a copy of the 1099-DIV sent to the nominee.)

**Taxable balance.** *(auto-calc)* Computed as ordinary dividends on line 1a less the above nominee amount, this is the part taxable on *your* return and reflected in line 9a of Form 1040.

FORM 1099-DIV Screen 1of2:	
Name of Payer	
Account I.D.	
1a	Total ordinary dividends.. 0
	Nominee distribns in 1a 0
	Taxable balance..... 0
1b	Qualified dividends..... 0
	Nominee distribns in 1b 0
	Taxable balance..... 0
2a	Total capital gain distr. 0
	Nominee distribns in 2a 0
	Bal. for 2b through 2d 0
2b	Unrecap. sec. 1250 gain... 0
2c	Section 1202 gain..... 0
2d	Colletibles (28%) gain... 0
3	Nondividend distributions. 0
4	Fed income tax withheld... 0
5	Investment expenses..... 0
6	Foreign tax paid..... 0
7	Foreign country. 0

**1b Qualified dividends.** Enter qualified dividends received here, which should be reported to you in box 1b of a Form 1099-DIV or box 6b of a Schedule K-1. This is the part of dividends in line 1a that qualify for taxation at a capital gains

Figure 2-10a. 1099-DIV Worksheet, Screen 1

tax rate. (*Most dividends qualify.*)

**Nominee distributions in 1b.** (*auto-calc*) Computed as the pro rata share of 1b that is attributable to the nominee, based on your entry for nominee distributions in 1a.

**Taxable balance.** (*auto-calc*) Computed as qualified dividends on line 1b less the above nominee amount, this is the part taxable on *your* return and reflected in line 9b of Form 1040.

**2a Total capital gain distribution.** These distributions are eligible for more favorable tax treatment than ordinary dividends, and are taxed at the more favorable rates through the tax computations on Schedule D. It should be reported to you in box 2a of Form 1099-DIV and will be used in Schedule D (or Form 1040 if no Schedule D is printed with the return). Specific parts of the amounts in this total are identified in the next few lines because of their special tax consequences. (Note that short-term capital gains will be reported to you in box 1a instead of box 2a because ordinary tax applies to them.)

**Nominee distributions in 2a.** Enter the part of box 2a that you received as a nominee here and report the amount to the actual owner on a Form 1099-DIV. (You must also file with the IRS a Form 1096 along with a copy of the 1099-DIV sent to the nominee.) **CAUTION:** *If you make an entry here, you must proportionately reduce your entries for lines 2b through 2d, below.*

**Balance for 2b through 2d.** (*auto-calc*) Computed as box 2a less the above nominee amount, this is the part that taxable on *your* return. However, the tax rate that applies depends on the specific type of capital gain, so you must identify any special types using the following 3 entries. If none of the following 3 types apply, then the regular capital gains rate apply.

**2b Unrecaptured section 1250 gain.** This is the part of line 2a that must be *taxed at the less favorable 25% rate* for real estate property. It

should be reported to you in box 2b of Form 1099-DIV and will be used in tax computations on Form 1040.

**2c Section 1202 gain.** This is the part of line 2a *eligible for a special exclusion*. It should be reported to you in box 2c of Form 1099-DIV and will be used in Schedule D. See our details for Schedule D for more information.

**2d Collectibles (28%) gain.** This is the part of line 2a that must be *taxed at the highest capital gains tax rate*. It should be reported to you in box 2d of Form 1099-DIV and will be used in tax computations on Form 1040.

**3 Nondividend distributions.** The amount reported to you in box 3 of Form 1099-DIV is usually a *return of capital* that reduces the basis of your stock when you sell it, but is not taxable now. **CAUTION:** *Once the total of all your nontaxable distributions from the stock equals your original cost or basis for the stock, you must report remaining amounts as capital gains distributions, above, rather than here.* By contrast, *exempt-interest dividends must be reported on 1099-INT Worksheets supporting line 1, not here, as tax-exempt interest*, so that they will be posted to line 8b of Form 1040.

**4 Federal income tax withheld.** Enter any backup withholding here. It should be shown in box 4 of Form 1099-DIV and will be automatically reflected in line 64 of Form 1040.

**5 Investment expenses.** This is the part of box 1 that you did not actually receive but was used by the payer to cover investment expenses, and should be shown in box 5 of Form 1099-DIV. You must pay tax on the full amount in box 1. The investment expense is deducted only as an itemized expense in line 23 of Schedule A, which the software ensures automatically.

**6 Foreign tax paid.** Enter any foreign tax withheld here. This amount should be shown in box 6 of Form 1099-DIV and will be used to determine the foreign tax credit when Form 1116 is not needed.

**7 Foreign country.** Enter the country to which line 6, above, applies. This entry is not used in any calculations or official printouts for the IRS, but is provided for record-keeping purposes. This country should be shown in box 7 of Form 1099-DIV.

The following entries are neither used in any calculations nor posted to any other forms. Furthermore, the IRS does not include them in their e-file specifications. They are provided only for your record-keeping and to remind you that you may have other amounts to enter on Schedule D and that you have already paid a portion of the tax you may owe to your state on the interest reported here:

**8 Cash liquidation distributions.** Any the cash proceeds from the liquidation of a corporation in which you had an interest. **CAUTION:** *If you have an entry on*

FORM 1099-DIV Screen 2of2	
Below entries are for info on-	
Ly & are not used in any calcs	
8	Cash liquidation distribns 0
9	Noncash liquid'n distribns 0
10	Exempt-interest dividends. 0
11	Spec.bond int.for6251,ln12 0
12	State.....
13	State ID no. ....
14	State tax withheld..... 0
See Tax Forms Guide for info	
on reporting above amount.	

this line, you may have a capital gain or loss to report on Schedule D. (No amount is posted to Schedule D automatically.)

- 9 Noncash liquidation distributions.** Any the proceeds other than cash from the liquidation of a corporation in which you had an interest. *CAUTION: If you have an entry on this line, you may have a capital gain or loss to report on Schedule D. (No amount is posted to Schedule D automatically.)*
- 10 Exempt-interest dividends.** Exempt-interest dividends are treated like tax-exempt interest by the IRS. Although the IRS now provides a box on Form 1099-DIV for these dividends, we recommend that you enter these dividends on line 8 of our 1099-INT Worksheet rather than here so that the software can automatically reflect them in line 8b of Form 1040. *CAUTION: If you have an entry on this line because you choose to report the amount here rather than line 8 of our 1099-INT Worksheet, you will have to manually enter this amount on the line labeled "OTHER for 1040 line 8b" on screen 1 of Schedule B. No amount is automatically posted from this line.*
- 11 Specified private activity bond interest for Form 6251, line 12.** If the exempt-interest dividends include tax-exempt interest from private activity bonds, the amount will be shown in box 11 of Form 1099-DIV. However, we recommend that you enter this amount on line 9 of our 1099-INT Worksheet rather than here so that the software can automatically reflect them in line 12 of Form 6251. See our instructions for line 9 of the 1099-INT Worksheet for more information on this entry and when to omit it. *CAUTION: If you have an entry on this line because you choose to report the amount here rather than line 9 of our 1099-INT Worksheet, you will have to manually override the result on line 12 of Form 6251 to include this amount. No amount is automatically posted from this line.*
- 12 State.** If you are making an entry for state tax withheld on line 14, below, enter the standard 2-character code for the state here.
- 13 State identification number.** If you are making an entry for state tax withheld on line 14, below, enter any state-issued identification number here.
- 14 State tax withheld.** Enter any state tax withholding shown on Form 1099-DIV. *TIP: You should report this amount on the income tax return you file for the corresponding state so that you get credit for this tax payment.*

**FOREIGN TAX SHOWN ON 1099s.** This is not a part of the IRS Schedule B but is a section we provide so that you can potentially report the amounts for foreign tax paid directly on Form 1040 without filing Form 1116. You generally qualify to omit Form 1116 if all of the following are true:

- all your foreign income was from interest and dividends,
- all your foreign income and foreign tax paid are shown on Form 1099-INT or 1099-DIV, and
- your creditable foreign tax totals no more than \$300 (\$600 if married filing jointly).

# HowardSoft

## Schedule B

The above tests ensure qualification to omit Form 1116, but they are not always necessary. See IRS Instructions for Form 1116 for more information.

**Foreign tax shown on 1099s.** *(auto-calc)* The foreign tax paid from the 1099-INT and 1099-DIV Worksheets you completed is shown here.

**Foreign tax shown on Form 8814.** *(Road Map line, supported by Form 8814.)* Any foreign tax paid shown on your children's 1099-INT and 1099-DIV Worksheets appears here from their Forms 8814.

**Tax on excluded income.** If any of the above tax is for income excluded from taxation, you must enter the corresponding tax here. No credit is allowed for it because you are not taxed on the related income. See the instructions for line 12 of Form 1116 for details.

**Creditable foreign tax.** *(auto-calc)* Computed as the foreign tax paid on Forms 1099-INT, 1099-DIV, and 8814, this is the maximum amount potentially eligible for a tax credit.

**Eligible to omit Form 1116 so far.** *(auto-calc)* Answered Yes if the creditable foreign tax is no more than \$300 (\$600 if married filing jointly).

**Select and meet other requirements?** See IRS 1040 Instructions for line 48 of Form 1040 for the general requirements for omitting Form 1116 from the return, or see Form 1116 and IRS Pub. 514 (*Foreign Tax Credit for Individuals*), for more complete requirements. You should answer No if you prefer to deduct the taxes on Schedule A so that you can make that election later in this section.

**Credit for Form 1040 line 48.** *(auto-calc)* Equal to the creditable foreign tax *if the preceding two answers are Yes*, and zero otherwise.

**CAUTION: Form 1040 will omit the preceding amount if a Form 1116 exists for the return.** The preceding amount can be assured of appearing at line 48 of Form 1040 *only* if you do *not* have a Form 1116 for the return. *Any amount figured on Form 1116 will override the amount figured above.* Therefore, you must take care not to view Form 1116 out of curiosity if you are not completing it, or else the amount on line 48 of Form 1040 will be zero.

**Available for Form 1116 or Schedule A.** *(auto-calc)* Equal to the creditable foreign tax if the preceding amount is zero.

**Amount to deduct on Schedule A.** You can elect to deduct foreign taxes paid on Schedule A instead of claiming them as a tax credit. Any amount you enter here will appear on line 8 of Schedule A, but you should complete Form 1116 first to determine the eligible amount.

**Balance available for Form 1116.** *(auto-calc)* Computed as the total available less the amount you elect for Schedule A. You should consider filing Form 1116 if an amount appears here. (Form 1116 is built into Standard and Premium Level software in support of line 48 of Form 1040.)

**PART III, FOREIGN ACCOUNTS AND TRUSTS.** You MUST complete Part III of Schedule B if you had any type of involvement with a foreign account:

**7a At any time during 2014, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country?**

If Yes, you may have to file FinCEN Form 114, separately from your return, by June 30, 2014.

**Answer for child from Form 8814.** *(auto-calc, supported by Form 8814)* If have a Form 8814 for a child who would answer Yes to the above question, a Yes appears here for printing on your Schedule B. The flag "Form 8814" will appear on the printout to let the IRS know that the answer comes from your child, not you.

**If "Yes," are you required to file FinCEN Form 114 to report that financial interest or signature authority?** See FinCEN Form 114 and its instructions for filing requirements and exceptions. *Note that Form TD F 90-22.1 was formerly used for this purpose.*

**b If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located.** Enter the official 2-character code for the country (shown in Table 2-6 on page 2-22) if you answered Yes to the preceding question. *TIP: If you are required to file FinCEN Form for more than one country, you must leave this entry blank and enter all countries in a supporting statement for this line. To create such a supporting statement here you must press function key F10, or ctrl-Y, because "i" is not recognized as "itemize" for a text entry line like this one. Special instructions for e-file: Enter each 2-character code for each country on a separate line of the supporting statement.*

**8 During 2014, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust?** If Yes, you may have to file Form 3520 (not built into the software).

**Answer for child from Form 8814.** *(auto-calc, supported by Form 8814)* If have a Form 8814 for a child who would answer Yes to the above question, a Yes appears here for printing on your Schedule B. The flag "Form 8814" will appear on the printout to let the IRS know that the answer comes from your child, not you.

**You may need to file Form 3520.** *(auto-calc)* Automatically Yes if the answer to line 8 is Yes, to alert you of the possible need to provide additional information.

### Schedule C & C-EZ / Profit or Loss from Business

**Who must use Schedule C or C-EZ?** Schedule C (or C-EZ) is used to report income as the sole proprietor of a nonfarm business or profession, and certain "statutory employees" and "qualified joint ventures" (defined below). (Schedule F is used for farm businesses.) You can report only one business on any one Schedule C, so five separate copies of Schedule C are built into the software. Schedule C-EZ is built into each Schedule C for your optional use, but note that a spouse with more than one business is not allowed to use Schedule C-EZ. Schedule C (or C-EZ) is accessible through the Road Map at line 12 of Form 1040.

**And who must not?** Schedule C (or C-EZ) cannot be used for partnerships, most joint ventures, and corporations. Joint ventures among individuals are generally considered to be partnerships, so a Partnership Return (Form 1065) must generally be filed. Amounts from the Schedules K-1 of that return are then reported on Schedule E, Part II, of each individual's Form 1040 return. However, there is now an exception for a husband-and-wife team, called a "qualified joint venture."

**Qualified joint ventures.** Prior to tax year 2007, a husband and wife who jointly ran an unincorporated business were always considered a partnership, whether or not a formal partnership agreement had been made, and had to file a partnership return, as described in the preceding paragraph. Starting tax year 2007, however, a husband and wife team can elect to be taxed as a "qualified joint venture" instead of a partnership. If you make this election, you must file a Schedule C (or C-EZ) for each spouse, allocating income and expenses among the two schedules in accordance with the spouses' respective participation in the business. There is no formal process for making the election; the mere filing of two Schedules C for the business is considered as making the election. But once you report the business income this way, you must continue to do so year after year, unless you have IRS consent to be treated as a partnership instead of a "qualified joint venture."

**Use Schedule E for rental real estate income.** If you elect treatment as a qualified joint venture instead of a partnership for your rental real estate income that is not subject to self-employment tax, you must use Part I of Schedule E to report the income. This is contrary to the rules prior to tax year 2011 which required you to use Schedule C for the rental real estate income and check a box on Schedule C. The box has been removed, and all such rental real estate income is now reported on Schedule E, where it is not subject to self-employment tax but is generally subject to passive loss limitation rules.

**Statutory employees.** Schedule C can also be used by employees whose Form W-2 has the "Statutory employee" box checked, including full-time life insurance salespeople, certain agent or commission drivers and traveling salespeople, and certain homeworkers. This special provision allows these employees to deduct expenses from income without being subjected to the limitations imposed by Schedule A on itemized deductions. However, the employee is not

subject to the self-employment tax because social security and Medicare tax have already been paid, as shown on the Form W-2 received. Schedule C therefore includes a separate line for "Statutory Employee" income so that the IRS will not expect a Schedule SE for this income. **CAUTION:** *You cannot report any other income on the copy of Schedule C or C-EZ that you use to report statutory employee income. Furthermore, if you have other income to report on Schedule C or C-EZ, you must use a separate Schedule C for that income and must use Schedule C, not Schedule C-EZ, for the statutory employee income.*

**GENERAL INFORMATION.** Your answers to some of the following questions are critical to the proper automation of the software. You must answer all questions whether you file Schedule C or Schedule C-EZ, because the answers help determine whether you qualify for Schedule C-EZ.

**Copy number (1 through 5).** (*auto-calc*) The number for the copy you selected from the menu appears here automatically.

**Spouse owns (not you)?** Each of the five available copies of Schedule C can be designated for either spouse. You must identify the proper spouse for each copy so that computations that depend on a spouse's individual self-employment income, such as the self-employment tax, are properly computed.

**A Principal business or profession.** Enter here the activity (such as Retailing, Manufacturing) and the specific product or service (such as Computers, Clothing) in 25 characters or less.

**B Enter code.** Enter here the IRS 6-digit code that fits the principal business you are reporting on this copy of Schedule C. *The codes are listed in a table at the end of the IRS Instructions for Schedule C.* (You should always use the table in the *current* instructions because the codes change from time to time.) The codes are based on a standard from the North American Industry Classification System (NAICS), which was developed in a joint effect between Canada, Mexico, and the United States. If you are unable to classify your business with one of the codes in the table, enter 999999 as the code and explain the business in a supporting statement for this line. **Exception for e-file:** *Due to an IRS technical limitation, the IRS does not allow here any number greater than 999000 for e-file. Therefore, you must enter 999000 instead of 999999 if you are unable to classify your business.*

**C Business name.** Enter name in 35 characters or less.

**D Employer Identification Number (EIN).** An entry here is required only if you have a Keogh Plan or you were required to file employment, excise, alcohol, tobacco, or firearms tax returns. Enter the number in the standard 10-character format (00-0000000). If you are using Schedule C as the sole owner of an LLC, be sure to enter your EIN as a sole proprietor, not an EIC issued to the LLC. *If you have no EIN, leave this entry blank. DO NOT enter a social security number here.*

**E Business address.** You must enter the physical location of the business on the following lines. The IRS specifically instructs you to enter a street address rather than a P.O. box. However, if you conduct your

business out of your home at the same address as shown on Form 1040, you can leave these lines blank. **CAUTION:** *Because of a change in format to conform with e-file requirements, the translation of the address from the prior-year return will be incomplete. Only the next 2 lines will have translated entries. All other lines will be blank.*

**Address.** Enter the street address of the business in 35 characters or less.

**City.** Enter the city in 22 characters or less.

**State.** Enter the standard 2-character code for the state. **CAUTION:** *For a translated return, no entry will appear here; you must enter the state manually.*

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format. **CAUTION:** *For a translated return, no entry will appear here; you must enter the ZIP code manually.*

**e-file ONLY: If a foreign address, use these lines instead.** For a paper return, because of the restricted space on the official Schedules C and C-EZ, you must enter a foreign address on the preceding lines, abbreviating as necessary to fit. The following lines are ignored for a paper return. However, *for an e-file return, a special format is required for foreign addresses, so you must enter a foreign address here and leave the preceding address lines blank.*

**Foreign address.** Enter the street address of the foreign location in 25 characters or less.

**Foreign city.** Enter the city in 25 characters or less.

**Foreign province or state.** Enter the province or state in 15 characters or less.

**Foreign country (2-letter code).** Enter the official country code for the country as shown in Table 2-6 on page 2-22.

**Foreign postal code.** Enter the postal code in 15 characters or less.

**F Accounting method (1=Cash, 2=Accrual, 3=Other).** Enter the code for the accounting method from 1 to 3.

**If other, specify.** If you entered 3 above, you must describe the method here in 20 characters or less. **CAUTION:** *For a paper return you could alternatively provide a longer explanation in a supporting statement for this line, but supporting statements for this line are not supported for e-file because the IRS allows no more than a 20-character explanation for this line.*

**G Did you "materially participate" in the operation of this business during 2014?** If you can answer Yes, you are not subject to the passive loss limitations, and no gain or loss from this schedule will be used in Form 8582. You can generally answer Yes if you participated in the operation of the activity for more than 500 hours during the year, or materially participated for any 5 of the prior 10 years. See our instructions for Form 8582 for details.

**Were you a "significant participant" in the operation of this business?** You are tentatively considered to be a significant participant if you participated in this business for more than 100 hours but no more than 500 hours during the tax year. If the net of ALL significant par-

ticipation activities throughout the return taken together is a gain, no amounts will be used in Form 8582, so the benefit of offsetting passive gains against passive losses from other activities is not available. If the net is a loss, all amounts will be used in Form 8582, so the limitations on passive losses apply. However, if the aggregate number of hours of participation for ALL significant participation activities on the return COMBINED is more than 500 hours, then the participation will be considered as material participation for ALL such activities rather than significant participation. See our instructions for Form 8582 for more details. If you do not satisfy the requirements for material participation, but can be classified as a significant participant, you **MUST** answer Yes here.

**H Is this the first Schedule C filed for this business?** If so, you must answer Yes here for IRS audit purposes.

**I Did you make any payments in 2014 that would require you to file Form(s) 1099?** If so, you must answer Yes here and answer the next question. For example, payments to independent contractors would generally be reported on a Form 1099-MISC filed with the IRS, with a copy to the contractor.

**H If "Yes," did you or will you file all required Forms 1099?** You must answer this question if you answered Yes to line I. Otherwise, your answer is ignored and neither the Yes box nor the No box will be checked on the official printout of Schedule C or C-EZ. (Note that there are stiff penalties for not filing Forms 1099 when you are required to do so.)

**SCHEDULE C-EZ QUALIFICATIONS.** Schedule C-EZ is a simplified version of Schedule C comprised of just three monetary entries: gross receipts, total expenses, and net profit. You need not supply any more detail than that if you qualify, but qualifications are rather narrow, as explained below. The following qualifications are preliminary only:

**Elect NOT to use Schedule C-EZ if eligible.** You can block the automatic printout of Schedule C-EZ by answering Yes here.

**Had only 1 business as a sole proprietorship, qualified joint venture, or statutory employee.** You and spouse are treated separately, so one spouse can use a Schedule C-EZ even if the other spouse can't. But a spouse who has more than one business cannot use Schedule C-EZ.

**Did NOT receive any credit card or similar payments that included amounts that are not includible in your income.** Answer No only if you DID receive such payments. A Yes answer is required to qualify you for Schedule C-EZ.

**Are NOT required to file Form 4562.** If claiming, for this business, depreciation (or a section 179 expense deduction) on property placed in service in the tax year, or listed property of any date, you **MUST** answer No here and complete a Form 4562 for this business.

**Use cash method of accounting.** *(auto-calc)* Answered Yes only if you entered 1 (Cash) as the method at line F.

**QUALIFIED FOR C-EZ so far. (*auto-calc*)** Answered Yes only if the preceding three answers are all Yes, and the first answer is No.

The final determination for qualification is made only after Schedule C is complete. If you qualify, the software will print Schedule C-EZ in place of Schedule C when the official return is printed, omitting supporting details. You qualify only if the above answer is Yes and total expenses are no more than \$5,000, the business does not operate at a loss, there is no inventory, no requirement to file Form 4562, no passive loss carryovers, no home expenses deducted, and no employees. *TIP: If you already know you will qualify for Schedule C-EZ, you can omit entering monetary details in most of the below lines and instead just enter the gross receipts in line 1b and the total expenses in the "other expenses" line above line 48. But note that you still may need to make entries at line 9 and lines 43 through 47b if you claim car expenses.*

**PART I, INCOME.** All taxable income is reported here:

**1 Gross receipts or sales.** Enter gross receivables here, including amounts eventually refunded or not collected. Be sure to include amounts reported to you on Forms 1099-MISC, or use the next two lines to explain exceptions. Also include amounts reported to you on Forms 1099-K for 2014. (Those who are sure they qualify for Schedule C-EZ can enter ALL income here and leave lines 2 and 6 blank.)

**Was income reported to you on a Form W-2 with the "Statutory Employee" box on that form checked?** If you have income reported to you on a Form W-2 with the "statutory employee" box checked in box 13, and social security tax was deducted for you (as shown in box that Form W-2), then you should report the income on line 1, above, and answer Yes here. (Statutory employees include full-time life insurance salespeople, certain agent or commission drivers and traveling salespeople, and certain homeworkers. This special provision allows these employees to deduct expenses from income without being subjected to the limitations imposed by Schedule A on itemized deductions.) This will allow you to deduct expenses without the limitations of Schedule A and the software will know not to tax you for social security and Medicare again through Schedule SE. Even if you answer Yes here, you must still complete a W-2 Worksheet for line 7a or 7b of our Form 1040, page 1, reporting the income as reported to you on Form 1040. However, you must be sure to answer Yes to line 13 (Statutory employee?) of the W-2 Worksheet and the line below it (If Yes, reporting on C?) so that the income will not be included in line 7 of Form 1040 and you are credited for social security and Medicare taxes deducted from your pay. *TIP: If answered Yes here and you have other income to report on line 1, you must use separate Schedules C to report the two types of income. (You do not qualify for Schedule C-EZ in this case.) Accordingly, if you already entered an amount on line 1b, any entry you try to make here will be forced to zero. The copy of Schedule C on which you report statutory employee income must have all income reported on line 1 alone, and must have expenses on*

*other lines related only to that income. CAUTION: If social security tax was NOT withheld for you, as should be evident from your Form W-2, you must answer NO here so that the required social security tax will be automatically computed for you on a Schedule SE.*

**Is line 1 lower than Forms 1099-MISC received?** If you received any Forms 1099-MISC from customers or clients and box 7 of all such Forms 1099-MISC exceeds the amount you entered above, you should answer Yes here and explain the discrepancy in a supporting statement for the following line.

**If Yes, ITEMIZE to explain.** If you answered Yes to the preceding question, explain the discrepancy in a supporting statement for this line. *TIP: The IRS does not provide for an explanation for e-file, and ignores it if you supply one, so you need not explain on an e-file return.*

**2 Returns and allowances.** Enter returns, refunds, etc. here.

**3 Subtract line 2 from line 1.** *(auto-calc)* Computed as indicated.

**4 Cost of goods sold (from line 42).** *(auto-calc)* Taken automatically from line 42 in Part III of this schedule, and therefore not correct until you complete Part III.

**5 GROSS PROFIT.** *(auto-calc)* Computed as line 3 less line 4.

**6 Other income.** Report all other income here, including

- interest received,
- bad debts recovered,
- credit or refund of fuel tax,
- recapture on Form 4797, line 35 (secs. 179 and 280F(b)(2)) for deductions previously taken for this business,
- bad debts recovered,
- reimbursements for overpayments or cancellations, such as insurance reimbursements,
- recapture of deductions for clean-fuel vehicles or clean-fuel vehicle refueling property.

**7 GROSS INCOME.** *(auto-calc)* The sum of lines 5 and 6.

This gross income is used for the optional method on Schedule SE as well as for the computation of net profit at line 31. *TIP: If you have an amount on line 2, 4 or 6, you do not qualify to use Schedule C-EZ.*

**PART II, EXPENSES.** General business expenses are reported here; expenses associated only with goods sold (for businesses with inventories) are reported in Part III. Pre-defined IRS categories are provided by line 8 through 26. Expenses not fitting those categories are posted to line 27 from your entries at line 48. (If you are certain to qualify for Schedule C-EZ, you can enter the total of all expenses at line 48 and leave lines 8 through 26 blank.)

**8 Advertising.** Enter all marketing, sales, and advertising expenses here.

**Car and truck expenses.** The rules for deducting vehicle expenses are similar to those detailed for employees on Form 2106. You can generally use either the standard mileage rate method or the actual expenses method (further described in our details for Form 2106). However, in spite of the IRS label for line 9, the reporting of car expenses on Schedule C involves more than one line of the form. Lines 9, 13, and 20a are all relevant parts of the formula. We therefore provide the following entries to help guide you in the proper reporting of the expenses. ***CAUTION: You MUST provide information on your vehicle if you make an entry at line 9, as follows:*** If you have to use Form 4562 for any other depreciation, complete columns a through c of Section A and all of Sections B and C of Part V of Form 4562 (accessed at line 13, below). Otherwise, use Part IV of Schedule C.

**Used more than four vehicles at the same time?** Answer Yes only if you used five or more vehicles in the business at the same time, such as in a fleet operation. You do not have to answer Yes if you alternated use among several vehicles but never used more than four at any one time.

**Actual expense REQUIRED for ALL.** *(auto-calc)* Automatically Yes if you answered Yes above. If you used more than four vehicles at the same time you are not allowed to use the Standard Mileage Rate method for any of the cars. A Yes answer here therefore prevents you from using the following section for the Standard Mileage Rate. You must instead report actual expenses in the section that follows the next one.

**for cars and trucks using Standard Mileage Rate Method:**

You can use this method only if you owned the vehicle and always used this method for it, or leased the vehicle and used the method for the entire lease period, and did not use the vehicle for hire.

**Total 2014 business miles.** Enter the total business mileage driven for the entire 2014 calendar year for cars and trucks that you choose to report under the Standard Mileage Rate method.

**Deduction for line 9.** *(auto-calc)* Computed as zero if the answer to "Actual expense REQUIRED for ALL" is Yes. Otherwise, computed as the above mileage times 56 cents a mile. This is the total deduction allowed for those cars and trucks that you choose to report under the Standard Mileage Rate method for 2014.

**for cars and trucks using Actual Expense Method:**

You cannot use this method if you leased the vehicle and ever used the Standard Mileage Rate method for the vehicle.

**Rent or lease payments.** Enter total rent or lease payments for cars and trucks. These payments are deducted at line 20a, not line 9, subject to the following limitation.

**Inclusion amount from IRS Pub. 463.** The IRS publishes an extensive table of inclusion amounts for "luxury vehicles." The amount of lease expenses you can deduct as a business expense is reduced by this inclusion amount. The reduction generally applies only to leases beginning after 1986 for vehicles with an initial market value in excess of \$12,800 if begun before 1991, \$13,400 if begun in 1991, \$13,700 if begun in 1992, \$14,300 if begun in 1993, \$14,600 if begun in 1994, \$15,500 if begun in 1995 or 1996, \$15,800 if begun in 1997 or 1998, \$15,500 if begun in 1999 through 2002, \$18,000 if begun in 2003, \$17,500 if begun in 2004, \$15,200 if begun in 2005 or 2006, \$15,500 if begun in 2007, \$18,500 if begun in 2008 through 2012, and \$19,000 if begun in 2013. (Slightly higher amounts apply to trucks and vans.) See IRS Pub. 463 (*Travel, Entertainment, Gift, and Car Expenses*) for details.

**Deduction for line 20a.** (*auto-calc*) Computed as the rent or lease payment less the preceding inclusion amount, this total is used at line 20a of Schedule C, not here.

**Depreciation – report on Form 4562 for line 13, NOT here.** When you use the Actual Expenses method, depreciation is an allowable part of the actual expense you can deduct. However, the IRS requires you to report that depreciation on the copy of Form 4562 for this business, not here. This depreciation will then flow from Form 4562 to line 13 of Schedule C. (The proper copy of Form 4562 is accessed when you itemize line 13 of Schedule C. The proper deduction is then returned to Schedule C when you return from Form 4562. Note that you must also complete the information on vehicles in Part V of Form 4562, irrespective of which expense method you use.)

**Other actual expense.** All other actual expenses are deducted at line 9. Enter here all expenses not deducted at line 13 or 20a for cars that you choose to report under the Actual Expenses method. Include expenses for gasoline, oil, repairs, insurance, tires, license plates, etc. Exception: You can also enter here your parking fees or tolls, irrespective of the expense method you use. (Parking fees and tolls are the only actual expenses allowed for cars and trucks reported under the Standard Mileage Rate method.)

**9 Car and truck expenses.** (*auto-calc*) Computed as the sum of the deduction for line 9 from the Standard Mileage Rate method plus your entry above for other actual expenses. CAUTION: If there is an amount on this line you MUST supply vehicle information in Part IV of this copy of Schedule C or Part V, Section B, of the copy of Form 4562 that supports this copy of Schedule C.

**Other expenses.** Other expenses are deducted through lines 10 through 27:

**10 Commissions and fees.** Enter sales commissions and other fees.

**11 Contract labor.** (*NEW line*) Enter the cost of contract labor. Do NOT include any contract labor included in Part III (line 37). Also, do not include any wages, which should be included in line 26.

**12 Depletion.** Enter depletion here, and attach IRS Form T if it applies to timber.

**13 Depreciation and section 179 expense deduction.** (*Road Map line, supported by Form 4562.*) A separate Form 4562 is available for each separate copy of Schedule C. You cannot prepare more than one copy of Form 4562 for each Schedule C, but you can depreciate as many items as you want on one copy. When you access Form 4562 through the Road Map by pressing the Itemize Key at line 13 of Schedule C, the proper copy of Form 4562 is automatically accessed. After you complete the form, the total depreciation and section 179 expense is posted here from Part IV of Form 4562.

**Employee benefit programs NOT in line 19.** Enter contributions to employee benefit programs that are not included in line 19, later, such as accident, health, and life insurance programs, and dependent care assistance programs. You must exclude the sole proprietor of the business from this entry, but you may be able to deduct some of the sole proprietor's health insurance at line 29 of Form 1040.

**Credit allocated from Form 8941.** (*auto-calc if Standard or Premium Level, supported by Form 8941*) This line is used to report the part of any credit from Form 8941 that applies to this business. (In the software, the last screen of Form 8941 is used to allocate the credit among your businesses, and the amount that applies to this copy of Schedule C for the proper spouse is posted here.) Form 8941 is a new form for computing a credit for health care payments made to employees by small businesses. The credit is posted to Form 3800, where it is combined with other credits then posted to Form 1040. However, any deduction you claim for health care payments must be reduced by the amount of credit claimed, which is the reason for this line in the software.

**14 Employee benefit programs.** (*auto-calc*) Computed as "Employee benefit programs NOT in line 19" less "Credit allocated from Form 8941," but no less than zero.

**15 Insurance (other than health).** Enter business insurance, including property and liability insurance, here.

**16 Interest.** You can deduct in the following two lines only interest for loans in which the proceeds have been used in the business in the current or prior years, not future years.

**a Mortgage paid to banks, etc.** You must reconcile, in a supporting statement for this line, any differences between the amount you report here and the amount reported to you on a Form 1098 for mortgage interest you paid.

**b Other interest.** Enter all other allowable interest here.

**17 Legal and professional services.** Enter legal and professional fees from attorneys, accountants, and other independent contractors.

**18 Office expense.** Enter miscellaneous office expenses here.

**19 Pension and profit-sharing plans.** Enter here only contributions to employee pension, profit-sharing, or annuity plans for which you have filed a Form 5500 with the IRS. You must exclude the sole proprietor of the business from this entry, but you may be able to deduct the

contributions made on behalf of the sole proprietor at line 29 of Form 1040.

**20 Rent or lease.** Deductions must be separated into those for equipment and those for other property.

**Vehicles (entered above line 9).** *(auto-calc)* This is the amount computed above line 9 for rent and lease payments on cars and trucks, reduced by the IRS inclusion amounts for luxury vehicles. See the details above line 9 of this schedule.

**Machinery and equipment.** Enter equipment rentals here.

**a Vehicles, machinery, and equipment – 20a.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**b Other business property – 20b.** Enter all other rent and lease payments here, including the rental of office space.

**21 Repairs and maintenance.** Include labor (except for the sole proprietor's labor), supplies, etc., but only if they do not add to the value of the property. Expenses that add to the value of the property must be capitalized (depreciated or amortized) instead.

**22 Supplies, not in Part III.** Enter only supplies not reported elsewhere. Do not include supplies associated with goods sold or held in inventory, which must be deducted in Part III instead.

**23 Taxes and licenses.** Enter business taxes not reported elsewhere, including sales taxes (if included in line 1), property taxes, and social security and Medicare taxes paid in behalf of employees (if not included in line 27). Also include business licenses.

**24 Travel, meals, and entertainment.** The meal and entertainment part of these expenses are limited, as detailed below. For more information, see IRS Pub. 463 (*Travel, Entertainment, Gift, and Car Expenses*).

**a Travel..24a.** Enter only travel expenses here, including transportation and lodging, but not meals and entertainment. For days that you do not claim meal expenses you can use an optional method for computing incidental expenses at the rate of \$5 a day.

**Meals and entertainment.** Report the *full* amount of qualified meals and entertainment on this line. *See IRS Instructions for detailed limitations on qualification for an entry here.* You can use a standard meal allowances instead of actual expenses. For most small localities, the standard rate is \$46 a day. For high-cost cities like Los Angeles, San Francisco, Boston, and New York City, the standard rate is much higher, as shown in extensive tables in IRS Pub. 1542 (*Per Diem Rates*). For the latest allowances, go to the internet site [www.gsa.gov](http://www.gsa.gov) and click on *Per Diem Rates* under *Most Requested Links*. Information for both domestic and international travel is available from that website. (Generally only 50% of meals and entertainment are deductible, and the software automatically enforces this limitation below. If you provide day-care in your home, see IRS Pub. 587 for details on how to deduct cost of meals to day-care recipients.)

**Part NOT subject to limitation.** Enter here the amounts included in the preceding entry that are NOT subject to the 50% rule (or 80% for

DOT, below), such as meals reimbursed to an employee but treated as wages subject to withholding.

**Part subject to DOT limitation.** The allowance for meal expenses is 80% of the actual expense (instead of 50%) for employees subject to Department of Transportation (DOT) hours of service limits. This includes certain air transportation employees (pilots, crew, etc.), interstate bus and truck drivers, certain railroad employees (engineers, conductors, crew, etc.), and certain merchant marines. Enter the eligible amount here.

**Remainder limited to 50%. *(auto-calc)*** Computed as the total for meals and entertainment less the amount NOT subject to limitation and less the amount subject to the DOT limit. This balance is limited to 50% of the actual expense.

**Nondeductible part of meals and entertainment. *(auto-calc)*** Computed as 50% of the preceding line plus 20% of the DOT line.

**b Deductible meals and entertainment...24b. *(auto-calc)*** Computed as the full amount entered for "Meals and entertainment" less the above "Nondeductible part of meals and entertainment," this is the only amount included in the total deductions for Schedule C.

**25 Utilities.** Note that if you use a home phone for business, you cannot deduct the base rate of the FIRST phone line into the house.

**Wages.** Enter the full amount of wages not deducted elsewhere, excluding the sole proprietor.

**Employment credits.** Enter here any employment credits, such as Work Opportunity Credit (Form 5884), Empowerment Zone Employment Credit (Form 8844), and Indian Employment Credit (Form 8845), that are based on wages included above. **CAUTION:** *Even though Form 5884 is built into the Premium Level, no amounts are posted here automatically since the wages used on Form 5884 may not be included on this copy of Schedule C.*

**26 Wages (less Employment Credit). *(auto-calc)*** Computed as above wages less the above employment credits.

**27a Other expenses (from line 48). *(auto-calc)*** Allowable expenses that do not fit into the above categories, and are not a part of goods sold or inventory, are detailed in Part V and posted here from line 48.

**27b Reserved for future use. *(auto-calc)*** This entry is blocked from data entry for 2014 because the entry must remain zero for 2014.

**28 TOTAL EXPENSES. *(auto-calc)*** Computed as the sum of lines 8 through 27a.

**SUMMARY.** Net profit or loss, reflecting any passive activity limitations, is computed here.

**29 Tentative profit or loss.** *(auto-calc)* Computed as line 7 less line 28 (but zero for a spouse's copy if the filing status is *not* married filing jointly.)

**Simplified method for business use of home deduction.** Thanks to a new simplified method for computing the deduction, introduced last year, you are no longer required to complete Form 8829 (*Expenses for Business Use of Your Home*) in order to deduct expenses stemming from the exclusive use of part of your home for business. Instead, you can elect to use a new Simplified Method. If qualified, the Simplified Method generally provides you with a deduction of \$5 per square feet of space, up to 300 square feet. See the IRS 2014 *Instructions for Schedule C* for detailed rules and requirements to qualify.

**30 Expenses for business use of your home.** You can choose to figure your deduction using either Form 8829 or the Simplified Method, subject to certain restrictions. The Simplified Method is handy when you use only a small portion of your home for business, since it eliminates the need to detail the expenses of your home that are prorated for the business, such as property taxes, mortgage interest, utilities, insurance, rent, maintenance, etc. In any one tax year, you can use only Form 8829 or the Simplified Method, not both, for the same home. The software enforces this rule by using the Simplified Method if and only if you provide the square footage of the business part of your home.

**Home business expense on Form 8829.** *(Road Map line, supported by Form 8829.)* When you itemize this line, you are taken to the copy of Form 8829 that is reserved exclusively for the copy of Schedule C you were preparing when you itemized. If you complete the form, the allowable expenses related to the business use of your home is posted here from line 35 of Form 8829. (One copy of Form 8829 is available for each copy of Schedule C.)

**For Simplified Method:**

**(a) total square footage of your home.** To elect the Simplified Method, you must complete this and the next line. Enter here the total size of livable space in your home in square feet.

**(b) part used for business.** If you elect the Simplified Method, enter here the total size of the part(s) of your home that you use exclusively for business (in square feet). Your entry is limited to be no more than the preceding entry and no more than 300 square feet. *For a daycare facility, you must reduce your entry on a pro rata basis for less than 100% use of the total hours that the facility was available. See the Daycare Facility Worksheet on page C-11 of the IRS 2014 Instructions for Schedule C.*

**Home business expense by the Simplified Method.** *(auto-calc)* Computed as line (b), above, times \$5, but no more than line 29 of Schedule C. **CAUTION:** *You may have to override this result with your own calculation if any gains or losses on Schedule D or Form 4797 apply to*

*this business or some of the net income on line 29 stems from another place of business. For details, see IRS Instructions for the Simplified Method Worksheet on page C-10 of the IRS 2014 Instructions for Schedule C.*

**30 Expenses for business use of your home.** *(auto-calc)* If an amount appears on the preceding line, that amount is used for this line. Otherwise, the amount for "Home business expense on Form 8829" appears here. *TIP: If you used more than one home during the year for business, which is likely if you moved any time during the tax year, you do not have to use the same method for both homes. Instead, you can choose to use the Simplified Method for one home and Form 8829 for the other. In that case, you will have to override this line with the sum of the two amounts, since the calculations assume that there was only one home used for business during the tax year, so it chooses one or the other for you.*

**Tentative net with home expenses deducted.** *(auto-calc)* Computed as line 29 less line 30.

**Excess farm loss.** This is a category added in 2010 that can limit your claim for a net loss from the business. For Schedule C, it applies only if your Schedule C activity includes processing a farm commodity as part of your farm business and the farm business received certain subsidies. To determine the amount of loss disallowed on Schedule C, you must complete the appropriate worksheet supplied at the end of the IRS 2014 Instructions for Schedule F. See our instructions for Schedule F for more detail. Enter the amount of disallowed loss here.

**\$ amount of loss NOT at risk (Form 6198).** If tentative net income reflects a net loss for the business after limiting the loss by the preceding "Excess farm loss," you must enter the part of the net loss that is NOT at risk here. Your losses are limited to the amount that you have at risk, which is the amount that you personally stand to lose from the activity. It generally includes cash and the adjusted basis of any property you contributed to the activity plus any amount borrowed for use in the activity for which you are personally liable. To determine how much you have at risk, you must complete Form 6198 (which is built into the Premium Level software) and file it with the return.

**Passive loss limitations.** If you answered No to Question I, the tentative net income (modified by excess farm loss and amount of loss not at risk when appropriate) may be used in Form 8582. *TIP: Form 8582 is automatically generated and completed when needed, so you should not normally have to access the form.*

**Prior unallowed passive loss.** This is the loss carryover from the prior-year return stemming from passive loss limitations on this activity. *This carryover is automatically transferred by the software from the prior-year return when you use the translate feature on a return that has 2013 as the entry for tax year.*

**Part allowed in significant participation net.** *(auto-calc)* If the modified tentative net income is a loss, no amount will appear here. But if it is a gain, and you identified this business as a significant participation

activity below line I, the part of the above carryover that does not exceed the tentative net income appears here.

**Significant participation net.** *(auto-calc)* This line is calculated as the modified tentative net income less the above part of carryover allowed, provided you identified this business as a significant participation activity, and is posted to Form 8582. However, it will not actually be used in Form 8582 unless the net of ALL significant participation activities throughout the return is a loss (as indicated by the answer to the next question).

**Net gain from ALL significant participation activities?** *(Road Map line, supported by Form 8582.)* The answer to this question comes automatically from Form 8582, but can only be determined upon the final recalculation of the return. You can access Form 8582 with the Itemize Key at this line, but there is no need to do so because the form is automatically generated and completed upon the final recalculation of the return.

**Passive loss unallowed in 2014.** *(auto-calc)* Any loss unallowed here because of the passive loss rules is posted here automatically, but it may not be accurate until the final recalculation of the return. It is the proper pro-rated portion of the amount shown on Form 8582 for loss unallowed for all Schedules C together. If line 31, below, reflects a disallowance from Form 8582 or reflects an additional loss due to a carryover, the IRS flag "PAL" will appear beside the line in the final printout.

Note that the handling of the carryovers, significant participation amounts, and pro-rating among different Schedule C's for different businesses is all fully automatic without requiring you to complete any passive activity worksheets yourself. However, you should read our instructions for Form 8582 to see if you need to enter any special adjustment to Form 8582, if you have significant participation amounts.

**31 NET PROFIT OR LOSS.** *(auto-calc)* Computed as tentative net income with excess farm loss, losses not at risk, and passive losses unallowed removed, when appropriate. This line plus line 31 from all other copies of Schedule C is posted to line 12 of Form 1040.

**32 If you have a loss, check.** One of the following questions will automatically be answered Yes if the tentative net income is a loss.

**32a All investment is at risk.** *(auto-calc)* Yes only if there is NOT an entry for "\$ loss NOT at risk (6198)."

**32b Some investment is not at risk.** *(auto-calc)* Yes only if there IS an entry for "\$ loss NOT at risk (6198)."

**If line 32b is "Yes," you must file Form 6198!** Form 6198 is built into the Premium Level software.

**PART III, COST OF GOODS SOLD AND/OR OPERATIONS.** All expenses tied to the product or services actually sold are reported here. (Expenses associated with products not yet sold are generally not deductible until the product is sold.) *You do not need to complete Part III if you have no inventory.*

- 33 Method(s) used to value closing inventory** (1=Cost, 2=Lower of cost or market, 3=Other:itemize). Enter the code for the valuation method from 1 to 3. *CAUTION: If you enter 3 for the method, you must describe the method in a supporting statement for this line. See IRS instructions for details.*
- 34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory?** If you must answer Yes, you must explain the change in a supporting statement for this line because changes are not normally allowed.
- 35 Inventory at beginning of year.** This entry should generally be identical to the end of year inventory reported in Part III of the prior year's Schedule C (line 41 of the prior-year Schedule C). If it is not, you must explain the difference in a supporting statement for this line.
- 36 Purchases (excluding items withdrawn for personal use).** Enter all purchases of finished goods here.
- 37 Cost of labor (excluding yourself).** Enter wages, excluding those for the sole proprietor of the business.
- 38 Materials and supplies.** Enter purchases of raw materials here.
- 39 Other costs.** Enter here all other costs associated with products, whether they were sold or not.
- 40 Add lines 35 through 39.** *(auto-calc)* Computed as indicated.
- 41 Inventory at end of year.** Enter as indicated.
- 42 Cost of goods sold and/or operations.** *(auto-calc)* Computed as line 40 less line 41.

The result on line 42 is transferred to line 4 of Part I of this Schedule.

**PART IV, INFORMATION ON YOUR VEHICLE.** If you claim car or truck expenses, *you must supply information on the vehicle(s) either here or on Form 4562.* If you do not have to file Form 4562 for any other reason, you **MUST** complete this part. Otherwise, you must complete Section B of Part V of the copy of Form 4562 that supports this copy of Schedule C or C-EZ.

**ITEMIZE HERE if reporting 2 or more vehicles.** *(Supported by the Vehicle Information Worksheet for Schedule C, Figure 2-11.)* Use this line only if you are claiming car and truck expenses for more than one vehicle. When you itemize this line, a worksheet for supplying the information shown on lines 43 through 47b of Schedule C appears. *The number of worksheets you completed is shown here when you return from the worksheets.* Any information you supply on the worksheets will appear only in supporting statements (with a cross-reference on the printed official schedule), not directly on Schedule C (or C-EZ). ***CAUTION: Do not itemize this line if you have only one vehicle to report; the support will not be printed with the return if you use only one worksheet.***

**Support used on Schedule C.** *(auto-calc)* Answered Yes if Schedule C will be used for the printed return and the number of worksheets appearing above is 2 or more. The determination of whether Schedule C or C-EZ is used for the return is determined only after Schedule C is complete. If the answer is Yes, the support is cross-referenced on the official printed Schedule C with a supporting statement number in place of a date at line 43, and all other lines in this section will remain blank.

**Support used on Schedule C-EZ.** *(auto-calc)* Answered Yes if Schedule C-EZ will be used for the printed return and the number of worksheets appearing above is 2 or more. If the answer is Yes, the support is cross-referenced on the official printed Schedule C-EZ with a supporting statement number in place of a date at line 4, and all other lines in Part III of Schedule C-EZ will remain blank.

**OTHERWISE, complete lines 43 through 47b.** You must enter all vehicle information on the following lines, not the supporting worksheets, if you have only one vehicle to report.

**43 When did you place your vehicle in service for business use.** Enter date in the mm/dd/yy format.

**44 Total miles you drove your vehicle during 2014.** Enter total miles.

**a Business.** Enter business part of total miles entered for line 44.

**b Commuting.** Enter commuting part of total miles entered for line 44.

**c Other.** *(auto-calc)* Computed as line 44 less lines a and b.

**45 Was your vehicle available during off-duty hours?**

**46 Do you (or spouse) have another vehicle available for personal use?**

**47a Do you have evidence to support your deduction?**

**47b If Yes, is the evidence written?**

**Vehicle Info Worksheet for Form Schedule C, Figure 2-11.** You must provide information on all vehicles for which you claim car or truck expenses on line 9 of Schedule C. However, you should use this worksheet only if you are claiming more than one vehicle for this business and you are not completing Form 4562 for this business. Otherwise, you must complete the worksheet in Section B of Form 4562 or answer the questions for a single vehicle directly on Schedule C lines 43 through 47a, above.

**Date placed in service for business purposes.** Enter the date placed in service for this business in the standard mo/dy/year format. This date could be substantially later than the date you purchased the vehicle.

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VEHICLE INFO WORKSHEET
Date placed in business svrc.
Total miles you drove in 2014.
a Business..... 0
b Commuting..... 0
c Other..... 0
Personal use in off-duty hours? No
Other vehicle for personal use? No
Statement of evidence:
a Evidence to support deduc'n? No
b If Yes, is evidence written? No

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**Figure 2-11. Vehicle Info Worksheet for Schedule C**

**Total miles you drove this vehicle during 2014.** Enter the number of miles traveled by this vehicle during the tax year, whether for business or not.

- a Business.** Enter the number of miles attributable to business purposes.
- b Commuting.** Enter the number of miles attributable to commuting to and from work.
- c Other.** Enter all miles not included in line a or line b.

**Was the vehicle available for personal use during off-duty hours?** Answer Yes or No.

**Do you (or spouse) have another vehicle available for personal use?** Answer Yes or No.

**Statement of evidence:**

**a Do you have evidence to support your deduction?** Answer Yes or No.

**b If "Yes," is the evidence written?** Answer Yes or No.

When you return from the worksheets, the number of worksheets for which you entered a mileage for 2014 appears on the line you itemized to access the worksheets. If this number is less than 2, the worksheets are ignored for the official printout, since you must supply the information directly on Schedule C lines 43 through 47b instead.

**PART V, OTHER EXPENSES.** You must detail in this section all expenses you are claiming for Schedule C that do not fall into the IRS categories of line 8 through 26 and are not associated with cost of goods. *If you know you qualify for Schedule C-EZ, you can merely enter the total expenses for the business on "Other expense" line, below, without supporting the entry in a supporting statement.*

**Amortization (Form 4562).** *(Road Map line, supported by Form 4562.)*

See line 13, above, for information on how Form 4562 supports Schedule C. After you complete the appropriate copy of Form 4562, the total amortization in Part VI of Form 4562 is posted here.

**Other expense itemized.** *List any other expenses in a supporting statement for this line.* You should try to classify all remaining expenses into no more than nine categories so that they can fit on the official printed Schedule C without a separate supporting statement. Be sure to include any allowance for bad debts from sales or services that were previously included in income and are known to be uncollectible. (If you later collect any of the amount deducted here, you must report it as other income on line 6 in the year collected.)

**48 TOTAL OTHER EXPENSES.** *(auto-calc)* The sum of the above two lines. This result is posted to line 27 in Part II of this schedule.

**SUMMARY FOR SCHEDULE C-EZ.** If you are eligible for use of the short Schedule C-EZ, based on your previous answers to the qualification questions and the software's determination of eligibility, a summary of the amounts appears here. Otherwise, all entries will be zero.

**Schedule C-EZ will be used.** *(auto-calc)* Answered Yes only if the answer to "QUALIFIED FOR C-EZ so far" preceding Part I is Yes (itself based on only five of the qualifications for Schedule C-EZ) and expenses on line 28 is \$5,000 or less, tentative net profit below line 30 shows no loss, there was no inventory during the year (and hence no entries on lines 35 nor 41 in Part III), there were no employees (and hence no entries on line 14, 19, 26, nor 37 of Schedule C), you do not deduct expenses for business use of your home (and hence line 30 is zero), and you do not have a prior-year unallowed passive loss for this business (and hence your entry for "Prior PAL unallowed loss" below line 30 is zero).

For the official printout for the IRS, Schedule C-EZ will be printed (without supporting statements) in place of Schedule C (with supporting statements) only if the answer to above question is Yes. If so, the following lines will show amounts as well:

**1 Gross receipts.** *(auto-calc)* Taken from line 1 of Schedule C.

**Was Income reported to you on a Form W-2 with the "Statutory Employee" box on that form checked?** *(auto-calc)* Taken from the identical question on Schedule C.

**2 Total expenses.** *(auto-calc)* Taken from line 28 of Schedule C.

**3 Net profit.** *(auto-calc)* Taken from line 29 of Schedule C.

You must also complete Part IV of Schedule C if line 2 includes car or truck expenses so that the corresponding information is printed in Part III of Schedule C-EZ. The following lines indicate whether support entered on Schedule C

## Schedule C/C-EZ

is used for Schedule C or Schedule C-EZ and are visible for technical reasons to ensure proper printouts and e-file output.

**Line 1 explanation for Schedule C.** *(auto-calc)* If Schedule C is used and you created support for the line below line 1 of Schedule C, a Yes will appear on this line with an "i" flag beside the line.

**Line 1 explanation for Schedule C-EZ.** *(auto-calc)* If Schedule C-EZ is used and you created support for the line below line 1 of Schedule C, a Yes will appear on this line with an "i" flag beside the line.

**Vehicle information support for Schedule C.** *(auto-calc)* If Schedule C is used and you created support for Part IV of Schedule C because you are claiming 2 or more vehicles, a Yes will appear on this line with an "i" flag beside the line.

**Vehicle information support for Schedule C-EZ.** *(auto-calc)* If Schedule C-EZ is used and you created support for Part IV of Schedule C, a Yes will appear on this line with an "i" flag beside the line.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Schedule D / Capital Gains and Losses

**Who is it for?** Schedule D is used mainly *to report the sale or exchange of capital assets, including most properties you own and use for personal purposes, pleasure, or investment*. This includes the sale of inherited property, closing or expiration of options, and exchange of like-kind property. The sale of some capital assets (such as cars, furniture, residences not held for the production of income) are reported here only if they resulted in a gain, because they do not qualify for loss deductions. *Schedule D is accessible through the Road Map at line 13 of Form 1040.*

**Role of Form 8949.** Starting with the forms for tax year 2011 returns, the IRS removed the spaces on Schedule D for listing the details of transactions for line 1 and 8 and moved the spaces to a Form 8949. Form 8949 satisfies reporting requirements not met by the former Schedule D by means of additional columns for the itemized lists and the separation of transactions into three categories that identify their status with respect to Form 1099-B. The IRS requires that transactions for the three separate categories in the two holding period categories (short-term vs. long-term) be reported on separate Forms 8949 pages, so there can be as many as six pages of Form 8949. The results of the six pages are shown on lines 1a through 3 of Schedule D for short-term transactions and lines 8b through 10 of Schedule D for long-term transactions. ***We have designed the changes into the software to minimize the impact on your data entry. You must make all entries on our Schedule D, just as you always have in the past, not Form 8949. Form 8949 is automatically generated and completed for you based on your Schedule D entries, and there are no user entries allowed on that form.***

**TIP:** Most sales reported on Schedule D are "portfolio" transactions, and NOT SUBJECT TO PASSIVE LOSS LIMITATIONS. Sales of investment holdings are not normally subject to the passive loss rules. However, *you must identify such sales* by answering Yes to the "Portfolio?" question on the worksheets described below. Otherwise the passive loss rules are automatically implemented and the transactions are posted to Form 8582.

**Short-term vs. long-term capital transactions.** Short-term and long-term holdings are reported separately because long-term gains are taxed more favorably than short-term gains. The separate sections are nearly identical to each other, but you must enter the proper transactions in the proper sections: Part I for assets held one year or less and Part II for assets held more than one year.

**Sale of Your Home.** Under current law, most taxpayers have no taxable gain on the sale of their home because the law allows an exclusion of up to \$250,000 of gain (\$500,000 if married filing jointly and meet the qualifying tests). As a result, the IRS *eliminated Form 2119* (which was formerly used to compute the gain and apply allowed exclusions), *and eliminated the need to report the sale if you have no taxable gain after applying the exclusions*. The exclusion can be less than the stated maximums if you did not occupy and own the home for at least 2 out of the 5 years ending on the date of sale (although there are exceptions for Peace Corp. service outside the U.S., uniformed or

## Schedule D

foreign service, and intelligence community employees). Moreover, you cannot use the exclusion more than once every two years. You may therefore still have a taxable gain after all. You can determine the proper exclusion by completing the 1997 Form 2119 that is built into the 1998 Edition of *Tax Preparer*, or by consulting IRS Pub. 523. If you still have a taxable gain after deducting your exclusion, you must report the sale on Schedule D using a worksheet for line 10 (line 3 if held one year or less before its sale), entering the code H in line f of the worksheet and entering the exclusion as a negative number in line g of the worksheet, as detailed in the later boxed section titled "How to Report Excludable Gains."

**Different treatment for different types of capital gain.** As a result of various legislation in the past several years there are now four different capital gains tax rates: 0%, 15%, 25%, and 28%. Which rate applies for any particular sale or distribution depends on a number of factors, including the tax bracket of the taxpayer. Furthermore, the IRS has done little to help you keep track of the different categories. However, the capital gain tax computations require that you separately state 28% rate gain (which now generally applies only to collectibles), unrecaptured section 1250 gain, and qualified dividends. As a result it is critically important that you use our worksheets whenever they are available to support a line because they automatically categorize many of these different types, including:

- 1099-DIV worksheets on Schedule B and Form 8814,
- Line 8a or Gain/Loss Worksheets for line 8b, 9, or 10 of Schedule D,
- Schedule K-1 Worksheets for line 12 of Schedule D,
- Personal Casualty and Theft Worksheets for Sec. A of Form 4684,
- Business Casualty and Theft Worksheets for Sec. B of Form 4684,
- Gain/Loss Worksheets for line 2 of Form 4797,
- Schedule K-1 Worksheets for line 2 of Form 4797,
- Gain/Recapture Worksheets for Part III of Form 4797,
- Form 6252 for current or past installment sales, and
- Entries from other forms above line 11 of Schedule D.

With the aid of these worksheets the tracking of the different categories involves minimal additional effort on the part of users of *Tax Preparer*, in spite of the oversimplified IRS designs for the forms.

**CAPITAL LOSS CARRYOVER WORKSHEET (screen 1).** If any amount of capital loss was disallowed as a deduction on the prior-year return due to the annual \$3,000 limit on net loss deductions or because net income on the return (reduced by the standard or itemized deduction) was negative, you may have a loss for line 6 and/or 14 of this year's Schedule D. The IRS provides a *Capital Loss Carryover Worksheet* on page D-10 of the *2014 Instructions for Schedule D* to determine the amount for these lines. The software completes this worksheet automatically based on the following four numbers from the prior-year return (*which are automatically entered for a return that is translated from a prior-year return with the tax year retained at 2013*):

**2013 Schedule D, line 7.** Enter the cited net short-term gain or loss from the Schedule D for tax year 2013. This entry is used to determine the amounts for lines 5 and 10 of the IRS worksheet.

**2013 Schedule D, line 15.** Enter the cited net long-term gain or loss from the Schedule D for tax year 2013. This entry is used to determine the amounts for lines 6 and 9 of the IRS worksheet.

**2013 Schedule D, line 21.** Enter the cited loss, if any, deducted on line 13 of Form 1040 for tax year 2013. This entry is used to determine the amount for line 2 of the IRS worksheet.

**2013 Form 1040, line 41.** Enter the cited amount from the Form 1040 for tax year 2013. This is the prior-year AGI less itemized or standard deduction. It is used for line 1 of the IRS worksheet.

**Results from IRS Worksheet.** The IRS's *Capital Loss Carryover Worksheet—Lines 6 and 14* is completed by the software internally based on the preceding four entries, and the results on lines 8 and 13 of the worksheet are shown on the screen:

**SHORT-TERM CAPITAL LOSS CARRYOVER FOR for line 6.** *(auto-calc)*

Corresponding to line 8 of the IRS worksheet, this result is used for line 6 of the 2014 Schedule D.

**LONG-TERM CAPITAL LOSS CARRYOVER for line 14.** *(auto-calc)*

Corresponding to line 13 of the IRS worksheet, this result is used for line 14 of the 2014 Schedule D.

**Alternative to itemizing transactions.** Prior to last year, you had been required to list all transactions for Schedule D separately, showing the proceeds, cost, and net income for each. But starting with tax year 2013, there is now an alternative for transactions that meet a stringent set of conditions. For transactions that qualify, you are allowed to combine all transactions of the same class of holding period (short-term vs. long-term) and provide only three numbers for the aggregate: total proceeds, total cost (or other basis), and net gain or loss (computed as proceeds less cost). These are transactions that would have formerly been itemized at line 1 or 8 of Schedule D (now labeled lines 1b and 8b). New lines 1a (for short-term transactions) and 8a (for long-term transactions) of Schedule D have been added for this purpose. Every transaction included in the aggregate for line 1a or line 8a must satisfy all of the following conditions:

- It must be reported to you on a Form 1099-B (*Proceeds From Broker and Barter Exchange Transactions*) or equivalent statement for the transaction with box 6b checked (indicating that the basis was reported to the IRS).
- The property sold must not be a collectible.
- It would not require any adjustments on line (g) if you had itemized the transaction on line 1b or 8b. This means you can have no passive activities that have a carryover or disallowed amount and no other adjustments listed on pages 6 and 7 of the IRS *2014 Instructions for Form 8949*, including other nondeductible losses, such as wash sale losses, and gains that are excludable, such as sales from exchanges.

## Schedule D

### **PART I, SHORT-TERM CAPITAL GAINS AND LOSSES (screens 2 through 4).**

This section is usually reserved for capital gains and losses on assets held one year or less. However, *hedges* and *personal (nonbusiness) bad debts* are reported here regardless of the holding period.

**Short-term sales reported on Schedule D alone.** You should report most of your own short-term transactions here, except for installment sales. (You will report transactions by partnerships, S corporations, and fiduciaries in which you have an interest at line 5.) Except for transactions that you include in the combined totals at line 1a, you must supply all information on the Gain/Loss Worksheets provided by the software at lines 1b, 2, and 3 in order to satisfy IRS reporting requirements and to properly automate the passive loss rules. Use these lines **ONLY** for SHORT-TERM sales. Sales are usually reported to you and the IRS on Forms 1099-B or 1099-S. Using one worksheet for each transaction, any number of transactions may be entered, within your disk space limitations.

**Separate lines for separate Form 1099-B status.** You must separately report transactions based on what information was reported to you by the seller or broker. Lines 1a, 1b, 2, and 3, below, provide this separation, and a separate set of worksheets is available for each line except line 1a.

**1a Certain combined transactions.** This category is reserved for the aggregate of all transactions that satisfy certain conditions and you choose not to include in line 1b. It provides a convenient alternative to itemizing all transactions for the year. *CAUTION: In order for a transaction to be included on this line, it must satisfy the conditions detailed in the shaded box on the preceding page titled "Alternative to itemizing transactions."*

**d Proceeds (sales price).** Enter the sum of proceeds (box 2a of Form 1099-B) for all transactions that you are reporting on line 1a.

**e Cost or other basis.** Enter the sum of basis (box 3 of Form 1099-B) for all transactions that you are reporting on line 1a.

**h Gain or loss.** (*auto-calc*) Computed as line d *less* line e, this is the net income for all transactions included in line 1a combined.

**1b Short-term transactions reported on Form 1099-B with basis reported to the IRS.** (*Supported by the Short-term Gain/Loss Worksheet, Figure 2-12a.*) Itemize this line to report short-term transactions reported to you on a Form 1099-B (or equivalent) with your basis (usually original cost) shown in box 3 of the form and box 6b checked (indicating that it was reported to the IRS), other than those included in line 1a, above. The sale of common stock that was both purchased and sold for you by the same broker is usually reported to you this way. *The entries on lines a through h of the worksheets will appear on an official printout of Form 8949, page 1, with box A checked.*

**d Proceeds (sales price).** (*auto-calc*) Computed as the sum of line d of all worksheets for line 1b combined, this total will also appear on line 2(d) of the appropriate page of the printed Form 8949.

- e Cost or other basis.** *(auto-calc)* Computed as the sum of line e of all worksheets for line 1b combined, this total will also appear on line 2(e) of the appropriate page of the printed Form 8949.
- g Adjustments to gain or loss.** *(auto-calc)* Computed as the sum of line g of all worksheets for line 1b combined, this total will also appear on line 2(g) of the appropriate page of the printed Form 8949. This adjustment can be negative or positive.
- h Gain or loss.** *(auto-calc)* Computed as line d *less* line e *plus* line g, this is the net income resulting from all worksheets for line 1b combined, and will also appear on line 2(h) of the appropriate page of Form 8949.
- 2 Short-term transactions reported on Form 1099-B but basis not reported to the IRS.** *(Supported by the Short-term Gain/Loss Worksheet, Figure 2-12a.)* Itemize this line to report short-term transactions reported to you on a Form 1099-B (or equivalent) for which your basis is shown but box 6b is NOT checked. The sale of common stock that was sold for you by a different broker than the broker who purchased the stock for you. *The entries on lines a through h of the worksheets will appear on an official printout of Form 8949, page 1, with box B checked.*
- d Proceeds (sales price).** *(auto-calc)* Computed as the sum of line d of all worksheets for line 2 combined, this total will also appear on line 2(d) of the appropriate page of the printed Form 8949.
- e Cost or other basis.** *(auto-calc)* Computed as the sum of line e of all worksheets for line 2 combined, this total will also appear on line 2(e) of the appropriate page of the printed Form 8949.
- g Adjustments to gain or loss.** *(auto-calc)* Computed as the sum of line g of all worksheets for line 2 combined, this total will also appear on line 2(g) of the appropriate page of the printed Form 8949. This adjustment can be negative or positive.
- h Gain or loss.** *(auto-calc)* Computed as line d *less* line e *plus* line g, this is the net income resulting from all worksheets for line 2 combined, and will also appear on line 2(h) of the appropriate page of Form 8949.
- 3 Short-term transactions not reported on Form 1099-B.** *(Supported by the Short-term Gain/Loss Worksheet, Figure 2-12a.)* Itemize this line to report short-term transactions not reported to you on a Form 1099-B (or equivalent). The sale of real estate is normally reported to you on a Form 1099-S from your real estate broker, not Form 1099-B, and would therefore be reported here. *The entries on lines a through h of the worksheets will appear on an official printout of Form 8949, page 1, with box C checked.*
- d Proceeds (sales price).** *(auto-calc)* Computed as the sum of line d of all worksheets for line 3 combined, this total will also appear on line 2(d) of the appropriate page of the printed Form 8949.

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- e **Cost or other basis.** *(auto-calc)* Computed as the sum of line e of all worksheets for line 3 combined, this total will also appear on line 2(e) of the appropriate page of the printed Form 8949.
- g **Adjustments to gain or loss.** *(auto-calc)* Computed as the sum of line g of all worksheets for line 3 combined, this total will also appear on line 2(g) of the appropriate page of the printed Form 8949. This adjustment can be negative or positive.
- h **Gain or loss.** *(auto-calc)* Computed as line d *less* line e *plus* line g, this is the net income resulting from all worksheets for line 3 combined, and will also appear on line 2(h) of the appropriate page of Form 8949.

The total of sales prices appearing at lines 1a(d), 1b(d), 2(d), and 3(d) must be reconciled with box 2 of the 1099-B and 1099-S forms you receive for short-term sales. *(Lines 8b through 10 of Schedule D, described later, are analogous to lines 1b through 3 but designed for long-term transactions.)*

**Gain/Loss Worksheets, Short-term and Long-term, Figures 2-12a and 2-12b.** *(Supports lines 1b, 2, and 3 for short-term capital gains and losses, and lines 8b, 9, and 10 for long-term capital gains and losses.)* This worksheet follows the format of the columns on the new IRS Form 8949 (since Schedule D itself no longer defines a multi-column format), with several additions that make possible the automation of Form 8582 and other special factors:

SHORT-TERM GAIN/LOSS		
1099-B status (A, B, or C)		
a.	Description.....	
	Portfolio or nonpassive...? No	
	Significant participant...? No	
	Entire interest sold.....? No	
	Bypass date checking.....? No	
b.	Date acquired (mm/dd/yy)	
c.	Date sold (mm/dd/yy)	
d.	Proceeds (sales price)....	0
e.	Cost or other basis....	0
>	TENTATIVE NET.....	0
	Sig par net for Form 8582..	0
	PRIOR-year unallowed loss.	0
Net	elsewhere for same activity	0
	Unallowed THIS yr. on 8582	0
>	Net passive adjustment....	0
	Other adjustments (+ or -)	0
f.	Code(s) from instructions.	0
g.	Amount of adjustment.....	0
h.	GAIN OR LOSS.....	0

Figure 2-12a. Short-term Gain/Loss Worksheet

- Form 1099-B status.** *(auto-calc)* This entry is either A, B, C, D, E, or F depending on which line you itemized to reach the worksheet (A if line 1b, B if line 2, C if line 3, D if line 8b, E if line 9, or F if line 10).
  - (a) **If A or D,** the worksheet must be used only to report information on a Form 1099-B (or equivalent) that shows that your basis in the property sold was reported to the IRS (that is, box 6b of Form 1099-B is checked).
  - (b) **If B or E,** the worksheet must be used only to report information on a Form 1099-B (or equivalent) that shows that your basis in the property sold was NOT reported to the IRS (that is, box 6b of Form 1099-B is NOT checked)
  - (c) **If C or F,** the workseet must be used only to report information NOT reported to you on a form Form 1099-B (or equivalent).

**α. Description.** Describe the asset sold (or otherwise disposed) in 25 characters or less.

**Qualified small business stock (sec. 1202)?** *(appears ONLY on long-term worksheets.*

*Figure 2-12b)*

Enter Yes only if this worksheet relates to a sale or capital gain distribution for which you are claiming an exclusion under sec. 1202.

**CAUTION:** *You must have held the stock for more than 5 years to qualify for the exclusion.*

The IRS requires special reporting procedures for this

exclusion. *For sec. 1202 stock sales* you must complete lines a, c, d, e, and f as you normally would, then enter the code S on line b and the exclusion (as a negative number) on the line "1202 exclusion elected" (above line g). *For capital gain distributions (CGDs)* you must include the CGD before exclusion on Schedule D, line 13, first, then enter the code S on line b and the exclusion (as a negative number) on the line "1202 exclusion elected" (above line g).

**If Yes, for CGD in line 13?** *(appears ONLY on long-term worksheets, Figure 2-12b)* If you answered Yes to the preceding question and the sale is a part of a capital gain distribution (which you will include in line 13 of Schedule D), answer Yes here. If Yes, you will enter no dates or amounts on lines b through f, but will enter the exclusion (as a negative number) on the line above line g labeled "1202 exclusion elected." You must also enter S at line b, later.

**Is property a collectible?** *(appears ONLY on long-term worksheets, Figure 2-12b)* Answer Yes if the item qualifies as a collectible, such as a work of art, antique, precious metal, gem, stamps, coins, etc. Long-term gains on collectibles are not eligible for the lowest rates of capital gains tax, and are taxed under the 28% rate rules instead.

LONG-TERM GAIN/LOSS	
1099-B status (D, E, or F)	
a. Description.....	
Qlfd small bus stock(1202)?	No
If Yes, for CGD in line 13?	No
Is property a collectible.?	No
Portfolio or nonpassive...?	No
Significant participant...?	No
Entire interest sold.....?	No
Bypass date checking.....?	No
b. Date acquired (mm/dd/yy)	
c. Date sold (mm/dd/yy)	
d. Proceeds (sales price)....	0
e. Cost or other basis....	0
[Press PageDown for adjustmts]	
-----	
> TENTATIVE NET.....	0
Sig par net for Form 8582.	0
PRIOR-year unallowed loss.	0
Net elsewhere for same activity	0
Unallowed THIS yr. on 8582	0
> Net passive adjustment....	0
1202 exclusion elected....	0
Other adjustments (+ or -)	0
f. Code(s) from instructions.	
g. AMOUNT of adjustment.....	0
h. GAIN OR LOSS.....	0
28% rate gain or loss.....	0
Amount for 8582 line 3a...	0
Amount for 8582 line 3b...	0

Figure 2-12b. Long-term Gain/Loss Worksheet

**Portfolio transaction or other nonpassive activity?** You MUST answer Yes here if the property sold is NOT an interest in a passive activity. Otherwise the information reported here may be used on Form 8582. REMINDER: You must normally answer Yes here for sales of stocks and bonds because such sales are usually considered to be portfolio transactions.

**Significant participant?** If you answered No above, you should answer Yes here if you do not satisfy the requirements for material participation, but you can be classified as a significant participant. You are tentatively considered to be a significant participant if you participated in the activity for more than 100 hours but no more than 500 hours during the tax year, but there is an important escape clause in the law. See our instructions for Form 8582 for details.

**Entire interest sold?** If you answered No to the portfolio question, your answer here controls the posting to Form 8582. If you answer Yes, only the gains are posted to Form 8582. If you answer No, both gains and losses are posted to Form 8582.

**Bypass date checking?** Answer Yes to defeat the built-in protections against erroneous date entries. Automatic checks are built into the software to protect you against entering a sale in the wrong section of Schedule D, or entering a sale not made during the return's tax year. If the dates are not appropriate to the line itemized, an INVALID message appears at the date sold entry, and lines g and h are automatically zeroed. However, there are several valid reasons for answering Yes to "Bypass date checking?" including:

**SHORT SALES.** You typically report short sales as short-term transactions. You must use a worksheet that supports line 1b, 2, or 3 regardless of the dates involved.

**INHERITED PROPERTY.** Inherited property is generally treated as long-term property regardless of the dates involved. If long-term, you must use a worksheet that supports line 8b, 9, or 10 and enter INHERITED in place of the date at line b. *CAUTION: Property inherited from someone who died in 2010 is subject to special rules if the estate made a special Section 1022 election. For someone who died in 2010, see IRS Pub. 4895. If the election is made, enter INH-2010 instead of INHERITED.*

**OPTIONS.** Report expired options (unless a section 1256 contract, which is reported on Form 6781) as follows:

(1) If a purchase option expired, enter EXPIRED at line c and the expiration date at line d.

(2) If an option granted expired, enter the expiration date at line c and EXPIRED at line d.

**VARIOUS.** If you sell a block of stock at one time, but each stock was purchased on a different date and all the stock qualifies for the same treatment (that is, all short-term or all long-term), you can enter VARIOUS in place of the "Date acquired" at line c, but you must then take care to use a worksheet that supports the proper holding period (short-term vs. long-term).

**Nonbusiness BAD DEBT.** Nonbusiness bad debt is deductible as a short-term capital loss irrespective of the dates involved. To claim the loss, for a worksheet supporting line 1b, 2, or 3, enter BAD DEBT on line a, answer YES to "Bypass date checking?", and enter the unrecoverable personal debt on line f (Cost or other basis").

- b. Date acquired.** Enter date acquired in the mm/dd/yy format (such as 11/13/90). If you answered No to the portfolio question, your entry here affects the posting to Form 8582, since passive activities acquired after October 22, 1986 are treated differently from those acquired before that date. (INHERITED, INH-2010, and VARIOUS are also valid entries in some cases, as noted previously.)
- c. Date sold.** Enter date sold in the mm/dd/yy format (such as 03/17/12). The holding period must be consistent with the line itemized (short-term for line 1b, 2, or 3, vs. long-term for line 8b, 9, or 10) and the current tax year or else INVALID will appear here in place of your entry (unless you entered Yes for "Bypass date checking?").
- d. Proceeds (sales price).** Enter either gross or net proceeds of the sale here. If you received a Form 1099-B (or equivalent) for the sale, use the amount shown in box 2a. If the amount you enter here is a net figure, be sure not to include the costs of the sale (such as commissions and option premiums) in line e, below. (If a purchased option has expired, make no entry here.) If you sold publicly traded securities after August 9, 1993, you may be able to postpone all or part of the gain if you also bought stock (or a partnership interest) in a Specialized Small Business Investment Company; see the paragraph later in these instructions titled "How to Report Excludable Gains" for details on how to report the sale here.
- e. Cost or other basis.** Enter the net purchase price and any costs of the sale not already reflected in line e, above. If shown on a Form 1099-B, enter the amount in box 3. *TIP: If the asset sold is a capital asset held for personal use, and the sale results in a loss, enter here an amount equal to line e* so that no loss results (because personal losses are not deductible), and enter PERSONAL LOSS at line a. You must report such a sale even though it is not deductible in order to reconcile your Forms 1099-B and 1099-S with the IRS. (If a granted option has expired, make no entry here.) If this is a fund with reinvestment rights, see IRS Pub 564 (*Mutual Fund Distributions*) for details. If you disposed of bonds between interest dates, see IRS Pub 550 (*Investment Income and Expenses*).

**INHERITED PROPERTY.** For property inherited from someone who died in a year other than 2010, the basis is generally the fair market value on the date of death. *For someone who died in 2010, see IRS Pub. 4895 and the special Section 1022 Election.*

- > **TENTATIVE NET.** *(auto-calc)* Computed as line d less line e. (This line is no longer accessible to the user because the IRS now provides line g for negative or positive adjustments.)

**Significant participation net for Form 8582.** *(auto-calc)* Taken as the preceding line if you answered Yes to "Significant participant" previ-

ously. Otherwise, zero. This result is used in Form 8582 to be combined with other significant participation amounts in order to determine whether there is an overall net gain from all significant participation amounts throughout the return combined.

**PRIOR-year unallowed passive loss.** Enter the short-term unallowed passive loss last year for this activity. Although the total prior passive unallowed losses shown on Schedule D are determined automatically during the translation of the prior-year return, you must allocate that total among all activities in these worksheets, guided by the disallowances shown on the previous year's worksheets.

**Net elsewhere for the same activity.** If other transactions for the same passive activity appear elsewhere on the return, you must enter the net gain or loss from all such other transactions here in order for the allocation of unallowed losses among the various worksheets to be performed in strict conformance with the IRS rules. If the sum of the net on this line plus the net shown above for this particular transaction less the prior-year unallowed loss is an overall gain, all losses for this worksheet are allowed in full (and more of the total disallowance on Form 8582 is allocated to other passive activities).

**Unallowed THIS year on Form 8582.** *(auto-calc)* Computed using the math on the IRS worksheets without requiring you to complete them yourself, this result is assured of full accuracy ONLY when you view the worksheet after the final recalculation of the return.

- > **Net passive adjustment.** *(auto-calc)* Computed as "Unallowed THIS year on Form 8582" less "PRIOR-year unallowed loss." The adjustment will be negative if more than the prior-year unallowed loss is disallowed this year. **CAUTION:** *If an amount appears here, be sure to enter 0 for the adjustment code at line b*

**Sec. 1202 exclusion elected.** *(appears ONLY for long-term worksheets, Figure 2-12b)* If you answered Yes to "Qualified small business stock" and elect to exclude some of the gain under section 1202, you must enter here the amount you want to exclude (as a negative number). This entry should normally be no more than half the total sec. 1202 gain. However, for qualified empowerment zone business stock you can exclude up to 60% of the gain provided the stock was acquired after December 21, 2000. See IRS instructions for Schedule D for details. **CAUTION:** *If you make an entry here, be sure to enter S for the adjustment code at line b.*

**Other adjustments (+ or -).** If you have adjustments other than the preceding two, enter the adjustment here. Enter a positive amount to increase the net income or a negative amount to decrease the net income. See the chart on pages 5 and 6 of the IRS 2014 Instructions for Form 8949 for examples. **CAUTION:** *If you make an entry here, be sure to enter an adjustment code for line f, below.*

- f. **Code(s) from instructions.** You must enter a letter code for this line if you will have an adjustment at line g, in order to classify the adjustment for the IRS. **See the chart on pages 6 and 7 of the IRS 2014 Instructions for Form 8949 to determine the codes to enter.** The

codes include code H to exclude part of the gain on the sale of your main home, code S to exclude some of the gain on qualified small business stock under section 1202, and code O for adjustments (negative or positive) not defined by other codes, such as a negative adjustment for prior unallowed losses now allowed and a positive adjustment for losses currently disallowed (including passive activity losses). *TIP: You can enter more than one code, if applicable, but now you must NOT separate code letters with a space or comma, contrary to prior IRS requirements.*

- g. Amount of adjustment.** *(auto-calc)* Computed as the sum of the preceding three amounts for the long-term worksheets (two amounts for the short-term worksheets, which have no Sec. 1202 exclusion).
- h. GAIN OR LOSS.** *(auto-calc)* Computed as "TENTATIVE NET" plus "g Amount of adjustment."

**28% rate gain or loss.** *(auto-calc; appears ONLY for long-term worksheets, Figure 2-12b)* Taken as the preceding line h (GAIN OR LOSS) if you answered Yes to "Is property a collectible?" Otherwise taken as the amount on "1202 exclusion elected" which will be zero if your answer to "Qualified small business stock?" is No.

**Amount for Form 8582 line 3a.** *(auto-calc; appears ONLY for long-term worksheets, Figure 2-12b)* If you answered No to "Portfolio or non-passive?" and TENTATIVE NET is a gain, taken as TENTATIVE NET. Otherwise, zero. *(Although not shown on the screen because of limited space, this amount is also computed for the short-term worksheets.)*

**Amount for Form 8582 line 3b.** *(auto-calc; appears ONLY for long-term worksheets, Figure 2-12b)* If you answered No to "Portfolio or non-passive?" and TENTATIVE NET is a loss, taken as TENTATIVE NET as a positive number. Otherwise, zero. *(Although not shown on the screen because of limited space, this amount is also computed for the short-term worksheets.)*

Several amounts from this worksheet are summed with all other worksheets for the same line and posted to Schedule D itself, including amounts for error checking to let you know whether you need to view the worksheets anew to alter your entries for prior unallowed passive losses or to allow the current-year disallowances to be reallocated among the worksheets.

## Schedule D

**4 Short-term gains and losses from other forms.** Short-term capital gains and losses throughout the return are consolidated here:

**Installment sale gain on Form 6252.** (*Road Map line, supported by Form 6252.*) Any short-term result on Form 6252 that is appropriate for Schedule D is posted here automatically. Five copies of Form 6252 are available for five separate installment sales.

**Short-term net in Form 4684 line 15.** (*Road Map line, supported by Form 4684.*) Any short-term gain or loss resulting from casualties and thefts of personal property is posted here from Form 4684.

**Section 1256 (Form 6781) gain or loss.** (*If Premium Level, Road Map line supported by Form 6781.*) Any short-term gains and losses from section 1256 contracts and straddles is reported here, shown on line 8(b) of Form 6781, which you must file.

**Like-kind exchange (Form 8824) gain or loss.** (*If Premium Level, Road Map line supported by Form 8824.*) If you claim the deferral of any gain under the rules for like-kind exchanges, you must complete Form 8824. The short-term gain or loss resulting on that form is reported here if it applies to Schedule D instead of Form 4797 or Form 6252.

**4 Short-term from other forms.** (*auto-calc*) The net gain or loss from the preceding total lines appears here.

**5 Net short-term gain or loss from Schedule(s) K-1, (f) and (g).** (*Supported by the Schedule K-1 Short-term Gain/Loss Worksheet, Figure 2-13a.*) Access the worksheet with the Itemize Key from line 5(f) or 5(g) to report short-term capital gains and losses reported to you on a Schedule K-1 from partnerships, S corporations, and fiduciaries. The amounts destined for Form 8582 are automatically reflected in the totals that follow line 6.

SCH K-1 SHORT-TM GAIN/LOSS		Sch. K-1 Gain/Loss Worksheets, Short-term and Long-term, Figures 2-13a and 2-13b. ( <i>Supports line 5 for short-term and line 12 for long-term capital gains and losses.</i> )
a. Description		These worksheets are used mainly to report capital gain information that appears on the Schedules K-1 that you receive:
Portfolio or nonpassive?	No	
Significant participant?	No	
Entire interest sold..?	No	
Net income or loss....		0
Sig par net for Form 8582		0
PRIOR-year unallowed loss		0
Net elsewhere for same activity		0
Unallowed THIS yr on 8582		0
<b>h. GAIN or LOSS</b>		<b>0</b>

**Figure 2-13a. Schedule K-1 Short-term Gain/Loss Worksheet**

you receive:

**a. Description.** Identify the entity from which you received the Schedule K-1 in 25 characters or less.

**Portfolio transaction or other nonpassive activity?** You MUST answer Yes here if the property sold is NOT an interest in a passive activity. Otherwise the information reported here may be used on Form 8582. The Schedule K-1 from the payer should identify whether or not the transaction qualifies as a portfolio transaction.

**Significant participant?** If you answered No above, you should answer Yes here if you do not satisfy the requirements for material participation, below, but you can be classified as a significant participant. You are tentatively considered to be a significant participant if you participated in the activity for more than 100 hours but no more than 500 hours during the tax year, but there is an important escape clause in the law. See our instructions for Form 8582 for details.

**Entire interest sold?** If you answered No to the portfolio question, your answer here controls the posting to Form 8582. If you answer Yes, only the gains are posted to Form 8582. If you answer No, both gains and losses are posted to Form 8582.

**THIS worksheet is for 28% rate Gain or Loss?** (*appears ONLY on long-term worksheets for line 12*) The entity that issued you the Schedule K-1 should identify for you which amounts are 28% rate gain or loss. The 28% rate rules now apply only to collectibles and sec. 1202 exclusions.

**Net income or loss.** Enter the amount reported on Schedule K-1. Enter a gain as a positive number and a loss as a negative number.

**Significant participation net for Form 8582.** (*auto-calc*) The preceding net will appear here if you answered Yes to "Significant participant" above.

SCH K-1 LONG-TM GAIN/LOSS	
a. Description	
Portfolio or nonpassive?	No
Significant participant?	No
Entire interest sold..?	No
THIS w/s for 28% rate G/L?	No
Net income or loss....	0
Sig par net for Form 8582	0
PRIOR-year unallowed loss	0
Net elsewhere for same activity	0
Unallowed THIS yr on 8582	0
h. GAIN or LOSS	0
28% rate gain or loss....	0
Unrecaptured sec 1250 gain	0

**PRIOR-year unallowed passive loss.** Enter the short-term unallowed passive loss last year for this activity. (Although the total of all prior unallowed losses is determined automatically during the

Figure 2-13b. Schedule K-1 Long-term Gain/Loss Worksheet

translation of the prior-year return, you must allocate that total among all activities in these worksheets, because the worksheets are intentionally not translated.)

**Net elsewhere for the same activity.** If other transactions for the same passive activity appear elsewhere on the return, you must enter the net gain or loss from all such other transactions here in order for the allocation of unallowed passive losses among the various worksheets to be performed in strict conformance with the IRS rules. If the sum of the net on this line plus the net shown above for this particular transaction is an overall gain, all losses for this worksheet are al-

lowed in full (and more of the total disallowance on Form 8582 is allocated to other passive activities).

**Unallowed THIS year on Form 8582.** *(auto-calc lines)* Computed using the math on the IRS worksheets without requiring you to complete them yourself, this result is assured of *full accuracy ONLY when you view the worksheet after the final recalculation of the return.*

**h. GAIN or LOSS.** *(auto-calc)* Computed as your entry for "Net income or loss" modified by prior-year unallowed passive loss (which reduces the net) and loss unallowed THIS year (which increases the net).

**28% rate gain or loss.** *(auto-calc line, which appears ONLY for long-term worksheets accessed at line 12)* Computed as line h if the answer to the 28% question is Yes, and zero otherwise.

**Unrecaptured sec 1250 gain.** *(appears ONLY on long-term worksheets for line 12)* The entity that issued you the Schedule K-1 should identify for you amounts that are unrecaptured sec 1250 gain. Those amounts are subject to a higher tax rate than other long-term capital gains. This amount is used in the tax computations on Schedule D.

Several amounts from this worksheet are summed with all other worksheets for the same line and posted to Schedule D itself, including amounts for error checking to let you know whether you need to view the worksheets anew to alter your entries for prior unallowed passive losses or to allow the current-year disallowances to be reallocated among the worksheets.

**6 Short-term capital loss carryover from the Capital Loss Carryover Worksheet.** *(auto-calc)* Taken from a result of the *Capital Loss Carryover Worksheet* shown on screen 1 of the current Schedule D, this is the short-term loss carried over from tax year 2013.

**Passive Loss Limitations.** The next set of lines summarize the interaction with Form 8582 for automatic handling of the passive loss rules for short-term (ST) gains and losses on Schedule D. (The gains and losses destined for Form 8582 will include amounts from significant participation activities if the last time you viewed the worksheets there was NOT a net gain for the aggregate of all significant participation activities throughout the return. You may therefore have to reaccess the worksheets if the answer to "Net gain for ALL significant participation activities" on Form 8582 changes after you last view the worksheets.)

**Total ST gain to Form 8582 line 3a.** *(auto-calc)* The sum of gains from the preceding worksheets for passive activities.

**Total ST loss to Form 8582 line 3b.** *(auto-calc)* The sum of losses from the preceding worksheets for passive activities.

**Prior ST passive unallowed loss.** This is the loss carryover from the prior year stemming from passive loss limitations on sales shown on screen 2 of the Schedule D for 2013. This carryover is automatically posted here by the software from the prior-year return when you use the translate feature on a return that has 2013 as the entry for tax year on Form 1040 (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation). *Nevertheless, you must appropriately distribute this total among the worksheets for lines 1b, 2, 3, or*

5 yourself so that the unallowed amounts calculated on the worksheets reflect the proper prorationing among the worksheets. An amount on the line "W/S ERROR in prior unallowed losses," described on the next page, will alert you of the need to do so.

**Passive ST unallowed loss in 2014.** (*Road Map line, supported by Form 8582.*) This disallowance comes automatically from Form 8582, but can only be determined upon the final recalculation of the return. You can access Form 8582 with the Itemize Key at this line, but there is no need to do so because the form is automatically generated and completed upon the final recalculation of the return. Once the return is complete, you may have to view each worksheet for lines 1b, 2, 3, and 5 so that the unallowed losses are reallocated based upon the final return. An amount on the line "W/S ERROR in current unallowed losses," described on the next page, will alert you of the need to do so.

**Significant participation part of prior unallowed losses.** When reporting carryovers for activities that are significant participation activities in 2014, the IRS requires that you include those carryovers in the significant participation net to the extent that they are offset by gains for the same activity. This rule materially affects whether significant participation activities will be classified as passive activities. You must enter here the part of the 2013 carryover that is offset by significant participation gains which you have entered on the worksheets for lines 1b, 2, 3, or 5. (See our instructions for Form 8582 for more details on significant participation activities.)

**W/S ERROR in prior unallowed losses.** (*auto-calc*) Computed as the sum of prior unallowed losses you entered on all the worksheets for lines 1b, 2, 3, and 5, less the total prior unallowed losses shown above (which you entered or "translate" posted). If this result is nonzero, it means that you have not properly allocated the total prior unallowed losses among all the worksheets you have completed. You must return to the worksheets and revise the entries. Your record of unallowed loss for each item for the previous year should guide your entries on the worksheets.

**W/S ERROR in current unallowed losses.** (*auto-calc*) Computed as the sum of unallowed losses computed the last time you viewed the worksheets for lines 1b, 2, 3, and 5, less the total losses unallowed shown above for 2014 (which comes automatically from Form 8582). If this result is nonzero, allocation of unallowed losses on your worksheets is not up to date, so you must view each worksheet so that the unallowed losses can be reallocated.

Note that the handling of the carryovers, significant participation amounts, and pro-rating among different schedules does not require you to complete any IRS passive activity worksheets yourself. However, you must generally view all Gain/Loss Worksheets for lines 1b, 2, 3, and 5 after the final recalculation of the return to ensure that all disallowances are properly reallocated among all transactions based on the final results on Form 8582.

## Schedule D

**7 NET SHORT-TERM CAPITAL GAIN OR LOSS.** *(auto-calc)* This line is ostensibly the sum of all gains and losses in lines 1a through 6. However, the results are modified by a complex interaction with Form 8582, and this line is automatically updated as Form 8582 changes due to recalculations throughout the return. If the worksheets are not up-to-date with this result, an amount will appear on one of the above W/S ERROR lines to alert you that you should view each worksheet to force its calculation to match the latest calculation which appears here.

**Additional step for sec. 1042 elections and SSBIC rollovers.** See the IRS Instructions for Schedule D for the statements you must attach to support the sec. 1042 election or SSBIC rollover.

**How to Report Excludable Gains.** Excludable gains are handled by the adjustments column (g) on IRS Form 8949 and our Gain/Loss Worksheets for Schedule D. You merely identify the type of adjustment as a 1-letter code on line f of the worksheet and enter the amount of adjustment (as a negative number for exclusions) on the line above it. Among other exclusions, this approach applies to the sale of your main home (code H), wash sales (code W), and section 1202 exclusions for qualified small business stock (code S). See pages 5 and 6 of the IRS 2014 Instructions for Form 8949. *(You may have to answer Yes to "Bypass date checking?" for some transactions, but claiming an exclusion is as easy as making the proper entries for line f of the worksheets and the line above it.)*

### **PART II, LONG-TERM CAPITAL GAINS AND LOSSES** (screens 5 through 9).

This section is reserved for capital gains and losses on assets held more than one year. It differs from the short-term section in its additional lines that relate to 28% rate gain or loss and unrecaptured section 1250 gains – a result of the current complex rules for the capital gains tax. Most other lines, however, have a direct parallel in Part I.

**Long-term sales reported on Schedule D alone.** You should report most of your own long-term transactions here except installment sales, which you report on Form 6252. (You will report transactions by partnerships, S corporations, and fiduciaries in which you have an interest at line 12.) Except for transactions that you include in the combined totals at line 8a, you must supply all information on the *Gain/Loss Worksheets* provided by the software at lines 8b, 9, and 10 in the same way as you reported short-term sales at lines 1b, 2, and 3. *Details for the Gain/Loss Worksheets that support these lines are given in the prior shaded pages,* which apply to both short-term and long-term holdings.

**Separate lines for separate Form 1099-B status.** You must separately report transactions based on what information was reported to you by the seller or broker. Lines 8a, 8b, 9, and 10, below, provide this separation, and a separate set of worksheets is available for each line except line 8a.

**8a Certain combined transactions.** This category is reserved for the aggregate of all transactions that satisfy certain conditions and you choose not to include in line 8b. It provides a convenient alternative to itemizing all transactions for the year. *CAUTION: In order for a transaction to be included on this line, it must satisfy the conditions detailed in the shaded box on the third page of these details for Schedule D titled "Alternative to itemizing transactions."*

**d Proceeds (sales price).** Enter the sum of proceeds (box 2a of Form 1099-B) for all transactions that you are reporting on line 8a.

**e Cost or other basis.** Enter the sum of basis (box 3 of Form 1099-B) for all transactions that you are reporting on line 8a.

**h Gain or loss.** *(auto-calc)* Computed as line d *less* line e, this is the net income for all transactions included in line 8a combined.

**8b Long-term transactions reported on Form 1099-B with basis reported to the IRS.** *(Supported by the Long-term Gain/Loss Worksheet, Figure 2-12b, shown previously.)* Itemize this line to report long-term transactions reported to you on a Form 1099-B (or equivalent) *with your basis (usually original cost) shown in box 3 on the form and box 6b checked (indicating that it was reported to the IRS),* other than those included in line 8a, above. The sale of common stock that was both purchased and sold for you by the same broker is usually reported to you this way. *The entries on lines a through h of the worksheets will appear on an official printout of Form 8949, page 2, with box D checked.*

**d Proceeds (sales price).** *(auto-calc)* Computed as the sum of line d of all worksheets for line 8b combined, this total will also appear on line 2(d) of the appropriate page of the printed Form 8949.

- e Cost or other basis.** *(auto-calc)* Computed as the sum of line e of all worksheets for line 8b combined, this total will also appear on line 2(e) of the appropriate page of the printed Form 8949.
- g Adjustments to gain or loss.** *(auto-calc)* Computed as the sum of line g of all worksheets for line 8b combined, this total will also appear on line 2(g) of the appropriate page of Form 8949. This adjustment can be negative or positive.
- h Gain or loss.** *(auto-calc)* Computed as line d *less* line e *plus* line g, this is the net income resulting from all worksheets for line 8b combined, and will also appear on line 2(h) of the appropriate page of Form 8949.
- Section 1202 exclusions for CGD on worksheets.** *(auto-calc)* Computed as the sum of exclusions for all worksheets for line 8b combined.
- 28% rate gain or loss on worksheets.** *(auto-calc)* Computed as the sum of 28% rate amounts for all worksheets for line 8b combined.
- 9 Long-term transactions reported on Form 1099-B but basis not reported to the IRS.** *(Supported by the Long-term Gain/Loss Worksheet, Figure 2-12b, shown previously.)* Itemize this line to report long-term transactions reported to you on a Form 1099-B (or equivalent) for which your basis is shown but box 6b is NOT checked. The sale of common stock that was sold for you by a different broker than the broker who purchased the stock for you is usually reported to you this way. *The entries on lines a through h of the worksheets will appear on an official printout of Form 8949, page 2, with box E checked.*
- d Proceeds (sales price).** *(auto-calc)* Computed as the sum of line d of all worksheets for line 9 combined, this total will also appear on line 2(d) of the appropriate page of the printed Form 8949.
- e Cost or other basis.** *(auto-calc)* Computed as the sum of line e of all worksheets for line 9 combined, this total will also appear on line 2(e) of the appropriate page of the printed Form 8949.
- g Adjustments to gain or loss.** *(auto-calc)* Computed as the sum of line g of all worksheets for line 9 combined, this total will also appear on line 2(g) of the appropriate page of Form 8949. This adjustment can be negative or positive.
- h Gain or loss.** *(auto-calc)* Computed as line d *less* line e *plus* line g, this is the net income resulting from all worksheets for line 9 combined, and will also appear on line 2(h) of the appropriate page of Form 8949.
- Section 1202 exclusions for CGD on worksheets.** *(auto-calc)* Computed as the sum of exclusions for all worksheets for line 9 combined.
- 28% rate gain or loss on worksheets.** *(auto-calc)* Computed as the sum of 28% rate amounts for all worksheets for line 9 combined.
- 10 Long-term transactions not reported on Form 1099-B.** *(Supported by the Long-term Gain/Loss Worksheet, Figure 2-12b, shown previously.)* Itemize this line to report long-term transactions not reported to you on a Form 1099-B (or equivalent). The sale of real estate is nor-

mally reported to you on a Form 1099-S from your real estate broker, not Form 1099-B, and would therefore be reported here. *The entries on lines a through h of the worksheets will appear on an official printout of Form 8949, page 2, with box F checked.*

- d Proceeds (sales price).** *(auto-calc)* Computed as the sum of line d of all worksheets for line 10 combined, this total will also appear on line 4(d) of the appropriate page of the printed Form 8949.
- e Cost or other basis.** *(auto-calc)* Computed as the sum of line e of all worksheets for line 10 combined, this total will also appear on line 4(e) of the appropriate page of the printed Form 8949.
- g Adjustments to gain or loss.** *(auto-calc)* Computed as the sum of line g of all worksheets for line 10 combined, this total will also appear on line 4(g) of the appropriate page of Form 8949. This adjustment can be negative or positive.
- h Gain or loss.** *(auto-calc)* Computed as line d *less* line e *plus* line g, this is the net income resulting from all worksheets for line 10 combined, and will also appear on line 2(h) of the appropriate page of Form 8949.

**Section 1202 exclusions for CGD on worksheets.** *(auto-calc)* Computed as the sum of exclusions for all worksheets for line 10 combined.

**28% rate gain or loss on worksheets.** *(auto-calc)* Computed as the sum of 28% rate amounts for all worksheets for line 10 combined.

The total of sales prices appearing at lines 8a(d), 8b(d), 9(d), and 10(d) must be reconciled with box 2 of the 1099-B and 1099-S forms you receive for long-term sales. *(Lines 1a through 3 of Schedule D, described earlier, are analogous to lines 8a through 10 but designed for short-term transactions.)*

**Maximum sec. 1202 exclusion available in CGD.** *(auto-calc)* Computed as one-half of the sec. 1202 gain included in capital gain distributions reported on line 13 of this schedule, this amount appears after line 13 where the capital gain distributions are reported.

**Sec. 1202 exclusion claimed for CGDs on worksheets.** *(auto-calc)* This is the sum of exclusions shown on worksheets for lines 8b, 9, and 10 identified as exclusions for CGDs.

**ERROR: Excessive exclusion for CGDs.** *(auto-calc)* Computed as the preceding claim less the maximum available. An amount here indicates that either you have claimed too much for the exclusion or you have failed to report the corresponding capital gain distribution and its sec. 1202 part at line 13.

**TIP: Additional CGD exclusion available.** *(auto-calc)* Computed as the maximum available in CGD less the total claimed on the worksheets. An amount here indicates that you are eligible to claim more than you have already claimed for CGDs on the worksheets.

**28% Rate Gain/Loss in 8b through 10.** *(auto-calc)* The net gain or loss from all worksheets identified as subject to the 28% rate rules is posted here. (Line 8a is intentionally omitted because collectibles do not qualify to be included in line 8a.)

The totals for sales prices appearing at lines 8a(d), 8b(d), 9(d), and 10(d) must be reconciled with box 2 of the 1099-B and 1099-S forms you receive for long-term sales.

**11 Long-term gains and losses from other forms.** Long-term capital gains and losses throughout the return are consolidated here:

**Gain from Form 4797, line 7 or 9.** (*Road Map line, supported by Form 4797.*) See the IRS instructions for line 9 of Form 4797 for an explanation of the amount that is automatically transferred here.

**28% rate gain in Form 4797, line 7 or 9.** The IRS does not provide for 28% gain or loss on Form 4797, but this line is here for completeness.

**RIC or REIT gain from Form 2439.** If you received a Form 2439 as a shareholder in a regulated investment company (RIC) or real estate investment trust (REIT), you must report here the gain on line 1a of that form. *TIP:* If an amount appears on line 2 of the form, you can claim that amount as a credit at line 71a of Form 1040 because it is the amount of tax already paid on this gain by the investment company.

**28% rate gain in Form 2439.** Enter the part of the above line that stems from 28% rate gain or loss, which should be shown in box 1d of the Form 2439 you received.

**Installment sale gain on Form 6252.** (*Road Map line, supported by Form 6252.*) Any long-term result on Form 6252 that is appropriate for Schedule D is posted here automatically. Five copies of Form 6252 are available for five separate installment sales.

**28% rate part of Form 6252.** (*Road Map line, supported by Form 6252.*) The part of the above line that stems from 28% rate gain or loss is posted here.

**Long-term net in Form 4684 line 15.** (*Road Map line, supported by Form 4684.*) Any long-term gain or loss resulting from casualties and thefts of personal property is posted here from Form 4684.

**28% rate part of Form 4684.** (*Road Map line, supported by Form 4684.*) The part of the above line that stems from 28% rate gain or loss is posted here.

**Section 1256 gain or loss from Form 6781.** (*If Premium Level, Road Map line supported by Form 6781.*) If you claim the deferral of any gain under the rules for like-kind exchanges, you must complete Form 8824. The long-term gain or loss resulting on that form is reported here if it applies to Schedule D instead of Form 4797 or Form 6252.

**28% rate part of Form 6781.** (*If Premium Level, Road Map line supported by Form 6781.*) Enter the part of the above line that stems from 28% rate gain or loss.

**Like-kind exchange gain or loss from Form 8824.** (*If Premium Level, Road Map line supported by Form 8824.*) If you claim the deferral of any gain under the rules for like-kind exchanges, complete Form 8824. Any long-term gain or loss resulting on that form is reported here.

**28% rate part of Form 8824.** *(If Premium Level, Road Map line supported by Form 8824.)* This is the part of the total for like-kind exchanges that stems from 28% rate gain or loss.

**11 Long-term amounts from other forms.** *(auto-calc lines)* The net gain or loss from the above entries appears here, for all transactions combined.

**28% rate gain or loss in line 11.** *(auto-calc)* The sum of the preceding amounts for 28% rate gain or loss appears here.

**12 Net long-term gain or loss from Schedule(s) K-1.** *(Supported by the Schedule K-1 Long-term Gain/Loss Worksheet, Figure 2-13b.)* Access the worksheet with the Itemize Key from this line to report long-term capital gains and losses reported to you on a Schedule K-1 from partnerships, S corporations, and fiduciaries. *Details for the Gain/Loss Worksheets that support these lines are given in the prior shaded pages,* which apply to both short-term and long-term holdings. The amounts destined for Form 8582 are automatically reflected in the totals that follow line 14.

**28% rate gain or loss in line 12.** *(auto-calc)* The sum of 28% rate gain or loss in the supporting worksheets appears here.

**13 Capital gain distributions.** Capital gain distributions for this line come from two sources, as follows.

**Reportable CGD from Schedule B.** *(Road Map line, supported by Schedule B.)* Taken from the line on our Schedule B labeled "Net taxable CGD," this is the total of capital gain distributions you reported on 1099-DIV Worksheets less the part for a nominee.

**28% rate part of Schedule B.** *(auto-calc, supported by Schedule B.)* The part of the reportable CGD from Schedule B that stems from 28% rate gain or loss is posted here.

**Section 1202 gain part of Schedule B.** *(auto-calc, supported by Schedule B.)* The part of reportable CGD from Schedule B that is identified as sec. 1202 gain is posted here.

**Reportable CGD from Form 8814.** *(Road Map line, supported by Form 8814.)* Your entries on Forms 8814 for the capital gains distributions received by your children are summed and posted here. The nominee part has already been subtracted on Form 8814 from the total.

**28% rate part of Form 8814.** *(auto-calc, supported by Form 8814.)* The part of reportable CGD from Form 8814 that stems from 28% rate gain or loss is posted here.

**Section 1202 gain part of Form 8814.** *(auto-calc, supported by Form 8814.)* The part of the reportable CGD from Form 8814 that is identified on the 1099-DIV worksheets on Form 8814 as sec. 1202 gain is posted here.

**Reportable CGD from other.** Enter any capital gain distributions not included on the preceding lines, excluding any amount attributable to a nominee. The IRS now allows you to report capital gain distributions directly on Schedule D without completing Schedule B. However, we still recommend that you complete Schedule B and supply all information on our Form 1099-DIV Worksheets so that we can ensure that

all information on the Forms 1099-DIV you receive is properly used throughout the return.

**28% rate gain part.** Enter the part of the reportable CGD from other that is 28% rate gain.

**Section 1202 gain part of other.** Enter the part of the reportable CGD from other that is sec. 1202 gain eligible for a 50% exclusion.

**13 Capital gain distributions.** *(auto-calc)* Computed as the sum of total reportable capital gain distributions above, this amount appears on line 13(f) of a printout of Schedule D.

**28% rate gain part of line 13.** *(auto-calc.)* Computed as the sum of the 28% rate gain parts for the preceding three sources of your capital gain distributions.

**Section 1202 gain part of line 13.** *(auto-calc.)* Computed as the sum of the section 1202 gain parts for the preceding three sources of your capital gain distributions.

**Section 1202 exclusions allowable on lines 8b, 9, and 10.** *(auto-calc.)* Computed as one-half of the sec. 1202 part of line 13, this is the maximum amount of CGD that can be excluded from taxable gain under IRS Section 1202 (on worksheets for lines 8b, 9, and 10).

**14 Long-term capital loss carryover from Capital Loss Carryover Worksheet.** *(auto-calc)* Taken from line 13 of the Capital Loss Carryover Worksheet shown on screen 1 of the current Schedule D, this is the long-term loss carried over from tax year 2013.

**28% rate part of line 14.** *(auto-calc)* This amount is the same as line 14 because all loss carryovers are subject to the 28% rate rules.

**Passive Loss Limitations.** The next set of lines summarize the interaction with Form 8582 for automatic handling of the passive loss rules for long-term (LT) gains and losses on Schedule D. *These lines directly parallel the lines for short-term amounts detailed previously, so the entries are described only briefly here. See the instructions in the earlier short-term section for more detail.*

**Total LT gain to Form 8582 line 3a.** *(auto-calc)* The sum of gains from the preceding worksheets for passive activities.

**Total LT loss to Form 8582 line 3b.** *(auto-calc)* The sum of losses from the preceding worksheets for passive activities.

**Prior LT passive unallowed loss.** This is the loss carryover translated from the prior-year return from passive loss limitations on sales reported on screen 7 of the Schedule D for 2013. Analogous to the short-term amounts, you must appropriately distribute this total among the worksheets for lines 8b, 9, 10, and 12 yourself so that the unallowed amounts calculated on the worksheets reflect the proper prorationing among the worksheets. If you fail to do so, a W/S ERROR will appear below to alert you of your omission.

**Passive LT unallowed loss in 2014.** *(Road Map line, supported by Form 8582.)* This disallowance comes automatically from Form 8582, but can only be determined upon the final recalculation of the return.

**Significant participation part of prior unallowed losses.** You must enter here the part of the 2013 carryover that is offset by significant par-

ticipation gains which you have entered on the worksheets for lines 8b, 9, 10, or 12.

**W/S ERROR in prior unallowed losses.** *(auto-calc)* Computed as the sum of prior unallowed losses you entered on all the worksheets for lines 8b, 9, 10, and 12, less the total prior unallowed losses shown above (which you entered or "translate" posted). *If this result is nonzero, it means that you have not properly allocated the total prior unallowed losses among all the worksheets you have completed.* You **MUST** return to the worksheets and revise the entries. Your record of unallowed loss for each item for the previous year should guide your entries on the worksheets.

**W/S ERROR in current unallowed losses.** *(auto-calc)* Computed as the sum of unallowed losses computed the last time you viewed the worksheets for lines 8b, 9, 10, and 12, less the total losses unallowed shown above for 2014 (which comes automatically from Form 8582). *If this result is nonzero, you MUST return to all the Gain/Loss Worksheets so that their disallowances can be recalculated based on the final return.* This recalculation is automatic when you view each worksheet.

Note that the handling of the carryovers, significant participation amounts, and pro-rating among different schedules does not require you to complete any IRS passive activity worksheets yourself. However, you must generally view all *Gain/Loss Worksheets* for lines 8b, 9, 10, and 12 after the final recalculation of the return to ensure that all disallowances are properly reallocated among all transactions based on the final results on Form 8582.

**28% gain or loss in lines 8b through 14.** *(auto-calc)* Computed as the sum of the 28% rate part of lines 8b through 14, this amount is used in figuring the amounts for Schedule D lines 19 and 20. (Line 8a is intentionally omitted because collectibles do not qualify to be included in line 8a.)

**15 NET LONG-TERM CAPITAL GAIN OR LOSS.** *(auto-calc)* This line is ostensibly the sum of all gains and losses in lines 8a through 14. However, the results are modified by a complex interaction with Form 8582, and this line is automatically updated as Form 8582 changes due to recalculations throughout the return. If the worksheets are not up-to-date with this result, an amount will appear on one of the above W/S ERROR lines to alert you that you should view each worksheet to force its calculation to match the latest calculation which appears here.

**PART III, SUMMARY OF PARTS I AND II (screens 10 and 11).** All short-term and long-term gains and losses are combined here into a net amount:

**16 Combine lines 7 and 15. (*auto-calc*)** Computed as the sum of lines 7 and 15. If a net gain, it is posted to line 13 of Form 1040. If a loss, you can skip most of the following lines and proceed to line 21; you have no capital gains, but you have a loss subject to limitation.

**17 Are lines 15 and 16 BOTH gains? (*auto-calc*)** If Yes, you must complete the rest of this schedule. If No, you can skip lines 18 through 21 and proceed to line 22 because you have no capital gains to be taxed at a lower rate.

**INFORMATION FOR TAX COMPUTATIONS.** If both lines 15 and 16 of Schedule D are gains or you have any qualified dividends on line 9b of Form 1040, then tax computations are performed using the *Schedule D Tax Worksheet*, even though the IRS does not always require its use. This worksheet provides the most complete computations involving capital gains because it handles all possible cases, from the most complex cases that require the use of the worksheet to the simple cases covered by the *Qualified Dividends and Capital Gain Tax Worksheet* provided in the IRS Form 1040 Instructions for line 44. You must therefore ensure that the following information is accurate in order for the tax computation for line 44 of Form 1040 to be accurate. Once you supply all required information, the software has all the information to ensure the accurate computation of tax upon the final recalculation of the return.

**Qualified dividends on Form 1040, line 9b. (*auto-calc, supported by Schedule B*)** These dividends qualify for the lowest capital gains tax rates, and should be shown on Form 1040, as indicated.

**Below information required for Form 1040 tax? (*auto-calc*)** The answer will be Yes *only* if *both* lines 15 and 16 of Schedule D are gains *OR* you have qualified dividends on line 9b of Form 1040. If Yes, the lower tax computed using the *Schedule D Tax Worksheet* will be used in place of the conventional tax for Form 1040.

**Adjustment required if you file Form 4952.** The following entries are required whenever Form 4952 (Investment Interest Expense) is a part of the return in order to properly compute the tax.

**Form 4952, line 4e (or elected amount). (*If Standard or Premium Level, Road Map line supported by Form 4952.*)** Capital gains no longer automatically qualify as investment income when computing deductible investment interest on Form 4952. However, you can elect to include these gains in Form 4952 if you agree to have them taxed at your regular tax rate rather than the more favorable capital gains tax rates. The amounts on line 4e and 4g of Form 4952 are therefore used in the tax computation. Line 4e is the net capital gain from property held for investment, and is usually reported here unmodified. However, you may want to reduce the part of 4e attributable to 4g if you file Form 1116, in which case you would report a lesser amount

here. See IRS Instructions for Form 1116 for details. It is used for line 4 of the Schedule D Tax Worksheet.

**Form 4952, line 4g.** (*If Standard or Premium Level, Road Map line supported by Form 4952.*) This is the amount you elect to include in investment income. It is used for line 25 of Schedule D, Part IV, and line 3 of the Schedule D Tax Worksheet.

**28% Rate Gain Worksheet.** This IRS worksheet is computed on the basis of the information shown below, resulting in the gain subject to the highest capital gains tax.

**28% rate net in lines 8b through 14.** (*auto-calc*) Computed in accordance with the 28% Rate Gain Worksheet, this is the sum of 28% rate gain or loss in lines 8b through 14.

**Adjustments to Schedule D total.** An adjustment should rarely be necessary but is provided for completeness.

**Net loss in Schedule D, line 7.** (*auto-calc*) Computed as indicated if line 7 shows a loss.

**28% rate net for line 18.** (*auto-calc*) Computed as the sum of the first two amounts less the third amount. If a gain, this amount is used for line 18 of Schedule D.

**Unrecaptured Section 1250 Gain Worksheet.** This IRS worksheet is computed on the basis of the information shown below, resulting in a gain that is the part of long-term capital gains that stems from depreciation taken but not recaptured as short-term gain. It is taxed at a 25% tax rate.

**Adjusted unrecaptured section 1250 gain in Form 4797, Part I.** (*Road Map line, supported by Form 4797.*) Taken from the results computed following the Part III Summary for Form 4797, this is the amount of unrecaptured section 1250 gain reported in Part I of Form 4797, including amounts reported in Part III of Form 4797 and amounts flowing to Form 4797 through Form 6252 and amounts reported to you on a Schedule K-1 from partnerships and S corporations, limited by net long-term gains on a property-by-property basis. All adjustments are computed in accordance with the IRS's Unrecaptured Section 1250 Gain Worksheet.

**Unrecaptured section 1250 gain from Forms 1099-DIV.** (*auto-calc line, supported by Schedule B and Form 8814.*) Taken from the 1099-DIV worksheets you completed on Schedule B and Form 8814, this is the part of your reportable capital gain distributions that stems from depreciation of sec. 1250 property.

**Unrecaptured section 1250 gain in line 12 from Schedules K-1.** (*auto-calc line, supported by Schedule B and Form 8814.*) Taken from the Sch. K-1 Worksheets for line 12, this is the unrecaptured sec. 1250 gain reported to you by estates and trusts.

**Other unrecaptured section 1250 gain.** Enter here unrecaptured section 1250 gains not included in the preceding lines but reported to you by an estate, trust, real estate investment trust, or mutual fund. (Amounts reported to you by partnerships and S corporations must be entered in the Part III Summary of Form 4797, not here.)

## Schedule D

**Net loss in 28% rate net.** *(auto-calc)* This adjustment is the net loss, if any, in the combination of 28% gain or loss in lines 8b through 14, the adjustment entered previously for 28% rate amount, and any loss on line 7.

**Unrecaptured section 1250 gain for line 19.** *(auto-calc)* Computed as the sum of the three sec. 1250 lines less the adjustment figured in accordance with the IRS Unrecaptured Section 1250 Gain Worksheet. This result is the total amount taxed at a maximum rate of 25% rather than the more favorable rates on other long-term gains.

**PART III concluded.** The rest of the official form is automatic, but provides you with access to the Schedule D Tax Worksheet if you want to see how the tax computations are performed.

**18 Amount from 28% Rate Gain Worksheet.** *(auto-calc)* Taken as "28% rate net for line 18" if that amount is a gain and the answer to line 17 is Yes; otherwise, zero.

**19 Amount from Unrecaptured Section 1250 Gain Worksheet.** *(auto-calc)* Taken as "Unrecaptured section 1250 gain for line 19" if the answer to line 17 is Yes; otherwise, zero.

**MUST you use the Schedule D Tax Worksheet?** *(auto-calc)* Determined from the entries on the preceding lines of Part III, the answer shows you when the IRS requires that the worksheet be used. However, as explained earlier, we use the worksheet under a broader range of circumstances than the IRS requires. Nevertheless, the computation results and printout are the same.

**Itemize to see Schedule D Tax Worksheet.** *(Road Map line, supported by Schedule D Tax Worksheet.)* While you can access and view the Schedule D Tax Worksheet through this line, there is no need to do so (other than curiosity) because it is fully automatic, including its automatic creation. This worksheet is completed and meaningful whenever *any* capital gains tax is computed for the return, even though the IRS requires the worksheet only in certain cases (as described in the next line). It provides the most complete calculation of tax and is correct under all circumstances. While it does not print with the return when you choose to print Complete Returns or All Forms Prepared, you can get a complete printout of the Schedule D Tax Worksheet by choosing to print it alone from our Print Menu.

**20 Are lines 18 and 19 BOTH zero?** *(auto-calc)* If Yes, you are not required to use the *Schedule D Tax Worksheet*, but it is used by the software anyway in lieu of the IRS's more restrictive *Qualified Dividends and Capital Gain Tax Worksheet*, as explained before. If No, you are required to use the *Schedule D Tax Worksheet*. In either case, you can skip lines 21 and 22 below.

**21 Loss deductible this year.** *(auto-calc)* If line 16 shows a loss, it is limited here to \$3,000 (\$1,500 if married filing separately) then posted to line 13 of Form 1040.

**22 Do you have qualified dividends on Form 1040, line 9b?** *(auto-calc)* If Yes, you are instructed to use the *Qualified Dividends and Capital*

*Gain Tax Worksheet* to compute the tax on Form 1040, but we use the less restrictive *Schedule D Tax Worksheet* instead.

**RECONCILIATION.** *(Optional)* Even though the IRS no longer provides a line for it, we still recommend that you reconcile your Schedule D entries with sales reported to you on Forms 1099-B (for stock sales) and 1099-S (for real estate sales). None of the following entries appear on a paper or e-file return. Instead, they are provided for your own use to ensure that you have reported on Schedule D all transactions reported to you.

**Total sales on lines 1a through 3, and 8a through 10.** *(auto-calc)* Taken from column (d) of the indicated lines, this is the total of all sales reported on the *Gain/Loss Worksheets* for Schedule D and the new lines 1a and 8a.

**Total sales on Forms 1099-B and 1099-S.** Enter here the total of all sales prices reported on the Forms 1099-B and 1099-S you received for the year that must be reported on Schedule D. *You should NOT report the sale of your main home if all of the gain on the sale was excluded, and should not include the sales amount here.*

**Difference (itemize BELOW if not zero).** *(auto-calc)* Computed as the difference between the above two lines.

**Difference explained (itemize).** You can justify any difference shown above in a supporting statement for this line. For example, a difference could exist if you did not receive a Form 1099-B (or equivalent) or 1099-S until the year after the year of sale. You could also explain here any special gain calculations, such as why the basis is different from the cost for the sale of property that was inherited, received as a gift, or as a result of a tax-free exchange or involuntary conversion. *TIP: The IRS does not provide for an explanation for e-file, and ignores it if you supply one.*

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Schedule E / Supplemental Income and Loss

**Who is it for?** This schedule is an omnibus form for certain types of income not reported elsewhere. You **MUST** file Schedule E if you own rental property, receive royalties, or receive income reported to you on a Schedule K-1 from a partnership or S corporation, an estate or trust, or farming or fishing. Schedule E is accessible through the Road Map at line 18 of Form 1040.

**Use one Schedule E for all your properties.** The IRS requires that the totals from all your properties appear on one and only one Schedule E. In order to most conveniently handle this requirement without limiting the number of properties you can handle, the software provides special worksheets to support Schedule E, with a separate worksheet page available for each separate property, for as many properties as you need to report. The totals required by the IRS are printed on the main form, and the property-by-property details are printed in extra copies of page 1 of Schedule E.

**Qualified joint ventures must use Schedule E for rental real estate income.**

If you elect treatment as a husband-wife qualified joint venture instead of a partnership for your rental real estate income that is not subject to self-employment tax, you must now use Part I of Schedule E to report the income. This is contrary to former rules that applied to tax years before 2011 which required you to use Schedule C for the rental real estate income and check a box on Schedule C. With the income now reported on Schedule E, it is not subject to self-employment tax but is generally subject to passive loss limitation rules.

**When Schedule C is required instead of Schedule E.** Even when your income is from rental real estate or royalties, you must report it on Schedule C instead of Schedule E for the following cases:

- ◆ Your rental real estate income is incidental to the main services you provide.
- ◆ The rental period is less than 30 days and you provide significant other services to the renter.
- ◆ You are reporting rental real estate income, but you sell real estate as a business. (Exception: Use Schedule E if the rental real estate is for your own investment portfolio and not a part of the real estate business.)
- ◆ You hold an interest in the actual operation of the property for which you receive the royalties.
- ◆ Your royalties are associated with your profession as a writer, artist, etc.

**Form 1099 questions.** In an attempt to enforce the use of Form(s) 1099 to report payments to independent contractors and certain other recipients, two questions appear at the top of Schedule E.

**A Did you make any payments in 2014 that would require you to file Form(s) 1099?** If so, you must answer Yes here and answer the next question. For example, payments to individuals would generally be reported on a Form 1099-MISC filed with the IRS, with a copy to the individual. (You do not generally report payments to companies.) For

a list of different types of Forms 1099 and the filing requirements for each, see the helpful chart at the end of the IRS *2014 General Instructions for Certain Information Returns* (titled i1099gi.pdf in the IRS documents section of your *Tax Preparer Control Panel* or the IRS's own website).

**B If "Yes," did you or will you file all required Forms 1099?** You must answer this question if you answered Yes to line A. Otherwise, your answer is ignored and neither the Yes box nor the No box will be checked on the official printout of Schedule E. (There are stiff penalties for not filing Forms 1099 when you are required to do so.)

### **PART I, INCOME OR LOSS FROM RENTAL REAL ESTATE AND ROYALTIES.**

This section of Schedule E is used to report income from both rental property you own or control and royalties. Rental property for this section includes rental real estate and personal property. Royalties include payments on copyrights of literary or artistic works you own, and payments on oil, gas, and other mineral properties you own.

**ITEMIZE BELOW to support lines 1 through 22.** Details for ALL property MUST be reported in the *Rental/Royalty Worksheets*, which are accessed by itemizing either line 3 or line 4, as explained below. The information you enter in the worksheets is printed directly on the official Schedule E, using multiple copies of Schedule E, page 1, when more than three properties are reported.

**1 and 2.** No data are shown for these lines and no entries can be made here. You must enter all information on the worksheets that are accessible from lines 3 and 4, below.

**3 Rents received.** (*Supported by the Rental/Royalty Worksheet, Figures 2-14a through 2-14d.*) You *MUST* provide property-by-property details on the worksheets you access by itemizing this line and completing lines 1 through 22 on the worksheets. The total that appears here is the sum of line 3 for all worksheets identified for rental real estate, and appears at line 23a as well.

**4 Royalties received.** (*Supported by the Rental/Royalty Worksheet, Figures 2-14a through 2-14d.*) You *MUST* provide property-by-property details on the worksheets you access by itemizing this line and completing lines 1 through 22 on the worksheets. The total that appears here is the sum of line 4 for all worksheets identified for royalties, and appears at line 23b as well.

**5 through 11.** No amounts are shown for these lines and no entries can be made here. You must enter all data on the worksheets that are accessible from lines 3 and 4, above.

**12 Mortgage interest paid to banks, etc.** (*auto-calc*) Computed as the sum of line 12 from all *Rental/Royalty Worksheets*, this line is shown separately here to remind you of the potential need to explain it in a supporting statement. The total on this line also appears at line 23c.

**Itemize line 12 if there is a discrepancy with Forms 1098.** Even though line 12 is an auto-calc line, it is accessible for you to itemize to pro-

vide an explanation if its total is more than the total of all Forms 1098 that you receive from lenders. See IRS Pub. 535 for guidelines. *Exception for e-file: Under the current IRS e-file format, any explanation you provide here is ignored.*

**13 Other interest. Itemize here (name/address) if the Form 1098 was received by another.** No amount is shown here, but if line 13 on any of the worksheets includes any amount reported on a Form 1098 received by another person with whom you share the interest expense, show the name and address of that person in a supporting statement for this line. *Exception for e-file: The software does not support this statement for e-file. If you must create a supporting statement for this line, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

**13 through 17.** No amounts are shown for these lines and no entries can be made here. You must enter all data on the worksheets that are accessible at lines 3 and 4.

**18 Depreciation expense or depletion.** Line 18 is special because depreciation must be claimed on Form 4562, but Form 4562 does not identify which amounts on the form apply to which *Rental/Royalty Worksheets* on Schedule E. Consequently, it is your responsibility to allocate depreciation calculated on Form 4562 among the worksheets through your entries on line 18a of the worksheets.

**18 a-Depreciation (from Form 4562).** (*Road Map line, supported by Form 4562.*) This line is reserved FOR RENTALS ONLY. When you access Form 4562 here with the Itemize Key, you automatically access the copy of Form 4562 that is linked to Schedule E. When you first complete this copy of Form 4562, you should type "Rental property on Schedule E" as the entry for Business or activity. When you complete depreciation worksheets for Form 4562, identify each property the same way you do on the Rental/Royalty Worksheets. CAUTION: You MUST allocate the total depreciation that appears here among the properties reported on the Rental/Royalty Worksheets yourself, so we recommend you use the Quick Print Key to generate a printout of each depreciation worksheet. (When you return from Form 4562, the total depreciation on that form is posted to line 18a of Schedule E. Note that amortization is not posted to any line on Schedule E because amortization on Form 4562 is not relevant to Schedule E. In addition, investment property, and therefore rental property reported here, is not eligible for the Sec. 179 expense deduction on Form 4562.)

**18 b-Depletion (your entry).** This line is reserved FOR ROYALTIES ONLY. Enter here the sum of all depletion to be reported on the worksheets. (Your manual entry is required here because the IRS shares line 18 for both depreciation and depletion, and the calculations must know them separately.) WARNING: You must enter total depletion here AND allocate it among the supporting Rental/Royalty Worksheets to

*ensure the proper printouts and the proper application of the passive loss rules.*

**18 Depreciation expense or depletion.** *(auto-calc)* The sum of lines 18a and 18b. The total on this line also appears at line 23d. **CAUTION:** *If the total on this line does not match the sum of line 18 of all Royalty/Rental Worksheets combined (which you can see on an official printout of Schedule E), you must return to the worksheets and correct their entries on lines 18a and 18b so that the sum of amounts on line 18a of all worksheets combined matches the total for line 18a from Form 4562 (above) and the sum of amounts on line 18b of all worksheets combined matches your entry for line 18b (above).*

**19 Describe other.** The IRS provides only one line for expenses not listed in lines 5 through 18. However, you determine the label for this line through your text entry here. Their intent is for you to use their predefined categories for all but the most unusual expenses. Be sure to choose a description (in 25 characters or less) that is generic enough to apply to all amounts you enter on line 19 of the worksheets. **TIP:** *For a paper return you can break down the amounts for line 19 in a supporting statement for this line. Pressing F10 to access a general itemized list and provide any additional details for line 19 that you want the IRS to see. The support will be cross-referenced on the official printout. (For an e-file return you will not be able to break down the amounts for line 19.)*

**20 Total expenses. Add lines 5 through 19.** Although the IRS form does not show the totals for rental real estate separately from those for royalties, they are kept separate on the screen so that the software can properly automate all calculations.

**20 a-Rental expenses on lines 5 through 19.** *(auto-calc; supported by the Rental/Royalty Worksheet, Figures 2-14a and 2-14b.)* Taken from line 20a of all worksheets combined, this total may not be correct if you did not update your entries on line 18a of the worksheets to match the total from Form 4562 on screen 2 of our Schedule E for line 18a. See our instructions for line 18.

**20 b-Royalty expenses on lines 5 through 19.** *(auto-calc; supported by the Rental/Royalty Worksheet, Figures 2-14a and 2-14b.)* Taken from line 20b of all worksheets combined, this total may not be correct if you did not update your entries on line 18b of the worksheets to match the total you entered on screen 2 of our Schedule E for line 18b. See our instructions for line 18.

**20 Total expenses.** *(auto-calc)* Computed as the sum of the preceding two lines, this is the total of all expenses on lines 5 through 19 of the worksheets for all worksheets combined. The total on this line also appears at line 23e. **CAUTION:** *This total may not be correct if you did not update your entries on the Rental/Royalty Worksheets to match the entries on lines 18a and 18b on screen 2 of our Schedule E.* See our instructions for line 18.

Schedule E

21 Subtract line 20 from line 4. *(auto-calc)* Computed as indicated, this is the income or loss from all rental real estate and royalties combined before the application of passive loss limitations.

**Net income for profit rentals.** *(auto-calc)* This is the net income shown on the Rental/Royalty Worksheets *for profit rental properties* alone (without regard to PRIOR unallowed losses). The net income for loss properties is determined by comparing this amount to the net for all properties.

**Net income for profit royalties.** *(auto-calc)* This is the net income shown on the Rental/Royalty Worksheets *for profit royalty properties* alone. The net income for loss properties is determined by comparing this amount to the net for all properties.

Details follow for the worksheets cited above.

Rental/Royalty Worksheet, Figures 2-14a through 2-14d. This worksheet not only supports lines 1 through 22 but also summarizes the expenses detailed elsewhere (such as depreciation on Form 4562) to provide the complete profit and loss picture needed for the proper application of the passive loss limitations. *You must take extra care in completing the worksheets for rentals to ensure that the proper amounts are posted to the proper lines of Form 8582.*

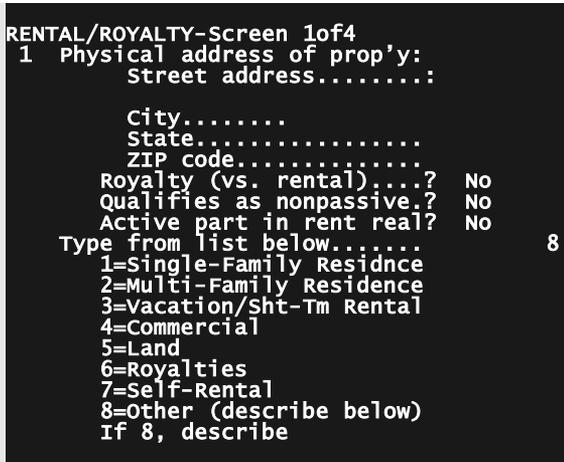


Figure 2-14a. Rental/Royalty Worksheet, Screen 1

**1 Physical address of property:**

**Street address.** *(for rental property only)* You must enter the physical location of the property in this and the next line. Enter here the street address in 25 characters or less. **CAUTION:** *Make no entry here nor on the next 3 lines if this worksheet is used for royalty income.*

**City.** *(for rental property only)* Enter the city in 22 characters or less.

**State.** *(for rental property only)* Enter the 2-letter postal code for the state. **CAUTION:** *For a translated return, no entry will appear here because of a change in format; you must enter the state manually.*

**ZIP code.** *(for rental property only)* Enter the ZIP code in the standard xxxxx-xxxx or xxxxx format. **CAUTION:** *For a translated return, no entry will appear here because of a change in format; you must enter the ZIP code manually.*

**Royalty (vs. rental)?** Answer Yes if this worksheet page relates to royalty income. *TIP: For royalty income you would normally answer Yes to the following question as well, since royalty income is usually portfolio income and therefore nonpassive.*

**Qualifies as nonpassive?** Answer Yes if the passive property qualifies for an exemption from the passive loss rules. Do NOT answer Yes just because you think you are not subject to the passive loss limitations due to your income level; the software will decide through Form 8582 whether you qualify for such an exception upon the recalculation of the return, and the property must retain the proper classification for use in other parts of Form 8582. *Most royalty property qualifies as nonpassive, but rarely does rental real estate except in the year of sale.* Except for low-income housing, rental real estate is considered passive activity property, even though it gets potentially more favorable treatment than other properties under the passive loss rules. **EXCEPTION IN THE YEAR OF SALE:** *If the sale constituted an entire disposition of the property, and you have an overall loss for that property throughout the return, including prior unallowed losses, you must reclassify the passive property as nonpassive property in the year of sale.* (Property with an overall loss, including the sale, qualifies as nonpassive property for the year of sale, and the previously disallowed losses are allowed in full. Property with an overall gain retains its passive classification, and it qualifies for use on Form 8582 to offset passive losses from other properties.) **Exception for real estate professionals:** *For any year in which you are a real estate profession, rental activities in which you materially participate are NOT passive activities. See Pub. 527 for other details for real estate professionals.*

**Did you actively participate in the operation of the rental real estate activity during the tax year?** This question can legitimately be answered Yes FOR RENTAL REAL ESTATE ONLY. To answer Yes you must have significantly participated in making management decisions or arranging for others to provide needed services to renters. ALL real estate rental activities are reported on Form 8582 whether or not you actively participate, but the losses qualify for potentially more favorable treatment if you do actively participate. (*"Material participant" and "significant participant" classifications are not relevant for rental real estate activities because they are ALWAYS classified as passive.*)

**Type from list below.** The IRS has defined 8 codes (from 1 to 8) from which you can make an entry here. If you answered Yes for "Royalty (vs. Rental)?" above, this entry is automatically 6 (the code for Royalties). Otherwise, you can enter any number from 1 to 8, where 8 (the code for Other) is selected for you if you make no entry. *The eight IRS codes are:*

**1 = Single-Family Residence.** For information on renting residences (which applies to types 1, 2, and 3), see IRS Pub. 527 (*Residential Rental Property*).

- 2 = Multi-Family Residence.
  - 3 = Vacation/Short-Term Rental. This code applies to dwellings that you use as your home part of the time and rent out the rest of the time, or dwellings that are used for short-term rental.
  - 4 = Commercial.
  - 5 = Land.
  - 6 = Royalties. This code is automatically used if you identified the worksheet as applying to royalty income rather than rental income.
  - 7 = Self-Rental. This code is intended to indicate a rental to a business you own (or in which you materially participate).
  - 8 = Other (describe below). This code is automatically used if you identified no other code and the worksheet is not identified for royalty income. If you choose this code, you must complete the next line.
- If 8, describe. Describe the "other" type in 25 characters or less. Although the IRS does not provide a place on the official form for this entry, we have cleared an area on the printout below line 2 to print your entry from the 3 worksheets that apply to the page.

2 For each rental real estate... The following entries are intended *only for rental real estate*, so you should leave these lines at the default zeros and No.

**Number of fair rental days.** (*for rental property only*) Enter the number of days during the tax year that you rented the property at fair rental value.

**Number of personal use days.** (*for rental property only*) Enter the number of days during the tax year that you used the property for your own personal use. If more than 14 days, you may not be able to deduct all your rental expenses. See IRS 2014 Instructions for Schedule E for details.

**Qualified joint venture?** (*for rental property only*) Answer Yes *only* if you are a husband-wife team that elected to be treated as a Qualified Joint Venture (QJV) for the purposes of your rental income, and you are not subject to self-employment tax on the income.

**INCOME:**

3 Rents received.  
*(for rental pro-property only)* Enter all rental income received during the tax year on this line, including amounts reported to you on Forms 1099-K for 2014.

```

RENTAL/ROYALTY-Screen 2of4
2 For each rental real estate
  No. of fair rental days. 0
  No. of personal use days 0
  Qlfd. joint venture.....? No
INCOME:
3 Rents received..... 0
3 Royalties received..... 0
EXPENSES:
5 Advertising..... 0
Car/truck expense for ln 6
  Used more than 4 at same time? No
  Standard Rate Method:
  Tot rental activity miles 0
  Standard deduction for ln 6 0
  Actual Expense Method:
  Use 18a for depreciation.
  Use 19 for rent/lease pmt
  > Actual expenses for line 6. 0
[Press PgDn or > for lns 6-17]

```

Figure 2-14b. Rental/Royalty Worksheet, Screen 2

**4 Royalties received.** (*for royalties only*) Enter all royalty income received during the tax year on this line.

**EXPENSE:**

**5 Advertising.** Enter advertising and marketing expenses here.

**Car and truck expenses for line 6.** Line 6 is special because of special IRS reporting requirements for the use of your car. There are two methods of figuring vehicle expenses: Standard Rate Method and the Actual Expenses Method. You can generally choose the method in the first year you placed the vehicle in service for business or investment purposes, but you must use the Actual Expenses Method under some circumstances, as seen in the first entry in this section:

**Used more than 4 vehicles at the same time?** If you use more than 4 vehicles, you are considered to have a fleet and are not eligible to use the Standard Rate Method. *If you answer Yes, the computed amount for "Standard deduction for line 6" (below) will be zero.*

**Standard Rate Method.** You can use this method only if you used it the first year you placed the vehicle in service. If you use this method, you must *complete Part V of Form 4562* (including lines a, b, and c of the Listed Property Worksheet, but not the \$ entries).

**Total rental activity miles.** Enter the total miles traveled in 2014 in connection with this rental activity alone.

> **Standard deduction for line 6.** (*auto-calc*) Computed as "Total rental activity miles" times 56 cents per mile. This is the total deduction allowed for those cars and trucks that you choose to report under the Standard Mileage Rate method for 2014. (The rate rises to 57.5 cents per mile for 2015.)

**Actual Expense Method.** You MUST use this method if you used five or more vehicles at the same time (as in a fleet operation). You CAN NOT use this method if the vehicle is leased and you used the standard mileage rate in the past. If you use this method, you must report three different types of expenses on three different lines of this worksheet:

**Use line 18a for depreciation.** To depreciate the vehicle, you must complete the copy of Form 4562 attached to Schedule E. Complete Part V of Form 4562 to claim the vehicle depreciation and provide other information about the vehicle. (Once you complete Form 4562, the total for the form is posted to line 18a of Schedule E itself. *You must then allocate that total among all of your Rental/Royalty Worksheets and enter the appropriate amount on line 18a of each worksheet.*)

**Use line 19 for rent or lease payments.** If you do not own the car, enter your payments on the "other expenses" line (line 19) and make sure that your description for this line on screen 2 of Schedule E is broad enough to include these payments.

> **Actual expenses for line 6.** Enter here only expenses not reported on line 18 or line 20a, including out-of-pocket expenses.



**18 a-Rental depreciation.** Before you can complete this entry, you must have an entry for line 18a on screen 2 of Schedule E, normally from the Form 4562 you complete for Schedule E. You must then enter here the part of that total that applies to *THIS* property. ***WARNING: Failure to enter the proper amount here could result in improper application of the passive loss rules.*** (REMINDER: Investment property, and therefore rental property reported here, is not eligible for the Sec. 179 expense deduction on Form 4562.)

**b-Royalty depletion.** If the property for which you received royalties for this worksheet is mineral property, you may have a claim for depletion. If so, you must enter the depletion. *Also include this amount in the total you enter for line 18b on screen 2 of our Schedule E.* ***WARNING: Failure to enter the proper amount here could result in improper application of the passive loss rules.***

**18 Depreciation or depletion.** *(auto-calc)* Taken from line 18a or line 18b depending on your answer to the Royalty question.

**19 Other expenses.** Enter here the amount for expenses not reflected in lines 5 through 18. If you made an entry for line 19 on screen 2 of our Schedule E, the text you entered there will appear as the label for this line (in place of "Other expenses") to describe the category for these expenses. ***TIP: Thanks to the IRS's restrictive redesign for 2011, Schedule E no longer provides five lines for five different categories of other expense. You must therefore enter them all on this one line and provide a description on screen 2 of Schedule E that is broad enough to cover them all.***

**20 a-Rental expenses on lines 5 through 19.** *(auto-calc)* Computed as indicated when the Royalty question is answered No, this result *may not be correct until you properly allocate amount on line 20a* of screen 2 of our Schedule E to this line.

**b-Royalty expenses on lines 5 through 19.** *(auto-calc)* Computed as indicated when the Royalty question is answered Yes, this result *may not be correct until you properly allocate amount on line 20b* of screen 2 of our Schedule E to this line.

**20 Total expenses.** *(auto-calc)* Taken from line 20a or line 20b depending on your answer to the Royalty question, this is the sum of lines 5 through 19 for this worksheet.

RENTAL/ROYALTY-Screen 4of4	
18 a-Rental depreciation.....	0
b-Royalty depletion.....	0
18 Depreciation or depletion.....	0
19 .....	0
20 a-Rental expenses on 5to19.....	0
b-Royalty expense on 5to19.....	0
20 Total expenses.....	0
21 Subtract line 20 from 3 & 4.....	0
PRIOR-year unallowed loss.....	0
Net inclg PRIOR unallowed.....	0
Net elsewhere for same activity.....	0
Unallowed THIS yr on 8582.....	0
22 Deductible rental real loss.....	0
[Press PgUp or < for lns 6-17]	

Figure 2-14d. Rental/Royalty Worksheet, Screen 4

**21 Subtract line 20 from lines 3 and 4.** *(auto-calc)* Computed as line 20 less line 3 or line 4, this is the income or loss before the application of passive loss carryovers and limitations. **CAUTION:** *No losses are allowed if the activity is a rental classified as your home. Also note that you may have to file Form 6198 (At-Risk Limitations) if line 21 is a loss, and write "Form 6198" to the left of line 21 on the copy Schedule E you file with the IRS. In either case you must reduce your claims on lines 5 through 19 to allowable amounts because limitations for these cases are not applied elsewhere.*

**PRIOR-year unallowed loss.** Enter the unallowed loss in the prior tax year for this property as a result of the passive loss limitations (Form 8582). *Although this entry is translated from your prior-year return (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation), it will not generally be correct unless the prior-year worksheet was complete and viewed anew after the entire return was complete.* Moreover, if any losses were unallowed two years ago, the translation may not reflect the proper amount because this is the first year that this worksheet has this line.

**Net including PRIOR unallowed.** *(auto-calc)* Computed as line 21 less the above prior unallowed loss.

**Net elsewhere for same activity.** You must enter the net gain or loss reported elsewhere on the return for this same passive activity, computed in the same way as the preceding net, in order for the disallowance computed below to reflect the proper allocation among all passive properties. If this entry when added to the preceding net results in an overall gain, any losses reported on this worksheet are allowed in full, and any remaining unallowed losses shown on Form 8582 are allocated to other properties instead.

**Unallowed THIS year on Form 8582.** *(auto-calc)* This and the following line are provided to satisfy the proutout requirements of the IRS. They do not affect the calculations on the return itself, which fully automates Form 8582 and its disallowances. However, in order for line 22 to be evident to the IRS on a property by property basis, the proper disallowance from Form 8582 must appear here as well. **CAUTION:** *You must view this worksheet AFTER the return is final and complete in order for the proper final reallocation of unallowed losses to take place.* (The final recalculation of the return does NOT involve the supporting worksheets individually, but viewing each worksheet on the screen forces its recalculation using the amounts posted from Form 8582 to screen 3 of our Schedule E above line 22.)

**22 Deductible rental loss.** *(auto-calc)* Computed as line 21 plus the prior-year unallowed loss less the above disallowance.

In addition to these visible lines, net income for profit properties and amounts for Form 8582 lines 1a, 1b, 3a, and 3b are computed and carried to Schedule E, as explained in the following pages.

**Passive Loss Limitations.** The properties reported above are separated into profit properties and loss properties, and the passive loss limitations are applied to the rental loss properties. **WARNING:** *This section will operate automatically*

*and accurately only so long as you have made the Rental/Royalty Worksheet consistent with the depreciation and depletion details for line 18.*

**Rental/royalty gains and losses for Form 8582 lines 1a, 1b.** *(auto-calc lines)* Taken from the Rental/Royalty Worksheets for rental property with active participation.

**Rental/royalty gains and losses for Form 8582 lines 3a, 3b.** *(auto-calc lines)* Taken from the Rental/Royalty Worksheets for rental property without active participation.

**Rental loss included in line 22.** *(auto-calc)* This rental loss is "rental net income on worksheets" plus lines 19a and 20a less line 3.

The next two lines hold loss carryovers from the prior-year return, and are taken automatically from that return when you use the translate feature, providing you retained the tax year on that return at 2013. However, *proper allocation of the following two totals among the Rental/Royalty Worksheets is assured only if you view them on the prior-year return yourself, after final recalculation of that return, before translating the return to this year's format.*

**Active rental real estate prior unallowed loss.** This is the loss carryover from the prior year's Schedule E stemming from passive loss limitations on active rental real estate activities, translated from the prior-year return as noted above.

**Other passive prior unallowed loss.** This is the loss carryover from the prior year's Schedule E stemming from passive loss limitations on rentals other than active real estate activities, translated from the prior-year return as noted above.

**Total unallowed loss in prior year.** *(auto-calc)* Computed as the sum of the above two amounts.

**Active rental real estate net loss on worksheets subject to limitation.** *(auto-calc)* Computed as the sum of net losses on the worksheets for active participation rental real estate properties for which the overall net is a loss. This is the total of net losses for active rental real estate among which disallowances on Form 8582 should be allocated, and is used in the calculations for Form 8582.

**Other passive net loss on worksheets subject to limitation.** *(auto-calc)* Computed as the sum of net losses on the worksheets for properties other than active participation rental real estate for which the overall net is a loss. This is the total of net losses for other than active rental real estate among which disallowances on Form 8582 should be allocated, and is used in the calculations for Form 8582.

**Total on worksheets subject to limitation.** *(auto-calc)* Computed as sum of the above two lines. This is the total of all net losses on the worksheets that are subject to limitation by Form 8582.

**WARNING: Beware errors in worksheet entries.** In order for the official printouts to accurately reflect the allowed rental real estate losses on a property by property basis, *you must properly allocate the totals for prior unallowed losses, current depreciation, and current unallowed losses among the individual worksheets.* You may therefore have to return to the worksheets a couple of times during the preparation of the return to update their entries. You can

allocate the prior unallowed losses when you start the return (and they may already be correct if the return is properly translated), and you can allocate the depreciation deductions once Form 4562 is complete. Once these two are correct you must also determine the overall net for each activity among the different forms on which the activity is reported, and enter an accurate number for "net elsewhere for the same activity." But you cannot update the current unallowed losses among the worksheets until the return and its final recalculations are complete. You should then view each worksheet, and the new totals will be automatically allocated among the properties. (Unlike other worksheets, there is NO W/S ERROR LINE to give you a warning when the Rental/Royalty Worksheets are not up-to-date. You must therefore check the worksheets yourself once the return is complete.)

The next two lines show the disallowance for this year, posted here from Form 8582. Proper disallowances are assured after the final recalculation of the return. Although you can access Form 8582 from these lines, there is rarely a need to do so since Form 8582 is automatically generated and completed when needed upon final recalculation of the return. However, in order for these disallowances to be reflected in the Rental/Royalty Worksheets, you must view all Rental/Royalty Worksheets after the return is complete.

**Active rental real estate unallowed loss for 2014.** (*Road Map line, supported by Form 8582.*) This is the disallowance from Form 8582 for active rental real estate alone, which can be carried over to the next tax year.

**Other passive activity unallowed loss for 2014.** (*Road Map line, supported by Form 8582.*) This is the disallowance from Form 8582 for all but active rental real estate, which can be carried over to the next tax year.

**22 Deductible rental real estate loss after limitation.** (*auto-calc*) Computed as the "rental loss in line 22" less the disallowances from Form 8582 (both "Active rental real estate unallowed loss for 2014" and "Other passive activity unallowed loss for 2014").

**IMPORTANT:** Because the deductible amount on line 22 can change as amounts throughout the return change (because of their impact on Form 8582 calculations), you must return to the Rental/Royalty Worksheets after the final recalculation of the return and view each and every worksheet to ensure that the changes in Form 8582 are reflected on the worksheets (so that each worksheet shows the proper disallowance from Form 8582 for that worksheet).

**RENTAL/ROYALTY SUMMARY.** Select totals from the worksheets appear here followed by the income or loss to be reported on Form 1040.

**23a Line 3 for all rental properties.** (*auto-calc*) Taken from line 3 of all worksheets identified for rentals, this amount matches "Total rents received" on screen 1 of our Schedule E.

**23b Line 4 for all royalty properties.** (*auto-calc*) Taken from line 4 of all worksheets identified for royalties, this amount matches "Total royalties received" on screen 1 of our Schedule E.

**23c Line 12 for all properties.** (*auto-calc*) Taken from line 12 of all worksheets combined, this amount matches line 12 on screen 2 of our Schedule E ("Mortgage interest to banks").

**23d Line 18 for all properties.** *(auto-calc)* Taken from line 18 on screen 2 of our Schedule E ("Depreciation or depletion"). **CAUTION:** *If this amount does not match line 18 for all worksheets combined, you must return to the worksheets to properly allocate this amount among the worksheets.*

**23e Line 20 for all properties.** *(auto-calc)* Taken from line 20 of all worksheets combined, *this amount will be correct only if your allocation of line 18 among worksheets is correct.*

**24 Income. Add positive amounts on line 21.** *(auto-calc)* The sum of the profit lines "Net for profit rentals" and "Net for profit royalties " at the top of screen 3 of our Schedule E.

**25 Losses. Add royalty losses in line 21 and rental real estate losses in line 22.** *(auto-calc)* The sum of the "Deductible rental real estate loss" on line 22 plus the royalty loss (determined as the "Net for profit royalties" plus the royalty component of line 20 less the total royalties on line 4).

**26 Total income or (loss).** *(auto-calc)* Computed as line 24 less line 25, this amount is reflected in the total for Form 1040 at line 40 of Schedule E.

**Enter rental real estate income or loss in line 26 that is NOT from a passive activity.** Your entry here does not affect any calculations but alerts the IRS that nonpassive amounts are included in line 26, so that they will take this into account in their audits. Any amount you enter here will appear with the label NPA on the dotted line for Schedule E line 26.

## **PART II, INCOME OR LOSS FROM PARTNERSHIPS AND S CORPORATIONS.**

All income for this section is reported on the *Partnerships and S Corps Worksheets* described below. The amounts for these worksheets should be available from the Schedules K-1 you receive from the entities. If you report losses for activities for which you are not at risk, you must also file Form 6198 (built into the Premium Level only). See IRS instructions for details.

**Husband-and-wife business not always a partnership.** Contrary to prior law, a husband and wife who jointly run an unincorporated business are no longer required to file a partnership return and report the income or loss here on Schedule E. Instead, they can each file a Schedule C or F reporting their share of the business. See our details for Schedules C and F for more information.

**27 Any prior unallowed losses due to at-risk or basis limitations, passive losses NOT on Form 8582, or unreimbursed partnership expenses?** Note that you do NOT have to answer Yes for unallowed passive losses if you reported them on Form 8582.

**If "Yes," see instructions first. You may need to complete Form 6198!** The reference is to page E-2 of the IRS 2014 Instructions for Schedule E, which details at risk and other rules. (Form 6198 is built-in for Premium Level software.)

# HowardSoft

## Schedule E

**28 YOUR and SPOUSE nonfarm and farm activities.** *(Supported by the Partnerships and S Corps Worksheet, Figure 2-15.)* Four separate sets of worksheets are provided: for your nonfarm income, spouse's nonfarm income, your farm income, and spouse's farm income. You must identify the income and losses you report here as passive or nonpassive, using our instructions for Form 8582 as your guide. If you are a general partner or part of an S Corporation, you can generally report your gains and losses on the nonpassive lines if you participated in the business more than 500 hours during the year (that is, you are a "material participant"), or you participated in the activity for more than 100 hours but no more than 500 hours during the tax year and had a net gain overall for the activity (that is, you are a "significant participant"). However, *if you are a limited partner in a limited partnership you seldom qualify for either material participation or significant participation*, so you must usually report all amounts on the passive lines. However, there are exceptions, as detailed in our instructions for Form 8582. For example, *if you sold your entire interest in the partnership during the year, and you have an overall loss for the year including all gains and losses from the activity, you must report all amounts for the activity as nonpassive amounts throughout the return* (and all losses will be allowed in full). For more information, see "How unallowed losses are allowed when you sell" in our instructions for Form 8582.

**Partnerships and S Corps Worksheet, Figure 2-15.** Accessed at four separate lines for line 28 in Part II, you use this worksheet to report most ordinary income and losses from partnerships and S Corporations. Most of the information is shown on the Schedules K-1 that you receive from the entities, Schedule K-1 (Form 1065) for partnerships and Schedule K-1 (Form 1120S) for S corporations:

- a. **Name.** Enter the entity's name in 25 characters or less.
- b. **Partnership or S Corporation (P or S).** Enter P for partnership or S for S Corp. to identify the entity named above.
- c. **Foreign partnership?** Answer Yes only if applicable.
- d. **Employer identification number.** Enter the Employer IDN of the payer in the standard 10-character format (00-0000000).

PARTNERSHIPS AND S CORPS	
a.	Name
b.	Ptr or S Corp. (P or S)
c.	Foreign partnership.....? No
d.	Employer I. D. Number
	All @ risk.....? No
e.	Some NOT at risk.....? No
	You MUST file Form 6198 if Yes? No
	Active rental real est? No
	Significant participant? No
	Net elsewhere for same activity 0
	PASSIVE loss on K-1... 00
	PRIOR-year unallowed loss 00
	Unallowed THIS yr on 8582? 00
f.	PASSIVE loss(8582) 00
g.	PASSIVE income(K-1) 00
h.	NONPASSIVE loss(K-1) 00
i.	Sec179expense deduction 00
j.	NONPASSIVE income(K-1) 00
	Self-empl net income(Ptr only) 00
	Self-empl gross incm(Ptr only) 0

Figure 2-15. Partnerships and S Corps Worksheet

**All at risk?** Unless you can answer Yes you must complete Form 6198 (built into the software for Premium Level) to determine how much of the loss to report below.

**e. Some NOT at risk?** *(auto-calc)* Automatically the opposite of the above answer.

**You MUST file Form 6198 if Yes.** *(auto-calc)* Automatically the same as the preceding answer, this line is provided to alert you to the need to file a Form 6198 when you have amounts not at risk.

**Active rental real estate?** Answer Yes if your interest in the partnership qualifies as active rental real estate. *Caution: Limited partners in a limited partnership seldom qualify. Only general partners can usually qualify to answer Yes here.* If you can answer Yes, all amounts reported below for passive income or loss will be posted to the Active Rental Real Estate section of Form 8582 for potentially favorable treatment.

**Significant participant in the activity?** If you answer Yes here, all passive and nonpassive income reported below will be included in the significant participation net for the entire return. See our instructions for Form 8582 for details on what constitutes significant participation. *CAUTION: See "Special procedures for significant participation activities," which immediately follows this shaded section, for instructions on changing your entries depending on the final determination on Form 8582 of the overall net gain from significant participation activities.*

**Net elsewhere for same activity.** You must enter the net gain or loss reported elsewhere on the return for this same passive activity, computed using both current gains and losses and prior unallowed losses without limitation from Form 8582, in order for the disallowance computed below to reflect the proper allocation among all passive properties. If this entry when added to the passive net on this worksheet results in an overall gain, any losses reported on this worksheet are allowed in full, and any remaining unallowed losses shown on Form 8582 are allocated to other properties instead.

**PASSIVE loss on Schedule K-1.** Enter the loss from passive activities here, as reported to you on Schedule K-1, or a reduced amount because of an excess farm loss, described later, or a further reduced amount as determined on Form 6198, which is built into the Premium Level software. Include any section 179 deduction for PASSIVE activities here, NOT on line j. Do NOT include amounts for a Publicly Traded Partnership (PTP); instead, see "Special procedures for Publicly Traded Partnerships (PTPs)," which follows this shaded section, for instructions. *CAUTION: If you sell your entire interest in a passive property and the net throughout the return for that property is a net loss, you must report all gains and losses for that property on NON-PASSIVE lines, because the property is reclassified as nonpassive property in the year of sale under these circumstances.* For more information, see "How unallowed losses are allowed when you sell" in our instructions for Form 8582.

**PRIOR-year unallowed loss.** Enter the unallowed loss in the prior tax year for this property as a result of the passive loss limitations (Form 8582). Although this entry is translated from your prior-year return (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation), it will not generally be correct unless the prior-year worksheet was complete and viewed anew after the entire return was complete but before the translation was performed.

**Unallowed THIS year on Form 8582.** *(auto-calc)* This entry may not be accurate until the final recalculation of the return is complete and you subsequently view the worksheet. This entry does not affect the TOTALS for line f that are printed on Schedule E itself nor the final results of the return, but it affects the individual net for line g in the printed supporting statement for each property. (The reallocation is automatically brought up to date whenever you view the worksheet.) TIP: You may not need to perform this step if the sum of disallowances reported on the worksheets already matches the disallowances reported above line 29b of Schedule E.

**f. PASSIVE loss (Form 8582).** *(auto-calc)* Computed as passive loss on Schedule K-1 less unallowed loss on Form 8582.

**g. PASSIVE income (Schedule K-1).** Enter the income from passive activities here, as reported to you on Schedule K-1.

**h. NONPASSIVE loss (Schedule K-1).** Enter the loss from nonpassive activities here, as reported to you on Schedule K-1, or a reduced amount because of an excess farm loss, described later, or a further reduced amount as determined by Form 6198, which is built into the Premium Level software.

**i. Section 179 expense deduction (nonpassive).** Enter the section 179 expense deduction reported to you on Schedule K-1 *for non-passive activities only*. Sec. 179 deductions for passive activities should be included in your entry for "PASSIVE loss on Schedule K-1," above, not here. CAUTION: The aggregate of all section 179 deductions throughout the return is limited by law to \$500,000 for 2014 (and less if married filing separately), so you may have to report a lesser amount than is reported to you on Schedule K-1. See our instructions for Form 4562 for details.

**j. NONPASSIVE income (Schedule K-1).** Enter the income from nonpassive activities here, as reported to you on Schedule K-1.

**Self-employment net income in above.** If any of the partnership income above is self-employment income subject to the self-employment tax (social security and Medicare tax), you must enter the amount here. This amount should appear in box 14 (code A) of the Schedule K-1 that you receive from the partnership. REMINDER: Those who practice their profession in the partnership, such as doctors and lawyers, must enter the total gain or loss here. Any amount reported here is posted automatically to Schedule SE and reflected in the computation of earned income on Form 1040. (Do not enter amounts here for S Corporations. S Corp. income is not generally considered earned income,

but if so it is reported to the taxpayer on a Form W-2 and entered on the W-2 Worksheets for line 7 of Form 1040, not here.)

**Self-employment gross income.** If self-employment income is reported above, report here your share of the gross income (before deducting expenses) for the partnership. This amount should appear in box 14 (code B or C) of the Schedule K-1 that you receive from the partnership. This amount is posted automatically to Schedule SE for use in the optional methods on Schedule SE. Furthermore, if you accessed the worksheet from one of the farm lines, this amount is automatically reflected in line 41 of Schedule E.

In addition to the above entries, several amounts relating to passive activities are generated from the worksheets and posted to Schedule E itself, for subsequent posting to Form 8582.

## Schedule E

**Excess farm loss for certain farming partnerships or S corporations.** If a partnership or S corporation for which you are reporting a loss in Part II received certain subsidies, you may have to limit the amount of loss you report on line f or h of the *Partnership or S Corps* Worksheet. The Schedule K-1 you receive from the pass-through entity will indicate whether the farm received such a subsidy. If so, you must complete the worksheet at the end of the *2014 Instructions for Schedule E* to determine how much loss is disallowed and modify your entries on the worksheets accordingly. *Exception: If you have another farming business, you must use one of the worksheets at the end of the 2014 Instructions for Schedule F instead.* The disallowed loss is called the excess farm loss. See our instructions for Schedule F for more information.

**Special procedures for significant participation activities.** You cannot determine whether to report income or loss from significant participation activities as passive or nonpassive until the final recalculation of the return is complete. You must therefore initially report the income in the passive or nonpassive category based on your best guess, and identify the activity as a significant participation activity on the worksheet. If, after the final recalculation of the return, you find that

- 1 the net of all significant activities is a gain, but you wrongly reported the amounts as passive, or
- 2 the net of all significant activities is not a gain, but you reported the amounts as nonpassive,

you must return to the worksheets and correct the reporting. Unlike normal passive activities, *improper reporting for these activities can lead to an erroneous result* for the final return. (The net for all significant participation activities throughout the return is displayed on the first screen of Form 8582.)

**Special procedures for Publicly Traded Partnerships (PTPs).** PTPs are subject to special handling by the IRS. Even though they are subject to the passive loss rules, they must be handled individually and separately from all other investments. Since passive losses are deductible only to the extent of passive gains, this means that *no overall loss can be claimed for a PTP* except in the year of its sale. In order to prevent any entries from affecting Form 8582 for other activities, you must reduce any losses by the unallowed loss for that property, computed as if it were the only passive property on the return, then report the resulting net amounts on the NONPASSIVE lines of the Partnership and S Corps Worksheet. You should also identify the partnership as a Publicly Traded Partnership by ending your description on line a of the worksheets with the letters PTP. (The IRS instructions indicate that you should report some of the amounts on passive lines. But such reporting would cause the automatic involvement of the Form 8582 for the entire return. The only side effect of our reporting approach is that you may have to make an adjustment to line 6 of Form 8582 to remove any passive PTP amounts included.)

**Summary for Partnerships and S Corporations.** The remaining lines for Part II of Schedule E are automatic except for lines that require entries from the prior-year return:

**29a Totals for (g) Passive Income.** *(auto-calc)* The sum of all worksheet entries for "PASSIVE income on K-1."

**29a Totals for (j) Nonpassive Income.** *(auto-calc)* The sum of all worksheet entries for "NONPASSIVE income on K-1."

**Total self-employment income for YOU and SPOUSE.** *(auto-calc lines)*  
Summed from the net self-employment income on all worksheets.

**Partnership/S Corp gain or loss for Form 8582 lines 1a and 1b.** *(auto-calc lines)* Summed from all four sets of worksheets for active rental real estate.

**Active rental real estate prior-year unallowed loss.** This is the loss carryover from the prior year Schedule E stemming from passive loss limitations on losses from active rental real estate. It is automatically transferred by the software from the prior-year return when you use the translate feature with tax year retained on the prior-year return at 2013. However, proper allocation among the Partnerships & S Corps Worksheets is assured only if you view them on the prior-year return yourself, after final recalculation of that return, before translating the return to this year's format.

**Active rental real estate unallowed loss for 2014.** *(Road Map line, supported by Form 8582.)* The proper disallowance for this year appears here from Form 8582 after the final recalculation of the return. However, you must allocate this total among the Partnership/S Corp Worksheets yourself.

**Partnership/S Corp gain or loss for Form 8582 lines 3a and 3b.** *(auto-calc lines)* Summed from all four sets of worksheets for other than active rental real estate.

**Other passive prior unallowed loss.** This is the loss carryover from the prior year Schedule E stemming from passive loss limitations on losses from passive activities other than active rental real estate. It is automatically determined by the software from the prior-year return when you use the translate feature with tax year retained on the prior-year return at 2013. However, proper allocation among the Partnerships & S Corps Worksheets is assured only if you view them on the prior-year return yourself, after final recalculation of that return, before translating the return to this year's format.

**Other passive activity unallowed loss for 2014.** *(Road Map line, supported by Form 8582.)* The proper disallowance for this year will appear here from Form 8582 after the final recalculation of the return. However, you must allocate this total among the Partnership/S Corp Worksheets yourself.

**Significant participation part -- prior unallowed loss.** Enter the part of the carryover from last year that relates to each significant participation activity for this year and that does not exceed the gain from each such activity. An entry here affects only the significant partici-

pation net used in aggregating all significant participation activities on Form 8582.

**W/S ERROR in prior plus 2014 unallowed loss.** *(auto-calc)* Computed as the sum of your worksheet entries for prior-year unallowed loss and the computed current-year unallowed losses, less the prior-year and current-year unallowed losses shown above. **WARNING: If an amount appears on this line, your entries on the worksheets for prior-year unallowed loss are inconsistent with the preceding totals for prior unallowed loss, or the unallowed losses for the current year have not been updated on the worksheet.** You can correct the latter problem by viewing the worksheets once the return is complete and fully calculated so that the automatic reallocations can take place. But you can correct the former problem only by changing your entries for prior unallowed losses on the worksheets and/or the totals on the form.

**29b Totals for (f) Passive loss.** *(auto-calc)* The sum of losses for Form 8582 lines 1b and 3b, plus the prior-year unallowed losses, less the unallowed losses for 2014.

**(h) Nonpassive loss.** *(auto-calc)* Summed from all four sets of worksheets.

**(i) Section 179 expense.** *(auto-calc)* Summed from all four sets of worksheets. **CAUTION: If this total plus any section 179 expense you claim elsewhere on the return exceeds \$500,000 for 2014, you must return to the worksheets and reduce your claims for section 179 expense such that the aggregate section 179 expense throughout the return is no more than \$500,000.** See Part I of Form 4562 for more detail.

**30 Add columns (g) and (j) of 29a.** *(auto-calc)* The sum of lines 29a(g) and 29a(j), this is total income.

**31 Add columns (f), (h), and (i) of 29b.** *(auto-calc)* Computed as the sum of lines 29b(f), 29b(h), and 29b(i), this is the total loss and section 179 deduction.

**32 Total partnership and S corporation income (or loss).** *(auto-calc)* Line 30 less line 31.

The result on line 32 is automatically reflected in the total on line 41, below.

**PART III, INCOME OR LOSS FROM ESTATES AND TRUSTS.** The format for reporting income and loss from estates and trusts is similar to that for partnerships in Part II, and the link with Form 8582 is identical.

**Estates and Trusts Worksheet, Figure 2-16.** Accessed at line 34a(d), the first line of Part III, you use this worksheet to report most income and losses from estates and trusts, whether received or not. Most of the information is shown on the Schedules K-1 (Form 1041) that you receive from the estate or trust:

ESTATES & TRUSTS WORKSHEET	
a. Name	:
b. Employer I. D. Number	
Active rental real est? No	
Significant participant? No	
Net elsewhere for same activity	0
PASSIVE loss on K-1...	0
PRIOR-year unallowed loss	0
Unallowed THIS yr on 8582	0
c. PASSIVE loss (8582)	0
d. PASSIVE income(K-1)	0
e. NONPASSIVE loss(Sch K-1)	0
f. NONPASSIVE income (K-1)	0
Significant partn net.	0
Farm or fishing gross in above	0

**α. Name.**  
Enter the name of the entity in 55 characters or less. (The 30 characters you enter on the first line for this entry and the 25 characters you enter on the second are concatenated together into one 55-character entry for printing on the official form.)

**Figure 2-16. Estates and Trusts Worksheet**

**b. Employer identification number.** Enter the Employer IDN of the payer in the standard 10-character format (00-0000000).

**Active rental real estate?** Answer Yes if your interest in the estate or trust qualifies as active rental real estate. If you can answer Yes, all amounts reported below for passive income or loss will be posted to the Active Rental Real Estate section of Form 8582 for potentially favorable treatment.

**Significant participant in the activity?** If you answer Yes here, all passive and nonpassive income reported below will be included in the significant participation net for the entire return. See our instructions for Form 8582 for details on what constitutes significant participation. *CAUTION: Special procedures are required when reporting amounts from significant participation activities on this worksheet, as detailed previously.*

**Net elsewhere for same activity.** You must enter the net gain or loss reported elsewhere on the return for this same passive activity, computed using both current gains and losses and prior unallowed losses without limitation from Form 8582, in order for the disallowance computed below to reflect the proper allocation among all passive properties. If this entry when added to the preceding net results in an overall gain, any losses reported on this worksheet are allowed in full, and any remaining unallowed losses shown on Form 8582 are allocated to other properties instead.

**PASSIVE loss on Schedule K-1.** Enter the loss from passive activities here, as reported to you on Schedule K-1, or a reduced amount as determined by Form 6198, which is built into the Premium Level. The amount for lines c and d should be reported to you on the Schedule K-1 that you receive. Be sure to enter only loss amounts (negative net income) here, and income amounts (positive net income) on line d, below. *CAUTION: If you sell your entire interest in a passive property and the net throughout the return for that property is a net loss, you must report all gains and losses for that property on NONPASSIVE lines, because the property is reclassified as nonpassive property in the year of sale under these circumstances.*

**PRIOR-year unallowed loss.** Enter the unallowed loss in the prior tax year for this property as a result of the passive loss limitations (Form 8582). *Although this entry is translated from your prior-year return (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation), it will not generally be correct unless the prior-year worksheet was complete and viewed anew after the entire return was complete.*

**Unallowed THIS year on Form 8582.** *(auto-calc)* This entry may not be accurate until the final recalculation of the return is complete and you subsequently view the worksheet. This entry does not affect the TOTALS for line c that are printed on Schedule E itself nor the final results of the return, but it affects the individual net for line c in the printed supporting statement for each property. (The reallocation is automatically brought up to date whenever you view the worksheet.) TIP: You may not need to perform this step if the sum of disallowances reported on the worksheets already matches the disallowances reported above line 34b of Schedule E.

**c. PASSIVE loss (Form 8582).** *(auto-calc)* Computed as passive loss on Schedule K-1 less unallowed loss on Form 8582.

**d. PASSIVE income (Schedule K-1).** Enter the income from passive activities here, as reported to you on Schedule K-1.

**e. NONPASSIVE loss (Schedule K-1).** Enter the loss from nonpassive activities here, as reported to you on Schedule K-1. The amount for lines e and f should be reported to you on line 4 of the Schedule K-1 that you receive. If line 4 is negative, enter it as a positive here. If line 4 is positive, enter it as a positive on line f, below.

**f. NONPASSIVE income (Schedule K-1).** Enter the income from nonpassive activities here, as reported to you on Schedule K-1.

**Significant participation net.** *(auto-calc)* Computed as income (lines d and f) less losses (lines c and e) when you answer Yes to the significant participant question, above.

**Farm or fishing gross in above.** If the estate receives any income from farming or fishing, the estate should report the gross income from those source on the Schedule K-1 (Form 1041) that you receive. You should report here the amount identified as such, for automatic inclusion in line 42 of Schedule E.

In addition to the above entries, several amounts relating to passive activities are generated from the worksheets and posted to Schedule E itself, for subsequent posting to Form 8582.

**Summary for Estates and Trusts.** The remaining lines for Part III of Schedule E are automatic except for lines that require entries from the prior-year return:

**34a Totals for (d) Passive income.** (*Supported by the Estates and Trusts Worksheet, Figure 2-16.*) This is the main access line to the worksheets that support all of Part III. This line reflects the sum of all worksheet entries for "PASSIVE income (K-1)."

**(f) Nonpassive income.** (*auto-calc*) The sum of all worksheet entries for "NONPASSIVE income (K-1)."

**Estate gain or loss for Form 8582 lines 1a and 1b.** (*auto-calc lines*) Summed from all worksheets for active rental real estate.

**Active rental real estate prior-year unallowed loss.** This is the loss carryover from the prior year Schedule E stemming from passive loss limitations on losses from active rental real estate. It is automatically transferred by the software from the prior-year return when you use the translate feature with tax year retained on the prior-year return at 2013. However, *proper allocation among the Estates and Trusts Worksheets is assured only if you view them on the prior-year return yourself, after final recalculation of that return, before translating the return to this year's format.*

**Active rental real estate unallowed loss for 2014.** (*Road Map line, supported by Form 8582.*) The proper disallowance for this year will appear here from Form 8582 after the final recalculation of the return. However, *you must allocate this total among the Estates and Trusts Worksheets yourself.*

**Estate gain or loss for Form 8582 lines 3a and 3b.** (*auto-calc lines*) Summed from all worksheets for other than active rental real estate.

**Other passive prior unallowed loss.** This is the loss carryover from the prior year Schedule E stemming from passive loss limitations on losses from passive activities other than active rental real estate. It is translated from the prior-year return when you use the translate feature with tax year retained on the prior-year return at 2013. However, *proper allocation among the Estates and Trusts Worksheets is assured only if you view them on the prior-year return yourself, after final recalculation of that return, before translating the return to this year's format.*

**Other passive activity unallowed loss for 2014.** (*Road Map line, supported by Form 8582.*) The proper disallowance for this year will appear here from Form 8582 after the final recalculation of the return. However, *you must allocate this total among the Estates and Trusts Worksheets yourself.*

**Significant participation part -- prior unallowed loss.** Enter the part of the carryover from last year that relates to each significant participation activity for this year and does not exceed the gain from each such activity. An entry here affects only the significant participation net used in aggregating all significant participation activities on Form 8582.

**Aggregate net gain from ALL significant participation activities? (*Road Map line, supported by Form 8582.*)** The answer to this question comes automatically from Form 8582, but can only be determined upon the final recalculation of the return. *If this answer is different upon the final recalculation of the return than it was when you completed the Estate & Trust or Partnership & S Corp Worksheets, you must return to all those worksheets and move your entries to the proper lines* (to passive lines if this answer is No and to nonpassive lines if this answer is Yes).

**W/S ERROR in prior plus 2014 unallowed loss. (*auto-calc*)** Computed as the sum of your worksheet entries for prior-year unallowed loss and the computed current-year unallowed losses, less the prior-year and current-year unallowed losses shown above. ***WARNING: If an amount appears on this line, it means that either your entries on the worksheets for prior-year unallowed loss are wrong or the calculated unallowed losses for the current year are not up-to-date.*** You can correct the latter problem merely by viewing the worksheets once the return is complete and fully calculated so that the automatic reallocations can take place. But you can correct the former problem only by changing your entries for prior unallowed losses on the worksheets to more accurately reflect the facts.

**34b Totals (c) Passive loss. (*auto-calc*)** The sum of losses for Form 8582 lines 1b and 3b, plus the prior-year unallowed losses, less the unallowed losses for 2014.

**(e) Nonpassive loss. (*auto-calc*)** Summed from all four sets of worksheets.

**35 Add columns (d) and (f) of 34a. (*auto-calc*)** The sum of lines 34a(d) and 34a(f), this is total income.

**36 Add columns (c) and (e) of 34b. (*auto-calc*)** Computed as the sum of lines 34b(c) and 34b(e), this is the total loss.

**37 Total partnership and S corporation income (or loss). (*auto-calc*)** Line 35 less line 36.

**ES PAYMENT CLAIMED.** If estimated taxes were credited to you from a trust (Schedule K-1, line 14(a)) enter the amount here rather than any of the preceding lines. This amount and the label for this line will be printed for the official printout on the dotted line for line 37. ***CAUTION: You must also include this amount in your entries on the Control Form for FEDERAL ESTIMATED TAX PAID so that it will be properly reflected on Form 1040.***

The result on line 37 is automatically reflected in the total on line 41, below.

**PART IV, INCOME OR LOSS FROM REAL ESTATE MORTGAGE INVESTMENT CONDUITS (REMICs).** This section is used to report income received as a holder of a *residual* interest in a REMIC. The information for this section is reported to you on a Schedule Q (Form 1066) from the REMIC. *TIP: If a holder of a regular interest in a REMIC, you must report the income as interest income on Schedule B, line 1, or Form 1040, line 8a, not here.*

**38 Net from REMICs, (d) Schedule Q line 1b.** *(Supported by the Real Estate Mortgage Worksheet, Figure 2-17.)* You must report all amounts on the supporting worksheets, described below, using a separate REMIC Worksheet for each Schedule Q received. The total taxable income or loss (line 1b of Schedules Q) from all worksheets combined is posted to this line.

**Net from REMICs, (e) Schedule Q line 3b.** *(Supported by the Real Estate Mortgage Worksheet, Figure 2-17.)* The total income (line 3b of Schedules Q) from all worksheets combined is posted to this line.

**Minimum taxable income, Schedule Q, line 2c.** *(Supported by the Real Estate Mortgage Worksheet, Figure 2-17.)* The total excess inclusion (line 2c of Schedules Q) from all worksheets combined is posted to this line.

**39 Combine columns (d) and (e).** *(auto-calc)* Computed as the sum of lines 38(d) and 38(e), this is the total net income from all REMICs.

Line 39 is included in line 41 of Schedule E.

REMICs WORKSHEET		Real Estate Mortgage Worksheet, Figure 2-17.	
a.	Name	All information for this worksheet is reported to the taxpayer on a Form 1066, Sch. Q.	
b.	Employer I.D. Number		
c.	Sched. Q, line 2c (excess)		0
d.	Sch. Q, line 1b (taxable)		0
e.	Sch. Q, line 3b (income)		0
	Lines d and e combined.	0	

Figure 2-17. REMICs Worksheet

name in 25 characters or less.

- b. Employer I.D. Number.** Enter 9-digit EIN in the xx-xxxxxxx format.
- c. Schedule Q, line 2c (excess).** Enter here the excess inclusion from line 2c of Schedule Q. This special amount is reflected in the income reported on line 37(e) of Schedule E (from line 3b of Schedule Q), but is claimed as an itemized deduction on line 22 of Schedule A (posted automatically by the software). It is special because it represents the smallest amount of taxable income that you may report on Form 1040, and is therefore used in the computation of taxable income at line 43 of Form 1040. When this amount is more than the taxable income that would otherwise result on line 43, it is used for line 43 and "Sch. Q" is printed beside line 43 on the official printout of Form 1040.
- d. Schedule Q, line 1b (taxable).** Enter here the taxable net income on line 1b of Schedule Q.

**a. Name.**  
Enter  
REMIC's

e. **Schedule Q, line 3b (income).** Enter here the income on line 3b of Schedule Q.

**Lines d and e combined.** *(auto-calc)* Computed as indicated.

The last line is posted to line 38 of Schedule E, and is reflected in the total taxable income for Schedule E.

**PART V, SUMMARY.** This section holds not only the totals for Schedule E, but also certain farming and fishing income.

**Gross farm rental on Form 4835.** *(Road Map line, supported by Form 4835.)* Gross income (before deductions) from farm rentals is posted here from line 7 of Form 4835.

**40 Net farm rental income or (loss) on Form 4835.** *(Road Map line, supported by Form 4835.)* Net income (after deductions) from farm rentals is posted here from line 33 of Form 4835.

**Other income not reported elsewhere.** This line is provided for write-in amounts when no IRS line applies. You should explain any entry in a supporting statement for this line.

**41 TOTAL income or loss.** *(auto-calc)* The sum of lines 26, 32, 37, 39, and 40 plus the above additional income. *This total is the grand total for Schedule E, and is posted to line 17 of Form 1040.*

**Reconciliation of gross farming and fishing income.** The remaining lines are not posted anywhere and do not affect any calculations, but rather are used to satisfy IRS reporting requirements.

**Gross farm self-employment in Part II.** *(auto-calc)* Taken from the self-employment gross income lines of all Farm Partnership worksheets for you and spouse.

**Gross farming and fishing income in Part III.** *(auto-calc)* Taken from the farm or fishing gross line of all Estate and Trust worksheets.

**Gross farm rental income in line 40.** *(auto-calc)* Taken from the entry above line 40 for farm rental gross.

**Other gross farming and fishing income.** Enter here any adjustment to the above amounts.

**42 Reconciliation of Farming and Fishing Income.** *(auto-calc)* Computed as the sum of the above four lines, this total is the sum of gross farm and fishing income throughout the return.

**43 Reconciliation for Real Estate Professionals.** If a real estate professional, enter the net income or loss you reported anywhere on the return from all rental real estate activities in which you materially participated.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Schedule EIC / Earned Income Credit

**Who is it for?** The Earned Income Credit is designed to help low income taxpayers who work. If the total investment income on the return (as specially defined for the earned income credit) is no more than \$3,350 for 2014 and all other qualifications are met, any one of the following will result in a credit:

- A** Three or more children lived with you, both earned income and adjusted gross income are less than \$46,997 (\$52,427 if married filing jointly) for 2014, and earned income is at least \$1.
- B** Two children lived with you, both earned income and adjusted gross income are less than \$43,756 (\$49,186 if married filing jointly) for 2014, and earned income is at least \$1.
- C** One child lived with you, both earned income and adjusted gross income are less than \$38,511 (\$43,941 if married filing jointly) for 2014, and earned income is at least \$1.
- D** No child lived with you, but you (or spouse if filing jointly) are at least age 25 but under age 65, both earned income and adjusted gross income are less than \$14,590 (\$20,020 if married filing jointly) for 2014, and earned income is at least \$1.

The credit is claimed at line 66a of Form 1040, where Schedule EIC is accessible through the Road Map.

**MANDATORY for Paid Preparers: Returns signed by a paid preparer must include Form 8867 with the return.** Because of a long history of abuse, the IRS now places special responsibilities on paid preparers for collecting the proper information to justify claims for the earned income credit. Starting with the 2012 filing season (tax year 2011 returns), the IRS requires that paid preparers file Form 8867 (*Paid Preparer's Earned Income Credit Checklist*) with a return signed by them. We have therefore added Form 8867 to all levels of the software, and it is automatically created whenever a Schedule EIC exists for the return. However, it is printed with the complete return *only* if there is a credit on Form 1040, line 66a, and you have identified the return (on Form 8867) as prepared by a paid preparer. Even though it is automatically generated, and Parts I through III are completed for you automatically (except for the paid preparer question), you must manually complete Part IV of the form, *Due Diligence Requirements*, in order to satisfy the IRS's requirement for due diligence. And you may need to supply more information on screen 1 of the form if someone other than the signing preparer was responsible for the proper computation of the earned income credit. (*You can access Form 8867 through the Road Map from screen 1 of our Schedule EIC.*)

**Fully automatic for most taxpayers.** Unless you need to make a special adjustment to line 4a of the IRS's *EIC Worksheet B* (detailed later), or you were a nonresident alien any of 2014 (and not married filing jointly), you will generally not have to make any entries on our Schedule EIC. In fact, the schedule is automatically generated and completed by the software when an Earned Income Credit is available based on entries elsewhere in the return. However, you should be aware of what entries are involved in computing the credit so that

## Schedule EIC

you are sure to supply all required information elsewhere on the return. (The printed Schedule EIC is used by the IRS *only* for providing information on a qualifying child, and is not otherwise needed to support a claim for credit at line 66a of Form 1040. However, the software requires an expanded Schedule EIC for its computation of the credit, even for the childless credit, but will omit it from official printouts when the IRS does not require it.) Among the critical entries in the return are the following:

- A** You must supply information on qualifying children on the Dependents' Worksheets at line 6c of Form 1040 if you are claiming the credit based on children. Not only is qualification determined there, but all information about the child that is printed on the official Schedule EIC is entered there.
- B** You must supply information on yourself (and spouse, if married) found on the first two screens of our Form 1040 page 1. This includes valid SSNs that qualify you to work and answers to questions about residency and being an EIC-qualified child of someone else. If you (and spouse, if married) are not a U.S. resident for more than 6 months of the year, you do not qualify for the childless version of the credit. If you (or spouse, if married) are an EIC-qualified child of another, you cannot qualify for any credit. You also do not qualify for the childless version of the credit if neither you nor spouse was at least age 25 but under 65 at year-end, or if either of you was a dependent on someone else's return.
- C** You must enter amounts from Form 2555 of Form 2555-EZ above lines 21 and 36 of Form 1040, because the existence of such amounts can disqualify you for the credit.

**Your investment income may be lower than you think!** You cannot claim the credit if your investment income is too high, but investment income is defined in a unique manner for the purposes of this credit. The IRS's 1040 Instructions state that investment income is just the sum of lines 8a, 8b, 9a, and 13 of Form 1040, which is interest, dividends, and capital gains. But that instruction is grossly oversimplified, and ignores one major subtraction that affects many taxpayers. More complete instructions are provided in IRS Pub. 596 (*Earned Income Credit*), where a 15-line worksheet is provided for computing investment income! (See *Worksheet 1* in IRS Pub. 596 for 2014 returns.) This worksheet involves not only the cited lines of Form 1040 but also various amounts on Schedule E, other parts of Form 1040, and, most critically, Form 4797. Investment income as properly defined in IRS Pub. 596 EXCLUDES from line 13 of Form 1040 the amount of capital gains stemming from sales shown on Form 4797 (line 7(g) or 9(g)). These sales include the sale of business property and rental real estate, and so can be very substantial for some taxpayers. The properly takes account of such subtleties, ensuring the lowest valid amount for investment income.

**Due diligence requirements for paid preparers satisfied by Form 8867.** The IRS now places special responsibilities on paid preparers for collecting the proper information to justify claims for the Earned Income Credit. Paid preparers must now have a record of all information requested on IRS Form 8867, *Paid*

*Preparer's Earned Income Credit Checklist.* Moreover, the IRS now requires taxpayers who use a paid preparer to file Form 8867 with the return, completed by the paid preparer who prepared Schedule EIC. See the shaded box on the first page of these details for Schedule EIC. (Form 8867 is automatically created and completed by the software when you have claimed a credit on line 66a of Form 1040 and a Schedule EIC has been created.)

**On-screen Schedule EIC follows Form 8867, Form 1040 Instructions for line 66a, and IRS Pub. 596.** The printed Schedule EIC is now only a printout of information on three of your qualifying children. (All required information is entered on the *Dependents' Worksheets* for line 6c of Form 1040.) However our on-screen Schedule EIC collects for you information that lets you track how the calculations for the Earned Income are performed, including the EIC checklists required of paid preparers on IRS Form 8867, and the EIC worksheets found in the IRS 1040 instructions and IRS Pub. 596.

**EIC CHECKLIST (for Form 8867).** The first part of our Schedule EIC shows the information used in Part I of IRS Form 8867. **CAUTION:** *If the return will be signed by a paid preparer, you must include Form 8867 with the return you file. However, you must complete Schedule EIC before you can complete Form 8867.*

**Nonresident alien any part of 2014?** Answer Yes only if the primary taxpayer was a nonresident alien any part of 2014. If Yes, you cannot take the EIC credit unless married to a resident and filing jointly. (Although most nonresident aliens are required to file a Form 1040NR return rather than a Form 1040 return, nonresidents married to residents are not.)

**Filing as married filing jointly?** *(auto-calc)* Taken from Form 1040, if married filing jointly (MFJ, filing status 2), you may qualify for the credit even if the primary taxpayer was a nonresident alien any of 2014.

**Filing status is other than MFS?** *(auto-calc)* Taken from Form 1040, if married filing separately (MFS, filing status 3), you do not qualify for the credit.

**Your SSN on Form 1040.** *(auto-calc)* Taken from Form 1040, as indicated.

**Spouse SSN on Form 1040.** *(auto-calc)* Taken from Form 1040, as indicated.

**You have the required SSN(s)?** *(auto-calc)* You (and spouse, if married) must have a social security card that qualifies you to work. A card that just identifies you, such as cards with numbers starting with 9, are not enough. The software therefore answers No here unless you supplied on our Form 1040 an SSN for you (and spouse, if married) ranging from 1xx-xx-xxxx to 8xx-xx-xxxx.

**ELIGIBLE SO FAR?** *(auto-calc)* Answered Yes only if you were not a nonresident alien any of 2014 (or you were married filing jointly), and your answers to the last two questions are both Yes.

**EIC investment income.** *(auto-calc)* Computed from amounts on Form 1040, Schedule B, Schedule D, Schedule E, and Form 4797 in accor-

dance with Worksheet 1 of the IRS Pub. 596 for 2014 returns, which is a complete representation of the law, unlike the IRS instructions for Form 1040.

**Is investment income over \$3,350?** *(auto-calc)* If Yes, you cannot take the credit.

**YOU qualifying child of another?** *(auto-calc)* Taken from your entry on our Form 1040.

**SPOUSE qualifying child of another?** *(auto-calc)* Taken from your entry on our Form 1040. If married filing jointly, you cannot claim any credit if someone else can claim a credit based on spouse being their qualifying child.

**Qualifying child of another?** *(auto-calc)* Answered Yes if the above answer for you (or spouse, if married) is Yes. You cannot claim any credit if someone else can claim a credit based on you being their qualifying child.

**Form 2555 exclusion/deduction on Form 1040.** *(auto-calc)* Computed as the exclusion from Form 2555 that you entered for line 21 (but taken as a positive number) plus the foreign housing deduction you entered above line 36 of Form 1040.

**You file Form 2555 or 2555-EZ?** *(auto-calc)* Answered Yes if there is an amount on the preceding line. If Yes, you cannot take the credit.

**ELIGIBLE SO FAR?** *(auto-calc)* Answered Yes only if the answers to the first two questions (MFS and SSN questions) are both Yes and the answers to all other questions are No.

**WITH QUALIFYING CHILD.** The second part of our Schedule EIC reflects the information you supplied on the Dependents' Worksheets for Form 1040.

**Number of EIC-qualified children on Dependents' Worksheets.** *(auto-calc)* Taken from the "Number qualified for earned income credit" above line 6d of Form 1040, which is determined from your entries on the Dependents' Worksheets for line 6c of Form 1040.

**Number used for Schedule EIC (3 maximum).** *(auto-calc)* You get credit for no more than 3 children, so the IRS requires information on no more than 3 qualifying children. The software therefore prints on the official Schedule EIC only information on the first three Dependents' Worksheets that have qualifying children.

**See Dependents' Worksheets at line 6c for other info for Form 8867 Part II.** All information for Part II of Form 8867 is carried by the Dependents' Worksheets. You should therefore refer to the details for that worksheet for more information.

**ELIGIBLE FOR CHILD CREDIT?** *(auto-calc)* Answered Yes if eligible in Part I and the preceding number of children is 1, 2, or 3.

**WITHOUT QUALIFYING CHILD.** The third part of our Schedule EIC summarizes the results for those who have no qualifying children.

**YOU nonresident of the U.S. 6 months or more?** *(auto-calc)* Taken from your entry on our Form 1040.

**SPOUSE nonresident of the U.S. 6 months or more?** *(auto-calc)* Taken from your entry on our Form 1040.

**Main home in U.S. more than 6 months?** *(auto-calc)* Automatically Yes if either of the preceding two is Yes (except that the answer for spouse is ignored if not married filing jointly).

**YOUR age on Form 1040.** *(auto-calc)* Taken from your entry on the first screen of our Form 1040.

**SPOUSE age on Form 1040.** *(auto-calc)* Taken from your entry on the second screen of our Form 1040.

**One age at least 25, but under 65?** *(auto-calc)* If you (or spouse if married) are of the eligible middle age, you may qualify for the childless credit.

**YOU dependent on another return?** *(auto-calc)* Taken from your entry on the first screen of our Form 1040.

**SPOUSE dependent on another return?** *(auto-calc)* Taken from your entry on the second screen of our Form 1040.

**Eligible as a dependent on another return?** *(auto-calc)* Answered Yes if you (or spouse if married) have a Yes answer above.

**ELIGIBLE FOR CHILDLESS CREDIT?** *(auto-calc)* Answered Yes if NOT eligible for the child-based credit and the answers to main home, age, and dependency questions are Yes, Yes, and No, respectively.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return, but is provided for private notes or reminders.

**EARNED INCOME (IRS EIC Worksheet B).** 2014 earned income and the earned income credit are computed using *EIC Worksheet B* on pages 59 and 60 of the *IRS 1040 Instructions for 2014*.

**Do you have a Schedule SE?** *(auto-calc)* Answered Yes only if a Schedule SE has been created for the primary taxpayer (“you”).

**If so, self-employment income on your Schedule SE.** *(auto-calc)* Computed from the copy of Schedule SE for “you” in accordance with *EIC Worksheet B*, this is net self-employment income (including any amount from the optional methods) less the deductible part of self-employment tax for “you” (included in Form 1040, line 27).

**Married filing jointly and spouse has a Schedule SE?** *(auto-calc)* Answered Yes only if a Schedule SE has been created for the spouse.

**If so, self-employment income on spouse’s Schedule SE.** *(auto-calc)* Computed from the copy of Schedule SE for “spouse” in accordance with *EIC Worksheet B*, this is net self-employment income (including any amount from the optional methods but not reduced by the health insurance deduction on Form 1040, line 29) less the deductible part of self-employment tax for “spouse” (included in Form 1040, line 27).

**1 Self-employment income on Schedule(s) SE.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**Your self-employment income if no Schedule SE exists.** *(auto-calc)* Computed from amounts available on Form 1040 for “you” when no Schedule SE has been created for “you.”

**Spouse's self-employment income if no Schedule SE exists.** *(auto-calc)*  
Computed from amounts available on Form 1040 for "spouse" when no Schedule SE has been created for "spouse."

- 2 Self-employment income with no Schedule SE.** *(auto-calc)* Computed as the sum of the preceding two amounts.
- 3 Statutory income on Schedule C, line 1** *(auto-calc, supported by Schedule C)* Taken from Schedule(s) C for the appropriate spouse, this answered Yes if NOT eligible for the child-based credit and the answers to main home, age, and dependency questions are Yes, Yes, and No, respectively.

### **Wages for EIC:**

**Amount from Form 1040, line 7.** *(auto-calc)* Taken from Form 1040, as indicated, this is the total for taxable wages as reported on Form 1040.

### **Amounts in Form 1040, line 7, excludable for EIC:**

**Taxable scholarships not on W-2.** *(auto-calc)* Taken from our special lines below Form 1040 liens 7a and 7b.

**Prison inmate income in Form 1040, line 7.** *(auto-calc)* Taken from our special lines below Form 1040 liens 7a and 7b.

**Clergy income in both Schedule SE and Form 1040, line 7.** *(auto-calc)*  
Taken from our special lines below Form 1040 liens 7a and 7b.

**Deferred compensation in Form 1040, line.** *(auto-calc)* Taken from our special lines below Form 1040 liens 7a and 7b.

**Other exclusions for line 4a.** Enter any other amounts included in Form 1040, line 7, but excludable from earned income for the earned income credit, such as an amount on line 43 of Form 2555 (if included in Form 1040, line 7).

**Combat pay election on Form 1040, line 66b.** *(auto-calc)* Taken from Form 1040, line 66b, an amount appears here only if you chose the election on the line above line 66a Form 1040.

- 4a Net wages for Earned Income Credit.** *(auto-calc)* Computed as the wages from Form 1040, line 7, less the five excludable amounts, plus the elected combat pay.

**Total 2014 earned income.** *(auto-calc)* Computed as the sum of lines 1, 2, 3, and 4a, this is the earned income for line 4b, next.

- 4b Total earned income for Earned Income Credit.** *(auto-calc)* Taken as the computed "Total 2014 earned income."
- 5 Is line 4b less than allowed maximum?** *(auto-calc)* The maximums are the highest dollar amounts in the IRS's EIC tables that result in a credit, and depend on the number of qualifying children and filing status. If the answer is No, you have no earned income credit, the rest of the screen is blank, and the word NO will appear beside line 66b on the official printed Form 1040.
- 6 Total earned income from line 4b.** *(auto-calc)* Taken from line 4b only if the answer to line 5 is Yes. Otherwise, zero.
- 7 Credit for line 6 amount in EIC Table.** *(auto-calc)* Computed from the IRS'S EIC Tables using the income in line 6. If the result is zero, you

## Form by Form Details (2015 Edition)

Schedule EIC

have no earned income credit, the rest of the screen is blank, and the word NO will appear beside line 66b on the official printed Form 1040.

**8 Adjusted gross income.** *(auto-calc)* Taken from Form 1040, line 38.

**9 Are line 8 and line 6 the same?** *(auto-calc)* If Yes, the amount on line 7 is your credit and will appear on line 11, below. If No, another lookup in the EIC Tables is required at line 10, below.

**10 Credit for line 8 amount in EIC Table.** *(auto-calc)* If the answer to line 9 is No, computed from the IRS'S EIC Tables using the income in line 6. Otherwise, zero.

**11 ALLOWED EARNED INCOME CREDIT.** *(auto-calc)* If the answer to line 5 is No, or line 7 is zero, computed as zero. Otherwise, if the answer to line 9 is Yes, computed as the amount on line 7. Otherwise, computed as the lesser of lines 7 and 10.

The result on line 11 is posted to line 66a of Form 1040 as the Earned Income Credit.

### Schedule F / Profit or Loss from Farming

**Who must use Schedule F?** Schedule F is used to report income as the sole proprietor of a farm business. (Schedule C is used for nonfarm businesses.) You can report only one farm business on any one Schedule F, so five separate copies of Schedule F are built into the software.

**And who must not?** You must file Schedule C or C-EZ instead of Schedule F if the principal source of income is from agricultural services such as soil preparation, veterinary, farm labor, horticulture, management for a fee or on a contract basis, or you engage in the business of breeding, raising caring for dogs, cats, or other pet animals. Schedule F can be used only for sole proprietorships, and not for partnerships, joint ventures, or corporations. Joint ventures among individuals are generally considered to be partnerships, so a Partnership Return (Form 1065) must generally be filed. Amounts from the Schedules K-1 of that return are then reported on Schedule E, Part II, of each individual's Form 1040 return. However, there is now an exception for a husband-and-wife team, called a "qualified joint venture," as described next.

**Husband-wife farm business no longer automatically a partnership.** Prior to tax year 2007, a husband and wife who jointly ran an unincorporated farm business were always considered a partnership, whether or not a formal partnership agreement had been made, and had to file a partnership return, as described in the preceding paragraph. Since tax year 2007, a husband and wife team can elect to be taxed as a "qualified joint venture" instead of a partnership. If you make this election, you must file a Schedule F for each spouse, allocating income and expenses among the two schedules in accordance with the spouses' respective participation in the business. There is no formal process for making the election; the mere filing of two Schedules F for the farm business is considered as making the election. But once you report the business income this way, you must continue to do so year after year, unless you have IRS consent to be treated as a partnership instead of a "qualified joint venture."

**GENERAL INFORMATION.** Your answers to some of the following questions are critical to the proper operation of the software:

**Copy number (1 through 5).** (*auto-calc*) The number for the copy you selected from the menu appears here automatically.

**Spouse owns (not you)?** Each of the five available copies of Schedule F can be designated for either spouse. You must identify the proper spouse for each copy so that computations that depend on a spouse's individual self-employment income, such as the self-employment tax, are properly computed.

**A Principal product.** Describe the main crop or output for the tax year in 25 characters or less.

**B Enter code from Part IV.** Enter the IRS 6-digit code in Table 2-11 that best describes the source of most of your income. These codes also appear in Part IV at the end of the form, and on the last screen of the software. (*TIP: If no code in this table fits your business, you*

may be reporting the income on the wrong form. See the long list of nonfarm business categories in the IRS Instructions for Schedule C. If your business fits one of those categories better than any of the farm categories, you should report the income and expenses for the business on Schedule C, not Schedule F.)

**Table 2-11. Codes for Principal Agricultural Activity**

<b>CODE</b>	<b>ACTIVITY</b>
<b>Crop production:</b>	
111100	Oilseed and grain farming
111210	Vegetable and melon farming
111300	Fruit and tree nut farming
111400	Greenhouse, nursery, and floriculture production
111900	Other crop farming
<b>Animal production:</b>	
112111	Beef cattle ranching and farming
112112	Cattle feedlots
112120	Dairy cattle and milk production
112210	Hog and pig farming
112300	Poultry and egg production
112400	Sheep and goat farming
112510	Aquaculture
112900	Other animal production
<b>Forestry and Logging:</b>	
113000	Forestry and logging (including forest nurseries and timber tracts)
<b>Note:</b> This table also appears in Part IV of the official printout of Schedule F.	

**C Accounting method:**

**(1) Cash?** With the Cash Method you must report income in the year you receive it (in Part I) and expenses in the year you pay them (in Part II). Your answer here controls whether Part I or Part III is used in line 11, below. (Per IRS rules, you can use only one method, cash or accrual, for any one farm, and you can report only one farm business on a single Schedule F.)

**(2) Accrual?** Automatically the opposite of your answer to the Cash question, with this method you report income in the year you earn it (Part III) and expenses in the year you incur them (Part II).

**D Employer ID number (EIN).** You must enter the farm's EIN here in the standard 10-character format (00-0000000) if the farm was required to file employment, excise, alcohol, tobacco, or firearms tax returns. If you are using Schedule F as the sole owner of an LLC, be sure to enter your EIN as a sole proprietor of your farming business, not an EIC issued to the LLC. *If you have no EIN, leave this entry blank. DO NOT enter a social security number here.*

**E Did you "materially participate" in the operation of this business during 2014?** If you can answer Yes, you are not subject to the passive loss limitations, and no gain or loss from this schedule will be used in Form 8582. You can generally answer Yes if you participated in the

operation of the business for more than 500 hours during the year. See our instructions for Form 8582 for details.

**Were you a "significant participant" in the operation of this business?**

If you do not satisfy the requirements for material participation, you may be classified as a significant participant. You are tentatively considered to be a significant participant if you participated in the activity for more than 100 hours but no more than 500 hours during the tax year. See our instructions for Form 8582 for details on what constitutes significant participation.

**F Did you make any payments in 2014 that would require you to file Form(s) 1099?** If so, you must answer Yes here and answer the next question. For example, payments to independent contractors would generally be reported on a Form 1099-MISC filed with the IRS, with a copy to the contractor.

**G If "Yes," did you or will you file all required Forms 1099?** You must answer this question if you answered Yes to line F. Otherwise, your answer is ignored and neither the Yes box nor the No box will be checked on the official printout of Schedule F. (Note that there are stiff penalties for not filing Forms 1099 when you are required to do so.)

**PART I, FARM INCOME - CASH METHOD.** Complete lines 1 through 10 if the farm operates on a cash basis. Use Part III instead if the farm operates on an accrual basis.

**1a Sales of livestock and other resale items.** Enter the total gross income for 2014 from items you bought for resale, regardless of how the income was received. Be sure to include resale items reported to you on Forms 1099-K.

**1b Cost or other basis of livestock and other items reported on line 1a.** Enter only costs for items reported on line 1a.

**1c Subtract line 1b from line 1a. (auto-calc)** Computed as indicated.

**2 Sales of products you raised.** Enter all sales of livestock, produce, grains, and other products you raised, regardless of how the income was received. Be sure to include relevant sales reported to you on Forms 1099-K.

**3a Cooperative distributions (Form(s) 1099-PATR).** Enter the totals from any Forms 1099-PATR that you receive, including ALL patronage dividends.

**3b Taxable amount in line 3a.** Enter the part of line 3a that is taxable. This is usually the amount on line 3a less the patronage dividends from buying personal items, capital assets, or depreciable assets.

**4a Agricultural program payments.** Enter both cash and noncash payments, including direct payments, counter-cyclical payments, price support payments, diversion payments, and cost-share payments, and payments in the form of materials and services reported to you on Forms 1099-G or CCC-182. **CAUTION:** *If your entry on this line includes direct payments or counter-cyclical payments, you may have an "excess farm loss" that limits the amount of farm losses you can*

*claim. See the shaded box titled "Excess Farm Loss" preceding our details for the summary of Part II of Schedule F.*

**4b Taxable amount in line 4a.** Enter the full amount from 4a on line 4b unless some of the payments are nontaxable, such as payments received under certain conservation programs. See IRS Pub. 225 (*Farmer's Tax Guide*) for details.

**CRP payments included in 4b.** If line 4a includes any Conservation Reserve Program (CRP) payments, enter the taxable part here. This amount is not subject to self-employment tax on Schedule SE if you received social security retirement or disability payments in 2014. See Schedule SE for details.

**5a Commodity Credit Corporation (CCC) loans reported under election.** Enter here loan proceeds from any loans from the Commodity Credit Corporation (CCC) that you elect to report as income when received, *showing the details of the loans in a supporting statement for this line.* **CAUTION:** *If you have an entry on this line, you may have an "excess farm loss" that limits the amount of farm losses you can claim. See the shaded box titled "Excess Farm Loss" preceding our details for the summary of Part II of Schedule F.*

**5b CCC loans forfeited.** Report the full amount forfeited even if you reported the loan proceeds as income.

**5c Taxable amount related to line 5b.** If you did *NOT* elect to report the amount forfeited as income, enter here the same amount as line 5b. If you *DID* elect to report the amount forfeited as income, but the amount forfeited is different from your basis in the commodity, you may still have to make an entry here. See IRS Pub. 225 (*Farmer's Tax Guide*) for details.

**6 Crop insurance proceeds and federal crop disaster payments.** You should report on the following lines total crop insurance proceeds (including disaster payments under the federal disaster assistance acts) actually received in 2014, whether you elect to include them as income this year or next year:

**6a Amount received in 2014.** Enter total crop proceeds here.

**6b Taxable amount in line 6a.** Unless you elect to include them as income next year, as indicated by your answer to 8c, enter the full amount on line 8a here.

**6c Do you elect to defer the proceeds to 2015, and attach statement?** If you make the election you must *justify it in a supporting statement for this line.* See IRS Pub. 225 (*Farmer's Tax Guide*) for details on what to include. **Exception for e-file:** *The software does not support this statement for e-file. If you must create a supporting statement for this line, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

**6d Amount deferred from 2013.** If you elected on your 2013 return to include crop insurance proceeds from that year in 2014 income, enter that amount here.

## Schedule F

**7 Custom hire income.** Enter all income received for use of your farm machinery, regardless of how it was received. Be sure to include relevant income reported to you on Forms 1099-K.

**8 Other income.** Report here any other taxable income not reported elsewhere on this form, including

- barter income,
- gasoline and fuel credits and refunds,
- profit or loss on sales of commodity futures if they were made as a hedge against price changes,
- recapture on Form 4797, line 35 (sections 179 and 280F(b)(2)) that relates to deductions previously taken for this farm,
- any inclusion amount on leased property other than vehicles,
- amount canceled or forgiven on discharge of your business debt,
- recovery of bad debts,
- recapture of credits taken for clean-fuel vehicles, and
- recapture of credit taken for clean-fuel vehicle refueling property.

**Accounting method used.** Even though you specified the accounting method in line C, earlier, the software may change your choice here depending on your entries in Part I and III of Schedule F:

**Gross income from Cash Method.** *(auto-calc)* Computed as the sum of lines 1e, 2a, 2b, 3b, 4b, 5a, 5c, 6b, 6d, 7a, 7b, 8a, and 8b.

**Gross income from Accrual Method.** *(auto-calc)* Computed as the result on line 50 of Part III.

**Cash method chosen (vs. Accrual).** *(auto-calc)* If only one of the above two totals is nonzero, the corresponding method is chosen and the answer to question C, earlier, is forced to be consistent. But if you inadvertently entered amounts in both Part I and Part III, your previous answer to question C is used to determine the choice.

**9 GROSS INCOME.** *(auto-calc)* This line is taken as either "Gross income from Cash Method" or "Gross income from Accrual Method" depending on the automatic answer to the preceding question.

The amount on line 9 is used in computing the Farm Optional Method on Schedule SE for the corresponding spouse.

**PART II, FARM EXPENSES.** You must report all expenses here whether you use the Cash Method or the Accrual Method. *CAUTION: If you use the Cash Method, prepaid farm supplies you enter here (supplies not yet consumed by the end of the tax year) cannot exceed 50% of all other expenses combined. You can generally deduct the remaining 50% only in the year those supplies are consumed, but see IRS instructions for exceptions.* (Costs of Goods Sold are considered adjustments to income, not expense deductions, and are reported in Part I or Part III, not here.)

**2004 tax bill expanded deductibility of certain expenses.** The *American Jobs Creation Act of 2004* added a number of provisions for certain special interest groups. Among these are two groups of expenses applicable to farms that can now be deducted currently rather than amortized over time: certain start-up costs (up to \$5,000), and certain forestation and reforestation costs. The rules apply to costs paid or incurred for these items after the enactment of the bill on October 22, 2004. See IRS Pub. 535 for details.

**Car and truck expenses.** The rules for deducting vehicle expenses are similar to those detailed for employees on Form 2106. You can generally use either the standard mileage rate method or the actual expenses method described in the details for Form 2106. However, in spite of the IRS label for line 10, the reporting of car expenses on Schedule F involves more than one line of the form. Lines 10, 14, and 24a are all relevant parts of the formula. We therefore provide the following entries to help guide you into the proper reporting of the expenses. *CAUTION: You MUST provide information on your vehicle on Form 4562 if you make an entry at line 10.* You must complete columns a through c of Section A and all of Sections B and C of Part V of Form 4562 (accessed at line 14, below).

**Used more than four vehicles at the same time?** Answer Yes only if you used five or more vehicles in the business at the same time, such as in a fleet operation. *TIP: You do not have to answer Yes if you alternated use among several vehicles but never used more than four at any one time.*

**Actual expense REQUIRED for ALL.** *(auto-calc)* Automatically Yes if you answered Yes above. If you used more than four vehicles at the same time you are not allowed to use the Standard Mileage Rate method for any of the cars. A Yes answer here prevents your use of the following section for the Standard Mileage Rate. You must instead report actual expenses in the section that follows the next one.

**for cars and trucks using Standard Mileage Rate Method:**

You can use this method only if you owned the vehicle and always used this method for it, or leased the vehicle and used the method for the entire lease period, and did not use the vehicle for hire.

**Total 2014 business miles.** Enter the total business mileage driven for the entire 2014 calendar year for cars and trucks that you choose to report under the Standard Mileage Rate method.

**Deduction for line 10.** *(auto-calc)* Computed as zero if the answer to "Actual expense REQUIRED for ALL" is Yes. Otherwise, computed as

the above mileage times 56 cents a mile. This is the total deduction allowed for those cars and trucks that you choose to report under the Standard Mileage Rate method for 2014.

**for cars and trucks using Actual Expense Method:**

You cannot use this method if you leased the vehicle and ever used the Standard Mileage Rate method for the vehicle.

**Rent or lease payments.** Enter total rent or lease payments for cars and trucks. These payments are deducted at line 24a, not line 10, subject to the following limitation.

**Inclusion amount from IRS Pub. 463.** The IRS publishes an extensive table of inclusion amounts for “luxury vehicles.” The amount of lease expenses you can deduct as a business expense is reduced by this inclusion amount. The reduction generally applies only to leases beginning after 1986 for vehicles with an initial market value in excess of \$12,800 if begun before 1991, \$13,400 if begun in 1991, \$13,700 if begun in 1992, \$14,300 if begun in 1993, \$14,600 if begun in 1994, \$15,500 if begun in 1995 or 1996, \$15,800 if begun in 1997 or 1998, \$15,500 if begun in 1999 through 2002, \$18,000 if begun in 2003, \$17,500 if begun in 2004, \$15,200 if begun in 2005 or 2006, \$15,500 if begun in 2007, \$18,500 if begun in 2008 through 2012, and \$19,000 if begun in 2013. (Slightly higher amounts apply to trucks and vans.) See IRS Pub. 463 (*Travel, Entertainment, Gift, and Car Expenses*) for details.

**Deduction for line 24a.** (*auto-calc*) Computed as the rent or lease payment less the preceding inclusion amount, this total is used at line 24a of Schedule F, not here.

**Depreciation – report on Form 4562 for line 14, NOT here.** When you use the Actual Expenses method, depreciation is an allowable part of the actual expense you can deduct. However, the IRS requires you to report that depreciation on the copy of Form 4562 for this business, not here. This depreciation will then flow from Form 4562 to line 14 of Schedule F. (The proper copy of Form 4562 is accessed when you itemize line 14 of Schedule F. The proper deduction is then returned to Schedule F when you return from Form 4562. Note that you must also complete the information on vehicles in Part V of Form 4562, irrespective of which expense method you use.)

**Other actual expense.** All other actual expenses are deducted at line 10. Enter here all expenses not deducted at line 14 or 24a for cars that you choose to report under the Actual Expenses method. Include expenses for gasoline, oil, repairs, insurance, tires, license plates, etc. Exception: You can also enter here your parking fees or tolls, irrespective of the expense method you use. (Parking fees and tolls are the only actual expenses allowed for cars and trucks reported under the Standard Mileage Rate method.)

**10 Car and truck expenses (Form 4562 required).** (*auto-calc*) Computed as the sum of the deduction for line 10 from the Standard Mileage Rate method plus your entry above for other actual expenses.

**Other expenses.** All other expenses are deducted through lines 11 through 32:

**11 Chemicals.** Enter the expenses identified.

**Conservation expenses.** Allowed expenses are generally expenses to conserve soil or water to prevent erosion of land used for farming. In addition to grading, conditioning, restoration, drainage construction, brush clearing, and planting windbreaks, this includes recovery actions in line with the *Endangered Species Act of 1973*. See IRS Pub. 225 for details.

**Conservation expense carryover from 2013.** Enter the amount disallowed on line 14 last year because of the limitation described below.

**12 Conservation expenses (limited).** (*auto-calc*) Computed as the sum of the preceding two entries but no more than one-quarter of line 9 (gross income). Technically, the limit should be based on the gross farming income throughout the return excluding gains from selling assets. You may therefore be justified in overriding this line if you have farm income on another copy of Schedule F or elsewhere on the return. However, you must make sure that the sum of line 12 from ALL copies of Schedule F does not exceed one-quarter of the sum of gross income from ALL copies of Schedule F.

**Conservation expense carryover to 2015.** (*auto-calc*) Computed as the sum of the two components of line 12 less the limited amount allowed on line 12, this is the disallowed amount of conservation expense, and is carried over to Schedule F for next year.

**13 Custom hire (machine work).** This expense applies only when you (the machine operator) furnished the equipment. *TIP: If you paid rent or made lease payments on the equipment, you should deduct them at line 24a, not here.*

**14 Depreciation and section 179 deduction.** (*Road Map line, supported by Form 4562.*) A separate copy of Form 4562 is attached to each separate copy of Schedule F. The proper copy is automatically chosen when you access Form 4562 from this line. When you return from the form, the total depreciation is posted here, and the total amortization is posted to line 32a.

**15 Employee benefit programs.** Do not include amounts entered on line 23 for pension and profit-sharing plans, nor amounts for you or your family:

**Employee benefit programs NOT in line 23.** Enter contributions to employee benefit programs that are not included in line 23, later, such as accident, health, and life insurance programs, and dependent care assistance programs. You must exclude the sole proprietor of the business from this entry, but you may be able to deduct some of the sole proprietor's health insurance at line 29 of Form 1040.

**Credit allocated from Form 8941.** (*auto-calc if Standard or Premium Level, supported by Form 8941*) This line is used to report the part of any credit from Form 8941 that applies to this farm. (In the software, the last screen of Form 8941 is used to allocate the credit among your businesses, and the amount that applies to this copy of Schedule F for the proper spouse is posted here.) Form 8941 is a new form for computing a credit for health care payments made to

employees by small businesses. The credit is posted to Form 3800, where it is combined with other credits then posted to Form 1040. However, any deduction you claim for health care payments must be reduced by the amount of credit claimed, which is the reason for this line in the software.

**15 Employee benefit programs.** *(auto-calc)* Computed as "Employee benefit programs NOT in line 23" less "Credit allocated from Form 8941," but no less than zero.

**16 Feed purchased.** Generally, feed to be consumed in the current year.

**17 Fertilizers and lime.** Enter here expenses for all types of fertilizer.

**18 Freight and trucking.** Enter freight and trucking expenses but not general mailing expenses. Also, do not include freight and trucking for items purchased for resale with freight paid.

**19 Gasoline, fuel, and oil.** Enter here all energy expenses other than utilities.

**20 Insurance (other than health).** Enter only farm business insurance, such as property insurance. Health benefits for employees (including accident and health insurance) are reported on line 15, not here.

**21 Interest:**

**21a Mortgage (paid to banks, etc.) interest.** Enter only amounts reported to you on a Form 1098 in your name. If the amount you deduct here is larger than the amount shown on the Form 1098, you must *explain in a supporting statement for this line*, using both the description and amount columns.

**21b Other.** Enter here only amounts not reported to you on a Form 1098. This includes amounts for which no Form 1098 was issued by the recipient and amounts on a Form 1098 that is not in your name. If the latter case applies, you must *supply the name and address of the recipient of the Form 1098 in a supporting statement for this line*. *Exception for e-file: The software does not support this statement for e-file. If you must create a supporting statement for this line, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

**22 Labor hired (net):**

**Labor hired.** Enter amount paid for farm labor, including cost of boarding farm labor.

**Employment credits.** Enter here any employment credits, such as Work Opportunity Credit (Form 5884), Empowerment Zone Employment Credit (Form 8844), and Indian Employment Credit (Form 8845), that are based on wages included above. *CAUTION: Even though Form 5884 is built into the Premium Level, no amounts are posted here automatically since the wages used on Form 5884 may not be included on this copy of Schedule F.*

**22 Labor hired (less employment credits).** *(auto-calc)* Computed as "Labor hired" less "Employment credits."

**23 Pension and profit-sharing plans.** Enter the employer's contribution to employee pension and profit-sharing plans.

**24 Rent or lease.** Deductions must be separated into those for equipment and those for other property.

**Vehicles (entered above line 10).** *(auto-calc)* This is the amount computed above line 10 for rent and lease payments on cars and trucks, reduced by the IRS inclusion amounts for luxury vehicles. See the details above line 10 of this schedule.

**Machinery and equipment.** Enter equipment rentals here.

**24a Vehicles, machinery, and equipment.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**24b Other (land, animals, etc.).** Enter all other rent and lease payments here, such as for office space, pasture or farm land, and animals.

**25 through 29.** Enter the expenses identified on each line.

**30 Utilities.** Enter amounts paid for gas, electricity, water, etc., for business use on the farm. (You cannot deduct the base rate of the *FIRST* phone line into your house.)

**31 Veterinarian, breeding, and medicine.** Enter the expenses identified.

**32 Other expenses.** Report here all expenses that don't fit into the categories of lines 12 through 31:

**a Amortization (Form 4562).** *(Road Map line, supported by Form 4562.)* The same copy of Form 4562 that supports line 14 also supports this line.

**b Other itemized.** You must list any other expenses *in a supporting statement for this line*. Because the space on the IRS Schedule F is limited, you should keep your descriptions in the itemized list to 18 characters or less each. See IRS instructions for examples of other expenses you can deduct. *If you have preproductive period expenses that you capitalize, you must follow a special procedure that involves a negative entry in support of this line. See the following shaded section for details.*

**33 TOTAL EXPENSES (lines 10 through 32f).** *(auto-calc)* Computed as the sum of lines 10 through 32f.

**Preproductive Period Expenses.** Certain expenses for real or tangible property must be capitalized rather than expensed, such as through amortization computed on Form 4562. However, you may be able to deduct expenses for producing a plant with a preproductive period of more than 2 years. If you elect to deduct the expenses, you report them in the normal manner on lines 10 through 32. However, if you capitalize these preproductive expenses, whether by choice or requirement, the IRS defines a special procedure for highlighting this fact. Instead of eliminating these expenses from lines 10 through 32 and claiming a depreciation or amortization deduction on Form 4562, as you would for most capitalized expenses, the IRS instructs you to enter the full expenses in lines 10 through 32 then cancel them through a matching *negative* entry in a supporting statement for line 32, with the description "263A" in the support. You still must claim the capitalized amount through Form 4562, but the above negative procedure is required to flag the existence of these preproductive period expenses in the form.

**Excess Farm Loss.** A limitation on farm losses applies for 2014. If the farm received certain subsidies, it may be subject to the limitation if it had a net loss greater than \$300,000. Subsidies that count for this determination are:

- (1) Agricultural program payments that are direct payments or counter-cyclical payments, which are generally reported on line 4a (Cash Method) or 39a (Accrual Method), or
- (2) Commodity Credit Corporation (CCC) loans, which are generally reported on line 5a (Cash Method) or 40a (Accrual Method) of Schedule F.

When these conditions are met, you must use one of the worksheets supplied by the IRS at the end of the 2014 Instructions for Schedule F to determine the amount of farm loss that is disallowed for 2014. If there is more than one farm business, or excess farm losses apply to other forms (such as Schedule C, Schedule E, or Form 4835), you must allocate the computed excess farm loss among the forms on a *pro rata* basis. You must report the amount allocated to Schedule F on the line above your entry for "\$ amount of loss NOT at risk," as described on the next page.

**SUMMARY.** Income and expenses are netted here:

**Tentative net income.** *(auto-calc)* Computed as line 11 less line 35.

**Applicable farm subsidies.** The following three questions relate to subsidies that may make you subject to limitations due to excess farm loss. (See preceding page for more information.)

**Did the farm receive a direct agricultural program payment?** This subsidy may be included in line 5a or 40a of this copy of Schedule F.

**Did the farm receive a counter-cyclical agricultural program payment?** This subsidy also may be included in line 6a or 40a of this copy of Schedule F.

**Did the farm receive a CCC loan in 2014?** This subsidy may be included in line 7a or 41a of this copy of Schedule F.

If your answer to any of the preceding questions is Yes, you have an applicable farm subsidy and line 35 (later) will be answered Yes. If so, you may have an excess farm loss. If so, complete the appropriate worksheet at the end of IRS 2014 Instructions for Schedule F and enter the part allocated to this copy of Schedule F on the following line.

**Excess farm loss.** If the answer to the preceding question is Yes and "Tentative net income" is a loss that exceeds \$300,000, complete the appropriate worksheet at the end of the IRS 2014 Instructions for Schedule F to determine your excess farm loss, and enter here the part allocable to this copy of Schedule F. The farm's net loss will be reduced by this amount before at-risk or passive activity rules are applied.

**\$ amount of loss NOT at risk (Form 6198).** If tentative net income reflects a net loss for the farm after limiting the loss by the preceding "Excess farm loss," you must enter the part of the net loss that is NOT at risk here. Your losses for any activity are limited to the

amount that you have at risk, which is the amount that you personally stand to lose from that activity. This generally includes cash and the adjusted basis of any property you contributed to the activity plus any amount borrowed for which you are personally liable. Use Form 6198 (built into the Premium Level software) to determine the amount you have at risk, and file the form with your return. (Your entry here will affect the answer to lines 36a and 36b, later.)

**Prior unallowed passive loss.** This is the loss carryover from the prior year stemming from passive loss limitations on this activity for 2013. *This carryover is automatically transferred by the software from the prior-year return when you use the translate feature on a return that has 2013 as the entry for tax year on Form 1040.*

**Part allowed in significant participation net.** *(auto-calc)* If "Tentative net income" is a loss, no amount will appear here. But if it is a gain, and you identified this farm as a significant participation activity below line E, the part of the above carryover that does not exceed the tentative net income appears here.

**Significant participation net.** *(auto-calc)* If you identified this farm as a significant participation activity, this line is calculated as "Tentative net income" less the above part of carryover allowed.

**Net gain from ALL significant participation activities?** *(Road Map line, supported by Form 8582.)* Taken automatically from Form 8582, this answer can be reliable only upon the final recalculation of the return.

**Passive loss unallowed in 2014.** *(auto-calc line, supported by Form 8582.)* The unallowed loss from Form 8582 for the current year is posted here, but it may not be accurate until the final recalculation of the return. It is the proper pro-rated portion of the amount shown on Form 8582. If line 36 reflects a disallowance from Form 8582 or reflects an additional loss due to a carryover from 2013, "PAL" is printed beside the result on the official printout of Schedule F.

**34 NET FARM PROFIT OR LOSS.** *(auto-calc)* Computed as line 9 less line 33 with losses not at risk and unallowed passive losses removed.

**If you have a loss, complete lines 35 and 36.** Although the following answers are required only when there is a net loss on line 34, they are always answered by the software based on your prior entries:

**35 Did you receive an applicable subsidy in 2014?** *(auto-calc)* The answer will be Yes only if you answered Yes to at least one of the three questions that follow "Tentative net income" at the top of screen 6. If Yes, you may have an excess farm loss. If so, complete the appropriate worksheet at the end of IRS 2014 Instructions for Schedule F and enter the part allocated to this copy of Schedule F on the "Excess farm loss" line on screen 6.

**36 Which answer describes your investment in this activity:**

**α All investment is at risk.** *(auto-calc)* Answered Yes only if there is NOT an entry for "\$ loss NOT at risk (6198)" below "Tentative net income" at the top of screen 6. Otherwise, No.

**b Some investment is not at risk.** *(auto-calc)* Answered Yes *only* if there *IS* an entry for "\$ of loss NOT at risk (6198)" below "Tentative net income" at the top of screen 6. Otherwise, No.

**If line 36b is "Yes," itemize here for Form 6198.** *(If Premium Level, Road Map line supported by Form 6198.)* You must complete Form 6198/ if line 36b is Yes because some investment is not at risk.

The sum of line 34 for this copy and all other copies of Schedule F is posted to line 18 of Form 1040.

**PART III, FARM INCOME - ACCRUAL METHOD.** Complete this part **ONLY** if the farm operates on an accrual basis (that is, you report income when you earn it, not when you receive it). Use Part I instead if the farm operates on a cash basis.

**37 Sales of livestock, produce, grain, and other products.** Enter all sales for 2014 of livestock, produce, grains, and other products you raised, regardless of how the income was received. Be sure to include relevant sales reported to you on Forms 1099-K.

**38a Total distributions from cooperatives (1099-PATR).** Enter totals of any Forms 1099-PATR you receive, including patronage dividends.

**38b Taxable amount in 38a.** Enter the part of line 38a that is taxable. This is usually line 38a reduced by patronage dividends from buying personal items, capital assets, or depreciable assets.

**39a Total agricultural program payments.** Enter both cash and noncash payments, as detailed in the instructions for line 4a.

**39b Taxable amount in 40a.** Enter the full amount from line 39a on line 39b unless some of the payments are nontaxable, such as payments received under certain conservation programs. See IRS Pub. 225 (*Farmer's Tax Guide*) for details.

**40a Commodity credit loans reported under election.** Enter loan proceeds described in the instructions for line 5a, *showing the details of the loans in a supporting statement for this line.*

**40b CCC loans forfeited.** Report the full amount forfeited as detailed in the instructions for line 5b.

**40c Taxable amount related to line 40b.** Enter the taxable amount as detailed in the instructions for line 5c.

**41 Crop insurance proceeds.** Enter insurance proceeds detailed in the instructions for line 6.

**42 Custom hire income.** Enter income received for use of your farm machinery, regardless of how it was received. Be sure to include relevant income reported to you on Forms 1099-K.

**43 Other income.** Report here any other taxable income, including barter income, fuel credit refunds, and profit or loss on sales of commodity futures if they were made as a hedge against price changes. See the instructions for line 8 for other examples.

**44 Add amounts in right column of lines 37 through 43.** *(auto-calc)* Computed as the sum of lines 37, 38b, 39b, 40a, 40c, 41, 42, and 43.

**45 Inventory at beginning of year.** Enter here the starting inventory of all livestock, produce, grains, and other products. *(This amount is taken*

*from last year's line 49 if you started the return by translating a prior-year return with the tax year on the Control Form retained at 2013.)*

**46 Cost of products purchased during year.** Enter cost of livestock, produce, grains, and other products incurred during the year.

**47 Add lines 45 and 46.** *(auto-calc)* Computed as indicated.

**48 Inventory at end of year.** Enter here ending inventory of livestock, produce, grains, and other products.

**Unit-livestock, farm-price method?** Answer Yes if you use the unit-livestock-price method or the farm-price method of valuing inventory. A Yes answer here will result in a unique calculation for lines 49 and 50 to ensure that line 49 is never negative, as instructed by the IRS.

**49 Cost of products sold.** *(auto-calc)* Normally computed as line 47 less line 48, this is the cost of livestock, produce, grains, and other products sold during the year. However, if you answered Yes to the preceding question, and line 48 is greater than line 47, this line is computed instead as line 48 less line 47.

**50 GROSS INCOME.** *(auto-calc)* Normally computed as line 44 less line 49. However, if you answered Yes to the question above line 49, and line 48 is greater than line 47, this line is computed as line 44 plus line 49.

The result on line 50 is automatically posted to the "accrual" line above line 9 in Part I of this form, and used for line 9 when the accrual method is chosen. See the instructions above line 9 for details.

**PART IV, PRINCIPAL AGRICULTURAL ACTIVITY CODES.** The codes to be used when completing line B at the beginning of Schedule F appear here. These codes are also shown in Table 2-11 on the second page of these details for Schedule F.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Schedule H / Household Employment Taxes

**Who is it for?** Schedule H is used to report and pay social security, Medicare, and federal unemployment taxes, and any withholding deducted from wages paid, for any household employees (maids, butlers, cooks, gardeners, baby-sitters, etc.) you may have had during the tax year. If you

- paid \$1,900 or more in 2014 to any one household worker, *OR*
- withheld any Federal income tax during 2014 on behalf of the worker, *OR*
- paid \$1,000 or more in any one quarter of 2013 or 2014 to all workers combined,

you must do the following:

- file Schedule H,
- get an employer identification number (EIN) from the IRS, *AND*
- file a Form W-3 with the Social Security Administration, along with Copy A of a Form W-2 for each employee showing the amount of social security and Medicare tax paid on behalf of each employee, *AND*
- give each employee a copy of his or her Form W-2.

To get an EIN, you must file Form SS-4 with the IRS. You can get a Form SS-4 by downloading it from the forms section of the IRS web site at [www.irs.gov/formspubs](http://www.irs.gov/formspubs) or by calling 1-800-TAX-FORM to have it sent to you. You can also often get W-2 forms at office supply stores as well as the IRS. You can file Forms W-2 and W-3 electronically, as explained at [www.socialsecurity.gov/employer](http://www.socialsecurity.gov/employer), but you'll still need to give each employee a paper copy of Form W-2. *Schedule H is accessible through the Road Map at line 60a of Form 1040.* (Two copies of the schedule are available, one for each spouse.)

**IDENTIFICATION.** The spouse to which the copy of Schedule H applies is set by your choice when you entered the form, so the entry for SSN is automatic. However, you must supply your EIN, which is required for all household employers. In addition, if you are filing the form by itself (because you are not required to file Form 1040), you must so indicate in order for information about the taxpayer(s) and paid preparer to be printed in the signature block at the bottom of page 2.

**Social security number for this copy.** *(auto-calc)* Taken from your entry on Form 1040 using the following answer.

**Is this spouse's copy (vs. you).** *(auto-calc)* Based on the choice you made when entering this schedule.

**Filing this schedule without Form 1040?** A Yes answer is appropriate ONLY if you are filing this schedule by itself because you are not otherwise required to file Form 1040 (or 1040A, et al.) If you answer Yes, the name and address you entered on Form 1040 are shown below and printed in Part IV (Address and Signature) at the bottom of page 2 of the official Schedule H along with the paid preparer's information you entered in your software's Program Settings. Otherwise, neither is printed. *If Yes, you (and paid preparer, if any) must sign Schedule H in the provided space(s) in Part IV.*

**Address (no. and street) or P.O. Box.** *(auto-calc)* Taken from your entry on Form 1040 *ONLY* if you indicated on the preceding line that you are filing this schedule by itself. Otherwise, blank.

**City or p.o., state.** *(auto-calc)* Taken from your entry on Form 1040 *ONLY* if you indicated that you are filing this schedule by itself. Otherwise, blank.

**ZIP code.** *(auto-calc)* Taken from your entry on Form 1040 *ONLY* if you indicated that you are filing this schedule by itself. Otherwise, blank.

**Employer identification number (EIN).** Enter your EIN in standard 10-character format (00-0000000). An entry here is *mandatory. CAUTION for e-file: You must have a valid EIN to enter here in order to e-file the return. If you do not, you must apply for an EIN and file a paper return with "AppliedFor" entered here.*

**CASH WAGES.** The information collected in this section allows us to fully automate Schedule H for most taxpayers. However, employers in a credit reduction state and employers in more than one state must provide additional information in a worksheet for Section B, Part II. *TIP: Cash wages in the context of this schedule includes any equivalent form of compensation, such as personal or business checks.*

**Total cash wages of ALL employees combined.** Include ALL employees, not just those to whom you paid \$1,900 or more. *You should not generally include wages paid to your spouse, your parent, your child under age 21, or anyone under 18 who is a student. However, see IRS instructions for exceptions.*

**Disability payments subject to social security and Medicare tax.** If your employees received payments *from a state disability plan* that withheld the employee's part of social security and Medicare tax from the payments, enter the total disability payments here. You are liable for the employer's part of the social security and Medicare tax on these payments.

**Total taxable wages.** *(auto-calc)* Computed as the "Total for ALL employees combined" plus the preceding disability payments. You are liable for FUTA tax on the first \$7,000 of each employee's wages.

**Were these for just one employee?** If you had only one household employee, then most remaining lines in this section are completed for you automatically. If you had more than one, however, you must enter the required data yourself because there is not yet enough information for the software to do it for you.

**Part of above total for those employees to whom you paid \$1,900 or more.** Include *ONLY* employees to whom you paid at least \$1,900. You are liable for social security and Medicare tax only for these employees.

**Part subject to Medicare tax.** *(auto-calc)* Automatically the same as the preceding line because *ALL* of an individual's wages are normally subject to this tax. You may override this line if any employee qualifies for a special exception.

**Part over \$200,000 per employee.** If for just one employee, this is automatically the preceding total less \$200,000, but no less than zero. Otherwise, you must determine for each employee the amount of wages that exceed \$200,000, and enter here the sum of all these excess amounts. (\$200,000 is the wage base for the Additional Medicare Tax for 2014, *below* which no additional Medicare tax applies.)

**Part over \$117,000 per employee.** If for just one employee, this is automatically the preceding total less \$117,000, but no less than zero. Otherwise, you must determine for each employee the amount of wages that exceed \$117,000, and enter here the sum of all these excess amounts. (\$117,000 is the social security wage base for 2014, *above* which no social security tax applies.)

**Part subject to Social Security tax.** *(auto-calc)* Computed as the wages for those paid \$1,900 or more less the preceding excess amount, this is the amount liable for the federal social security tax.

**Total over \$7,000 per employee.** If for just one employee, this is automatically "Total taxable wages" computed earlier less \$7,000, but no less than zero. Otherwise, you must determine for each employee the amount of wages that exceed \$7,000, and enter here the sum of all these excess amounts.

**Wages subject to FUTA tax.** *(auto-calc)* Computed as the "Total taxable wages" computed earlier less the preceding excess amount, this is the amount liable for federal unemployment tax.

**Credit reduction states.** When a state does not repay to the government money it borrowed to pay unemployment benefits, the employer must pay more than the standard FUTA tax on Schedule H. This is accomplished by reducing the amount you are credited for unemployment tax already paid (hence the name "credit reduction state"). For 2014, there are 8 credit reduction states; for 2013 there were 14. If you are an employer in any one of these states, you must generally make an entry on one of the following three lines so that the proper credit reduction is computed for line 23 in Part II, Section B, of this schedule, and line 10 is properly answered No. *(The word "Part" in the following lines refers to the amount shown above these lines for "Wages subject to FUTA tax.")*  
**CAUTION:** *If you make an entry below, you must enter the same amounts as you enter below in the worksheets for line 17. Otherwise, the computation of credit reduction may not be correct at line 23. (If you leave these entries at zero, but report credit reduction states on the worksheets, the amounts reported in the worksheets will be used in the computation for line 23 instead so that the computations are correct. But if you make entries below, they will override the amounts you enter in the worksheets.)*

**Part in 1.2% reduction state.** Enter wages subject to FUTA in the states of California, Kentucky, North Carolina, New York, Ohio, or the U.S. Virgin Islands (not technically a state, but treated as a state for employment taxes). This entry is used in special computations for line

23 of this schedule in which credit at line 23 is reduced by 1.2% of the wages in the state.

**Part in 1.5% reduction state.** Enter wages subject to FUTA in the state of Indiana only. This entry is used in special computations for line 23 of this schedule in which credit at line 23 is reduced by 1.5% of the wages in the state.

**Part in 1.7% reduction state.** Enter wages subject to FUTA in the state of Connecticut only. This entry is used in special computations for line 23 of this schedule in which credit at line 23 is reduced by 1.7% of the wages in the state.

**Remainder (no credit reduction).** *(auto-calc)* Computed as "Wages subject to FUTA tax" less the preceding three entries, these are the wages eligible for the full credit for FUTA tax already paid.

**WITHHOLDING.** The following withholding information is required to properly complete lines 8 and 9 in Part I.

**Federal income tax withheld.** Enter the total of all amounts withheld on behalf of the employees.

**Tax state withheld from disability payments.** *(auto-calc)* Assuming that the state does not make an error in its deductions, and no one employee received more than \$117,000 in disability payments, this line is computed automatically for 2014 as 7.65% of your previous entry for total disability payments (6.2% for social security tax and 1.45% for Medicare tax).

**WHO MUST FILE.** This section tests the three circumstances under which you must file this schedule. *CAUTION: Although the IRS instructs you to skip B and C if A is Yes, and skip C if B is Yes, you must always answer all three questions in order for the software to complete Schedule H for you as much as possible.*

**A Did you pay ANY ONE household employee cash wages of \$1,900 or more in 2014?** *(auto-calc)* Automatically Yes if you made an entry for "Part of above total for those to whom you paid \$1,900 or more."

**B Did you withhold Federal income tax during 2014 for any household employee?** *(auto-calc)* Automatically Yes if you entered an amount above for "Federal income tax withheld." If Yes, you must complete Part I of this schedule.

**C Did you pay TOTAL cash wages of \$1,000 or more in ANY calendar QUARTER of 2013 or 2014 to household employees?** Automatically Yes if the previously-computed amount for "Total taxable wages" is \$4,000 or more, because then at least one quarter must have had at least \$1,000 of wages. Otherwise, subject to your own answer.

**Must you file Schedule H?** *(auto-calc)* If the answer to all three of the above questions is No, you do not have to file this schedule.

**Must you complete Part I?** *(auto-calc)* If the answer to Question A or Question B is Yes, the answer to this question will be Yes and you MUST complete Part I of this schedule (which is automatically completed for you).

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**Must you complete Part II?** *(auto-calc)* If the answer to Question C is Yes, the answer to this question will be Yes and you MUST complete Part II of this schedule (which is partially completed for you).

**PART I, SOCIAL SECURITY, MEDICARE, AND INCOME TAXES.** This part is fully automatic based on the preceding answers. If the answer to "Must you complete Part I?" at the bottom of screen 3 is No, all lines will be zero.

**1 Total cash wages subject to social security taxes.** *(auto-calc)* Taken from the previously-computed result for "Part subject to Social Security tax."

**2 Social security tax.** *(auto-calc)* For 2014, computed as 12.4% of line 1.

**3 Total cash wages subject to Medicare taxes.** *(auto-calc)* Taken from the previously-computed result for "Part subject to Medicare tax."

**4 Medicare tax.** *(auto-calc)* Computed as 2.9% of line 3.

**5 Total cash wages subject to Additional Medicare Tax withholding.** *(auto-calc)* Taken from your previously entry for "Part over \$200,000 per employee," which is the amount of which you are required to withhold a percentage for the new tax, even though that amount may not be the actual tax liability of the employee, which depends on the employee's filing status.

**6 Additional Medicare Tax withholding.** *(auto-calc)* Computed as 0.9% of line 5.

**7 Federal income tax withheld.** *(auto-calc)* Taken from your prior entry for "Federal income tax withheld."

**Amount withheld from disability payments.** *(auto-calc)* Taken from the previously-computed result for "Tax state withheld from disability payments." An amount here will cause the word DISABILITY to be printed beside line 8 on the official printout, as required by the IRS. Your tax liability is reduced by this amount, which is the employee's part already deducted by the state.

**8 Total social security, Medicare, and income taxes.** *(auto-calc)* Computed as the sum of lines 2, 4, and 7 less the preceding amount withheld from disability payments.

**9 Did you pay TOTAL cash wages of \$1,000 or more in ANY calendar QUARTER of 2013 or 2014 to household employees?** *(auto-calc)* Taken from your answer to Question C (on screen 3).

If the answer to line 9 is No, the rest of Schedule H is not used and the amount on line 8 is posted to Form 1040, line 60a. Otherwise, you must complete Part II and the amount for Form 1040, line 60a will be shown in Part III.

**PART II, FEDERAL UNEMPLOYMENT (FUTA) TAX.** You must complete this part if your answer was Yes for Question C. To properly complete this part, you must be familiar with the rules for your state concerning unemployment insurance.

**10 Did you pay unemployment contributions to only one state?** In spite of the IRS wording for this line, the answer must be No even when you pay to only one state if any of the wages subject to FUTA tax stem from employment in one of the 8 "credit reduction states" for 2014. See the credit reduction states for 2014 on screen 2 of this schedule. (The answer will be forced to No upon final recalculation if you enter FUTA wages on screen 2 for one of the 14 credit reduction states, or you completed a worksheet in Section B that identifies the state as one of the 14 credit reduction states and has an amount on line (b).)

**11 Did you pay all state unemployment contributions for 2014 by April 15, 2015?** Answer as indicated.

**12 Were all wages that are taxable for FUTA tax also taxable for your state's unemployment tax?** Answer as indicated.

**You must complete Section A.** *(auto-calc)* If you answered Yes to *all three* questions, above, and you are required to complete Part II, you must complete Section A, below, and leave Section B blank.

**You must complete Section B.** *(auto-calc)* If you answered No to *any* of the above questions and are required to complete Part II, you must complete Section B and its worksheet, and leave Section A blank.

**SECTION A.** This section handles the simplest form of FUTA reporting.

**13 Name of state where you have to pay unemployment contributions.**

Use the standard 2-character code for the state. CAUTION: If the state is any of the 14 credit reduction states listed at the bottom of screen 2, you must use Section B instead of Section A and leave this entry blank.

**14 Contributions paid to your state unemployment fund.** Enter the total you paid in 2014.

**Is state experience a 0% rate?** If line 14 is zero because your state experience rate is zero, you must confirm this here so that the proper note is printed on the official form for the IRS.

**15 Total cash wages subject to FUTA tax.** *(auto-calc)* Taken from the prior result for "Wages subject to FUTA tax" (on screen 2).

**16 FUTA tax.** *(auto-calc)* For 2014, computed as 0.6% of line 15.

**SECTION B.** This section handles a more general form of FUTA reporting.

**17 Itemize for worksheet.** *(Supported by the State Fund Contributions Worksheet, Figure 2-18.)* You must supply the detailed information in the worksheets, which will be reflected in lines 18(g) and (h).

**18 Totals, (g) and (h).** *(auto-calc lines)* Taken from columns (g) and (h) of the State Fund Worksheets.

**19 Add columns (g) and (h) of line 18.** *(auto-calc)* Computed as indicated.

**20 Total cash wages subject to FUTA tax.** *(auto-calc)* Taken from the prior result for "Wages subject to FUTA tax" (on screen 2).

**21 Multiply line 20 by 6.0%. (*auto-calc*)** Computed as indicated.

**22 Multiply line 20 by 5.4%. (*auto-calc*)** Computed as indicated.

**Smaller of line 19 or line 22. (*auto-calc*)** Computed as indicated, this result is used for line 23 unless you have FUTA wages for a credit reduction state (listed on screen 2).

**1.2% reduction states:**

**Wages included in line 20. (*auto-calc*)** Normally taken from your entry on screen 2 for "Part in 1.2% reduction state," but if that amount is zero and any State Fund Contributions Worksheets are completed with CA, KY, NC, NY, OH, or VI as the state for line a, the wages on line b of those worksheets is used here (but no more than the amount on screen 2 for total "Wages subject to FUTA tax").

**Credit reduction for line 23. (*auto-calc*)** Computed as 1.2% of the preceding amount, this is the amount by which the credit for state FUTA tax liability must be reduced because the specified state is a "credit reduction state" for 2014. This reduction is computed in accordance with the IRS's *Worksheet for Household Employers in a Credit Reduction State—Line 23* in the IRS 2014 Instructions for Schedule H.

**1.5% reduction states:**

**Wages included in line 20. (*auto-calc*)** Normally taken from your entry on screen 2 for "Part in 1.5% reduction state (IN)," but if that amount is zero and any State Fund Contributions Worksheets are completed with IN as the state for line a, the wages on line b of those worksheets is used here (but no more than the amount on screen 2 for total "Wages subject to FUTA tax").

**Credit reduction for line 23. (*auto-calc*)** Computed as 1.5% of the preceding amount, this is the amount by which the credit for state FUTA tax liability must be reduced because the specified state is a "credit reduction state" for 2014. This reduction is computed in accordance with the IRS's *Worksheet for Household Employers in a Credit Reduction State—Line 23* in the IRS 2014 Instructions for Schedule H.

**1.7% reduction states:**

**Wages included in line 20. (*auto-calc*)** Normally taken from your entry on screen 2 for "Part in 1.7% reduction state (CT)," but if that amount is zero and any State Fund Contributions Worksheets are completed with CT as the state for line a, the wages on line b of those worksheets is used here (but no more than the amount on screen 2 for total "Wages subject to FUTA tax").

**Credit reduction for line 23. (*auto-calc*)** Computed as 1.7% of the preceding amount, this is the amount by which the credit for state FUTA tax liability must be reduced because the specified state is a "credit reduction state" for 2014. This reduction is computed in accordance with the IRS's *Worksheet for Household Employers in a Credit Reduction State—Line 23* in the IRS 2014 Instructions for Schedule H.

**Total credit reduction for line 23. (*auto-calc*)** Computed as the sum of the three reductions for line 23 above, this is the amount of credit not allowed in line 23 because of being an employer in a "credit reduction state."

**23** Enter the smaller of line 19 or line 22. *(auto-calc)* Computed as "Smaller of line 19 or line 22" less "Total credit reduction for line 23," this is the credit allowed for state FUTA tax liability.

**24 FUTA tax.** *(auto-calc)* Computed as line 21 less line 23.

<p><b>STATE FUND CONTRIBUTIONS</b></p> <p>a. Name of state.....</p> <p>b. Taxable wages..... 0</p> <p>c. Exp per from.....(mo/yr)</p> <p>Exp to.....(mo/yr)</p> <p>d. State exp. % rate..... 0</p> <p>e. Mult b x .054..... 0</p> <p>f. Mult b by d..... 0</p> <p>g. Sub f from e..... 0</p> <p>h. State unemployment contrib</p> <p>0.6% credit reduc'n state. No</p> <p>0.9% credit reduc'n state. No</p> <p>1.2% credit reduc'n state. No</p>	<p><b>State Fund Contributions Worksheet, Figure 2-18.</b></p> <p>Accessed from line 17 in Part II, Section B, this worksheet is used to claim credit for amounts paid to a state unemployment fund. Up to 5.4% of wages can be deducted from the federal liability.</p>
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Figure 2-18. State Fund Contributions Worksheet

**a. Name of State.** Enter

the standard 2-character code for the state. *If you enter one of the 14 states listed on screen 2, your credit against your FUTA tax liability is reduced* through special calculations at line 23 of Schedule H.

**b. Taxable wages.** Enter wages defined by the state as subject to their unemployment tax, even if you pay no tax because your state experience rate is zero.

**c. State experience period from.** This and the next entry are date entries for the period upon which the state has based your unemployment tax rate. Enter starting date here in the mm/yy format.

**State experience period to.** Enter ending date here in the mm/yy format.

**d. State experience rate.** Enter the experience rate as a percentage, not a decimal factor, such as 4.9% rather than .049.

**e. Multiply b by .054.** *(auto-calc)* Computed as 5.4% of line c.

**f. Multiply b by d.** *(auto-calc)* Computed as line b times line d divided by 100.

**g. Subtract f from e.** *(auto-calc)* Computed as indicated, this is the dollar amount by which your actual state FUTA tax liability falls short of the state credit limit.

**h. State unemployment fund contributions.** Enter the total amount actually paid for 2014 by April 15, 2015 to the state unemployment fund. **TIP:** If you pay your entire liability on time, this amount should be the same as line f.

Lines g and h are separately totaled among the worksheets and are posted to line 18(g) and (h) of the schedule.

**0.6% credit reduction state.** *(auto-calc)* Answered Yes only if your entry for line a is DE and you have an entry on line b. Only Delaware employers are subject to a credit reduction that is 0.6% of wages.

**0.9% credit reduction state.** *(auto-calc)* Answered Yes only if your entry for line a is AR, CA, CT, GA, KY, MO, NC, NY, OH, RI, or WI, and you have an entry on line b. Employers in these 11 states are subject to a credit reduction that is 0.9% of wages.

## Schedule H

**1.2% credit reduction state.** *(auto-calc)* Answered Yes only if your entry for line a is IN or VI and you have an entry on line b. Only Indiana and U.S. Virgin Island employers are subject to a credit reduction that is 1.2% of wages.

**PART III, TOTAL HOUSEHOLD EMPLOYMENT TAXES.** This section collects the results of Parts I and II. However, *if Part II is not used, lines 25 and 26, below, will be zero* and the amount for Form 1040 will be taken directly from line 8 instead..

**25 Amount from line 8.** *(auto-calc)* Computed as indicated.

**26 Add line 16 (or line 24) and line 25.** *(auto-calc)* Computed as indicated, using line 16 if Section A was completed and line 24 otherwise.

If the answer to Question C (or line 9) is Yes, meaning that Part II is used, the amount on line 26 is posted to Form 1040, line 60a. Otherwise, the amount on line 8 alone is used.

**27 Are you required to file Form 1040 or 1040A?** *(auto-calc)* Taken as the opposite of your answer to "Filing this schedule without 1040?" (on screen 1). If No, Part IV is completed on the printed Schedule H, as described below.

**PART IV, ADDRESS AND SIGNATURE.** If you indicated on screen 1 that you are filing Schedule H alone (not with the Form 1040 return), the taxpayer's address that appears below your answer on screen 1 is printed at the bottom of page 2 in Part IV along with any paid preparer information you entered in your Program Settings. Otherwise, this section is left blank on the official printout. *If filing Schedule H alone, you (and your paid preparer, if any) must sign this part of the official printout.*

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Schedule J / Income Averaging for Farmers & Fishermen

**A break for taxpayers with farm or fishing income.** This schedule allows taxpayers to figure the tax on their farm (*and, since 2004, fishing*) income as if it were spread over the previous three years. It is therefore used to compute the tax on the farm part of your 2014 income by adding one-third of it to your 2011, 2012, and 2013 returns, recomputing the tax on those returns, then add the tax increase to the tax on your current return with farm income removed. As you can imagine, the computation is quite complex because it involves the tax tables and tax rate schedules for all of those earlier years, *and the unique tax computations for capital gains for those years*. However, *Tax Preparer* handles it all automatically, with the tax computations for those prior years built in. You need only enter selected information from those earlier returns, and the software does the rest. Furthermore, if the return had a Schedule J for 2013, most of the entries from earlier returns are automatically translated from the prior-year return as long as you retained the tax year on the Control Form at 2013. *Schedule J is accessible through the Road Map from the Schedule J line above Form 1040, line 44.* (TIP: You do *not* have to be a full-time farmer to qualify. If you have *ANY* farm income, no matter how small relative to your other income, you are qualified to use this schedule. However, the benefit from using this schedule increases as your farm income increases relative to your other income.)

**Fishermen also eligible to use Schedule J.** Since tax year 2004, you can use Schedule J to average income from your fishing business as if it were farming income by electing to include it in line 2 of Schedule J. Although the IRS has expanded the title of this schedule to include fishermen, they have also redefined the word “farm” to include fishing for the purposes of this schedule. As a result, when you see the phrase “farming income” in the IRS instructions (or ours) it should be taken to mean “farming and fishing income.” See *IRS 2014 Instructions for Schedule J* for rules for a fishing business.

**Exxon Valdez settlement:** If you were a plaintiff or beneficiary of the Exxon Valdez settlement, you may be able to use Schedule J for income averaging as if you were a fishing business, whether or not you engaged in a fishing business. See *IRS 2014 Instructions for Schedule J* for details.

**ELECTED FARM INCOME.** First you must identify the amount of farm income that is reported on your 2014 tax return, and how much of it you want to income average. The result is “elected farm income” at line 2a, which is now defined by the IRS to mean “the amount of your taxable income from farming or fishing that you elect to include on line 2a.” If all your farm income is reported on Schedule F and you choose to income average all of it (and only it), this section may already be complete without any additional entries from you.

**Used Schedule J for 2013 tax?** If you started this return by translating the prior-year return with tax year still retained at 2013, the appropriate amounts from 2013, including the answer for this question, should already be completed.

## Schedule J

**Used Schedule J for 2012 tax?** Similarly, if you started this return by translating as above, any amounts required from the 2012 schedule that appear on the 2013 schedule should already be completed, including the answer to this question.

**Used Schedule J for 2011 tax?** Similarly, if you started this return by translating as above, any amounts required from the 2011 schedule that appear on the 2013 schedule should already be completed, including the answer to this question.

**Elect to use income averaging for 2014?** Answer Yes *ONLY* if you will enter amounts from ALL prior returns on the remaining data entry lines of Schedule J.

**If so, complete ALL entries.** If you answered Yes above but don't complete all remaining entries, an improper tax may be computed for Schedule J and used inappropriately on Form 1040.

**1 Taxable income on 1040, line 43. (auto-calc)** Computed as indicated, this is your current taxable income before deducting the part that will be used for income averaging.

**Farm income on 1040, line 18. (auto-calc)** Computed as indicated, this is your net operating income on Schedule F.

**Other farm income in AGI.** Enter all other farm income here, including both gains and losses from the sale of property from your farm business (Form 4797) and net farm income from a partnership (Part II of Schedule E).

**Fishing income in AGI.** Enter all taxable fishing income reported on the return, such as a Schedule C devoted to a fishing business.

**Amount NOT to income average.** Enter the part of the above three amounts that you choose *NOT* to include in income averaging. It may be to your advantage to income average less than the full amount if the taxable income on your prior returns is not considerable lower than the taxable income on your current return. *TIP: The best entry is the one that results in the lowest tax at line 22. Therefore, after supplying all the information from your prior returns on lines 5 through 20, you may experiment with this entry to determine the best one to use.*

**2a ELECTED FARM INCOME. (auto-calc)** Computed as farm income on line 18 of Form 1040, plus the other farm income in AGI identified above, less the amount you are choosing NOT to income average.

**Entries required for the capital gains tax.** If you have net long term capital gains then it is to your benefit to use Schedule D to compute your tax. The software does this for you throughout Schedule J as long as you supply all required information from Schedule D for prior years above lines 8, 12, and 16 of this Schedule J. For the most recent year, the proper amounts are taken directly from Schedule D for you. However, you must identify here how much of the farm income identified in line 2a is included in each of these Schedule D lines:

**2014 Schedule D Tax Worksheet line 9. (auto-calc)** Taken from the Schedule D Tax Worksheet as indicated, this is the net long-term

gain less the elected investment income from Form 4952, the lesser of line 4e or 4g.

**Part included in line 2a.** You must indicate how much of the preceding amount stems from the farm income on line 2a.

**Adjusted Schedule D Tax Worksheet line 9 for Schedule J line 4.** *(auto-calc)* Computed as the original amount less the preceding allocation to line 2a.

**2014 28% NET for Schedule D line 18.** *(auto-calc)* Taken from the line labeled "28% rate net for ln 18" on screen 8 of Schedule D, *an amount may exist here even when line 18 of Schedule D is zero.* A net amount is required here rather than only a gain because the limitation to a gain must be made *after* the adjustment on the next line.

**Part included in line 2a.** You must indicate how much of the preceding amount stems from the farm income on line 2a.

**Adjusted Schedule D line 18 for Schedule J line 4.** *(auto-calc)* Computed as the original amount less the preceding allocation to line 2a, but no less than zero.

**2014 unrecaptured sec. 1250 gain for Schedule D line 19.** *(auto-calc)* Taken from the line labeled "Unrec.1250 gn for ln 19" on screen 8 of Schedule D, *an amount may exist here even when line 19 of Schedule D is zero.* An amount is required even when line 19 is not used on Schedule D because the determination of whether to use it in the tax calculations performed here must be made *after* the adjustment on the next line.

**Part included in line 2a.** You must indicate how much of the preceding amount stems from the farm income on line 2a.

**Adjusted Schedule D line 19 for Schedule J line 4.** *(auto-calc)* Computed the original amount less the preceding allocation to line 2a.

**Capital gain included on line 2a:**

**2b Excess of net long-term capital gain over net short-term capital loss.** *(auto-calc)* Taken as the amount for "Part included in line 2a" below "2014 Schedule D Tax Worksheet line 9."

**2c Unrecaptured section 1250 gain.** *(auto-calc)* Taken as the amount for "Part included in line 2a" below "2014 unrecaptured sec. 1250 gain for Schedule D line 19."

## Schedule J

**2014 TAX REFIGURED.** The tax that would appear on the 2014 return if the elected farm income were not included is computed here.

**3 Subtract line 2a from line 1.** *(auto-calc)* Computed as indicated.

**Adjusted Schedule D Tax Worksheet line 9 for Schedule J line 4.** *(auto-calc)* Taken from the result following line 2a for this amount.

**Adjusted Schedule D line 18 for Schedule J line 4.** *(auto-calc)* Taken from the result following line 2a for this amount.

**Adjusted Schedule D line 19 for Schedule J line 4.** *(auto-calc)* Taken from the result following line 2a for this amount.

**2013 Foreign Earned Income Tax Worksheet line 2.** *(auto-calc)* Taken from the corresponding amount shown on screen 2 of Form 1040, page 2.

**Qualified dividends on 1040 line 9b for Schedule J line 4.** *(auto-calc)* Taken from the corresponding amount shown on screen 8 of Schedule D, this and the next two amounts do not have a farm part, so no adjustment is necessary.

**Form 4952 line 4g for Schedule J line 4.** *(auto-calc)* Taken from the corresponding amount on screen 8 of Schedule D.

**Form 4952 line 4e for Schedule J line 4.** *(auto-calc)* Taken from the corresponding amount on screen 8 of Schedule D.

**4 Tax on line 3 at 2014 rates.** *(auto-calc)* Computed using the current tax rates and regulations, this is the tax that would exist on the current return if the elected farm income were not included, taking into account how much of capital gains applies to that elected income.

**Regular 2014 tax on line 1.** *(auto-calc)* Computed using the current tax rates and regulations, *this is the tax that would exist on the current return if there were no special tax calculations from other forms and schedules, like this one.* It is used at the end of Schedule J in determining whether Schedule J provides a benefit to the taxpayer. It is also used in the computation of line 34 of Form 6251, which must be figured without using Schedule J.

**2011 TAX REFIGURED.** The tax that would appear on the 2011 return if one-third of the 2014 elected farm income were included is computed here.

**Line 11 of 2013 Schedule J.** Enter amount indicated if not translated.

**Line 15 of 2012 Schedule J.** Enter amount indicated if not translated.

**Line 3 of 2011 Schedule J.** Enter amount indicated if not translated.

**2011 Form 1040, line 43—See instructions.** Normally you would enter the taxable income that appears on the 2011 tax return. However, if this taxable income is zero or less, and you did not use Schedule J in the past, you must use the *2011 Taxable Income Worksheet – Line 5* (on page J-3 of the *IRS 2014 Instructions for Schedule J*) to determine the amount to enter here.

**5 2013 Sch. J line 11, 2012 Sch. J line 15, 2011 Sch. J line 3, or 2011 Form 1040 line 43.** *(auto-calc)* Taken as one of the preceding entries depending on what years you used Schedules J.

**6 Divide line 2a by 3.0.** *(auto-calc)* Computed as indicated, this is one-third of the farm income you elected to average.

**7 Add lines 5 and 6.** *(auto-calc)* Computed as indicated, but no less than zero.

**Adjusted taxable income on line 7.** *(auto-calc)* This is the amount on line 7 repeated here because this line appears on the next screen.

**Filing status for 2011.** Enter the filing status from your 2011 tax return.

**2011 Schedule D Tax Worksheet line 9 or adjusted amount from prior Schedule J.** Use the Schedule D amount only if there is no Schedule J for 2011.

**1/3rd of analogous amount in line 2a.** *(auto-calc)* The amount allocated from the analogous gain on the current return to line 2a is spread equally among the past 3 years.

**Adjusted D worksheet line 9 for Schedule J line 8.** *(auto-calc)* Computed as the worksheet amount for 2011 (or previously adjusted amount) plus the preceding amount allocated to 2011.

**2011 Schedule D Tax Worksheet line 18 or adjusted amount from prior Schedule J.** Use the Schedule D amount only if there is no Schedule J for 2011.

**1/3rd of analogous amount in line 2a.** *(auto-calc)* The amount allocated from the analogous gain on the current return to line 2a is spread equally among the past 3 years.

**Adjusted D worksheet line 18 for Schedule J line 8.** *(auto-calc)* Computed as the worksheet amount for 2011 (or previously adjusted amount) plus the preceding amount allocated to 2011.

**2011 Schedule D line 19 or adjusted amount from prior Schedule J.** Use the Schedule D amount only if there is no Schedule J for 2011.

**1/3rd of analogous amount in line 2a.** *(auto-calc)* The amount allocated from the analogous gain on the current return to line 2a is spread equally among the past 3 years.

**Adjusted Schedule D line 19 for Schedule J line 8.** *(auto-calc)* Computed as the Schedule D amount for 2011 (or previously adjusted amount) plus the preceding amount allocated to 2011.

**2011 Foreign Earned Income Tax Worksheet line 2.** Enter line 2 of the worksheet if used to compute tax for 2011. Otherwise, enter zero. This amount is the foreign earned income or housing exclusion claimed on the 2011 return less associated itemized deductions not claimed. This entry should be zero if no Form 2555 (or 2555-EZ) was filed for 2011.

**2011 qualified dividends for Schedule J line 8.** Enter the qualified dividends on the 2011 Form 1040, line 9b.

**2011 Form 4952 line 4g for Schedule J line 8.** Enter the indicated amount from the 2011 Form 4952.

## Schedule J

2011 Form 4952 line 4e for Schedule J line 8. Enter the indicated amount from the 2011 Form 4952.

- 8 **Tax on line 7 at 2011 rates.** *(auto-calc)* Computed using the built-in 2011 tax rates and regulations.

**2012 TAX REFIGURED.** The tax that would appear on the 2012 return if one-third of the 2014 elected farm income were included is computed here.

**2013 Schedule J, line 15.** Enter amount indicated only if not translated.

**2012 Schedule J, line 3.** Enter amount indicated only if not translated.

**2012 Form 1040, line 43 – See instructions.** Normally you would enter the taxable income that appears on the 2012 tax return. However, if this taxable income is zero or less and you did not use Schedule J for 2012, you must use the *2012 Taxable Income Worksheet – Line 9* (on page J-7 of the IRS *2014 Instructions for Schedule J*) to determine the amount to enter here.

- 9 **2013 Sch. J line 15, 2012 Sch. J line 3, or 2012 Form 1040 line 43.** *(auto-calc)* Taken as one of the preceding three entries depending on what years you used Schedules J in the past.

- 10 **Amount from line 6.** *(auto-calc)* Taken from line 6 as indicated, this is one-third of the farm income you elected to average.

- 11 **Add lines 9 and 10.** *(auto-calc)* Computed as indicated, with a negative result allowed.

**Filing status 2012.** Enter the filing status from your 2012 tax return.

**2012 Schedule D Tax Worksheet line 9 or adjusted amount from prior Schedule J.** Use the Schedule D amount only if there is no Schedule J for 2012.

**1/3rd of analogous amount in line 2a.** *(auto-calc)* The amount allocated from the analogous gain on the current return to line 2a is spread equally among the past 3 years.

**Adjusted D worksheet line 9 for Schedule J line 12.** *(auto-calc)* Computed as the worksheet amount for 2012 (or previously adjusted amount) plus the preceding amount allocated to 2012.

**2012 Schedule D line 18 or adjusted amount from prior Schedule J.** Use the Schedule D amount only if there is no Schedule J for 2012.

**1/3rd of analogous amount in line 2a.** *(auto-calc)* The amount allocated from the analogous gain on the current return to line 2a is spread equally among the past 3 years.

**Adjusted Schedule D line 18 for Schedule J line 12.** *(auto-calc)* Computed as the Schedule D amount for 2012 (or previously adjusted amount) plus the preceding amount allocated to 2012.

**2012 Schedule D line 19 or adjusted amount from prior Schedule J.** Use the Schedule D amount only if there is no Schedule J for 2012.

**1/3rd of analogous amount in line 2a.** *(auto-calc)* The amount allocated from the analogous gain on the current return to line 2a is spread equally among the past 3 years.

**Adjusted Schedule D line 19 for Schedule J line 12.** *(auto-calc, NOT shown on screen)* Computed as the Schedule D amount for 2012 (or

previously adjusted amount) plus the preceding amount allocated to 2012.

**2012 Foreign Earned Income Tax Worksheet line 2.** Enter line 2 of the worksheet if used to compute tax for 2012. Otherwise, enter zero. This amount is the foreign earned income or housing exclusion claimed on the 2012 return. This entry will be zero if no Form 2555 (or 2555-EZ) was filed for 2012.

**2012 qualified dividends for Schedule J line 12.** Enter the qualified dividends on the 2012 Form 1040, line 9b.

**2012 Form 4952 line 4g for Schedule J line 12.** Enter the indicated amount from the 2012 Form 4952.

**2012 Form 4952 line 4e for Schedule J line 12.** Enter the indicated amount from the 2012 Form 4952.

**12 Tax on line 11 at 2012 rates.** *(auto-calc)* Computed using the built-in 2012 tax rates and regulations.

**2013 TAX REFIGURED.** The tax that would appear on the 2013 return if one-third of the 2014 elected farm income were included is computed here.

**2013 Schedule J, line 3.** Enter amount indicated only if not translated.

**2013 Form 1040, line 43—See instructions.** Normally you would enter the taxable income that appears on the 2013 tax return. However, if this taxable income is zero or less and you did not use Schedule J for 2013, you must use the *2013 Taxable Income Worksheet – Line 13* (on page J-11 of the *IRS 2014 Instructions for Schedule J*) to determine the amount to enter here.

**13 2013 Sch. J line 3, 2013 Form 1040 line 43, or worksheet amount.** *(auto-calc)* Taken as one of the preceding two entries depending on what years you used Schedules J in the past.

**14 Amount from line 6.** *(auto-calc)* Taken from line 6 as indicated.

**15 Add lines 13 and 14.** *(auto-calc)* Computed as indicated.

**Filing status 2013.** Enter the filing status from your 2013 tax return.

**2013 Schedule D Tax Worksheet line 9 or adjusted amount from prior Schedule J.** Use the Schedule D amount only if there is no Schedule J for 2013.

**1/3rd of analogous amount in line 2a.** *(auto-calc)* The amount allocated from the analogous gain on the current return to line 2a is spread equally among the past 3 years.

**Adjusted D worksheet line 9 for Schedule J line 16.** *(auto-calc)* Computed as the worksheet amount for 2013 (or previously adjusted amount) plus the preceding amount allocated to 2013.

**2013 Schedule D line 18 or adjusted amount from prior Schedule J.** Use the Schedule D amount only if there is no Schedule J for 2012.

**1/3rd of analogous amount in line 2a.** *(auto-calc)* The amount allocated from the analogous gain on the current return to line 2a is spread equally among the past 3 years.

## Schedule J

**Adjusted Schedule D line 18 for Schedule J line 16.** *(auto-calc)* Computed as the Schedule D amount for 2013 (or previously adjusted amount) plus the preceding amount allocated to 2013.

**2013 Schedule D line 19 or adjusted amount from prior Schedule J.** Use the Schedule D amount only if there is no Schedule J for 2012.

**1/3rd of analogous amount in line 2a.** *(auto-calc)* The amount allocated from the analogous gain on the current return to line 2a is spread equally among the past 3 years.

**Adjusted Schedule D line 19 for Schedule J line 16.** *(auto-calc)* Computed as the Schedule D amount for 2013 (or previously adjusted amount) plus the preceding amount allocated to 2013.

**2013 Foreign Earned Income Tax Worksheet line 2.** Enter line 2 of the worksheet if used to compute tax for 2013. Otherwise, enter zero. This amount is the foreign earned income or housing exclusion claimed on the 2013 return. This entry will be zero if no Form 2555 (or 2555-EZ) was filed for 2013.

**2013 qualified dividends for Schedule J line 16.** Enter the qualified dividends on the 2013 Form 1040, line 9b.

**2013 Form 4952 line 4g for Schedule J line 16.** Enter the indicated amount from the 2013 Form 4952.

**2013 Form 4952 line 4e for Schedule J line 16.** Enter the indicated amount from the 2013 Form 4952.

**16 Tax on line 15 at 2013 rates.** *(auto-calc)* Computed using the built-in 2013 tax rates and regulations.

**RESULT OF INCOME AVERAGING.** The remaining lines are used to compute the total tax for Schedule J and require your entry of tax on the prior returns.

**17 Add lines 4, 8, 12, and 16.** *(auto-calc)* Computed as indicated.

**18 Amount from line 17.** *(auto-calc)* Computed as indicated, this amount is repeated from the preceding line because of a page break on the official Schedule J.

**Line 12 of 2013 Schedule J.** Enter an amount only if not translated.

**Line 16 of 2012 Schedule J.** Enter an amount only if not translated.

**Line 4 of 2011 Schedule J.** Enter an amount only if not translated.

**2011 Form 1040, line 44\*.** Enter an amount only if not translated.

**19 2013 Sch. J, line 12, 2012 Sch. J line 16, 2011 Sch. J line 4, or 2011 Form 1040, line 44\*.** *(auto-calc)* Taken as one of the preceding three entries depending on what years you used Schedules J in the past.

**Line 16 of 2013 Schedule J.** Enter an amount only if not translated.

**Line 4 of 2012 Schedule J.** Enter an amount only if not translated.

**2012 Form 1040, line 44\*.** Enter an amount only if not translated.

**20 2013 Sch. J, line 16, 2012 Sch. J line 4, or 2012 Form 1040, line 44\*.** *(auto-calc)* Taken as one of the preceding three entries depending on what years you used Schedules J in the past.

**Line 4 of 2013 Schedule J.** Enter an amount only if not translated.

**2013 Form 1040, line 44\*.** Enter an amount only if not translated.

**21 2013 Schedule J, line 4 or 2013 Form 1040, line 44\*.** *(auto-calc)* Taken as one of the preceding three entries depending on what years you used Schedules J in the past.

**22 Add lines 19 through 21.** *(auto-calc)* Computed as indicated.

**23 Subtract line 22 from line 18.** *(auto-calc)* Computed as indicated.

**Schedule J amount for Form 1040.** *(auto-calc)* If the amount on line 23 is less than the tax on line 1 computed using the Tax Tables, Tax Computation Worksheet (or Tax Rate Schedule), Qualified Dividends and Capital Gain Tax Worksheet, or the Schedule D Tax Worksheet (which ever applies), and there is no tax from Form 8615 on the return, line 23 appears here and is posted to the Schedule J portion of line 44 of Form 1040. Otherwise, the amount is zero, indicating that Schedule J should not be used for the tax computation at line 44 of Form 1040. ***CAUTION:*** *If the result here is zero because line 23 is zero, and all amounts for prior years have been properly entered, you will have to override line 44 of Form 1040 with zero (if there is no tax from Form 8615) because a zero amount here indicates that Schedule J will not automatically be used for the tax on Form 1040.*

\* *You must exclude from the prior Form 1040, line 44, any amount included in that line from tax that is not tax imposed under section 1 of the Internal Revenue Code. As a result, you must not include any tax from Form 8814, Form 4972, or education credit recapture.*

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Schedule R / Credit for the Elderly or Disabled

**For eligible elderly taxpayers: automatically generated.** This schedule is automatically generated when it appears from the results on Form 1040 that a taxpayer or spouse is eligible for this credit on the basis of age and income (unless you chose to block its auto-creation through the Control Form). *You will nevertheless have to access Schedule R to supply more information if you received any nontaxable pensions that were NOT reported on line 16a or 20a of Form 1040. (Schedule R is accessible through the Road Map at the Schedule R component of Form 1040, line 54c.)*

**For disabled taxpayers: manually generated.** If you qualify for the credit based on disability, you must access Schedule R and supply additional information in order to claim the credit. *TIP: You no longer have to file a physician's statement with the return.* However, you must keep such a statement with your records if required.

**ELIGIBILITY QUESTIONS.** Eligibility is determined from your answers to the following questions. *Answer all questions separately for you and spouse* if married.

**YOUR age (from Form 1040 page 1).** *(auto-calc lines)* Taken from your entries on our Form 1040 page 1 for your age at year-end.

**SPOUSE'S age (from Form 1040 page 1).** *(auto-calc lines)* Taken from your entries on our Form 1040 page 1 for spouse's age at year-end.

**Spouse claiming credit...**

**A was permanently and totally disabled on Jan. 1, 1976 or Jan. 1, 1977, OR on the date retired?** Answer Yes if *EITHER* statement is true.

**B had not reached the mandatory retirement age of employer's plan by Jan. 1, 2014?** You cannot claim the credit for disableds if your employer's retirement plan would have required you to retire by the beginning of the tax year.

**C was unable to engage in any gainful activity in 2014?** You can answer Yes only if, due to your continued disability condition, you were unable to engage in any substantial gainful activity in 2014 (or, if disability started during 2014, anytime after the disability started).

**D received taxable disability income of (\$).** Do NOT include any amount received from an employer's pension plan after reaching mandatory retirement age.

**ELIGIBLE TO USE SCHEDULE R.** *(auto-calc lines)* Your age(s) and your answers to the above questions for you and spouse are used to determine your eligibility for either the credit for the elderly (65 or older) or the credit for the disabled (under 65), or both.

**PART I, FILING STATUS AND AGE.** *(auto-calc lines)* The Filing Status for Schedule R is determined from your entries on Form 1040 and above. A Yes will appear on one of the filing status lines (1 to 9) if you qualify for the credit. (Note that the two lines labeled "Single" actually apply to taxpayers filing as Head of Household or Qualifying Widow(er) as well as Single.)

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**PART II, STATEMENT OF DISABILITY.** Complete this part ONLY if a Yes appears in Part I at line 2, 4, 5, 6, or 9. You must answer at least the first question for the appropriate spouse to determine whether or not you need to complete the rest of the section for that spouse. *An identical set of questions appears for you and spouse.*

**1 Did you file the required statements in 1983 or before, OR after 1983 but your physician signed Box B?** You can answer Yes only if you filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for tax years after 1983 and your physician checked Box B on the statement.

**2 Are you unable to engage in gainful activity in 2014?** *(auto-calc)* Taken from your answer to Questions C of the earlier eligibility questions for the appropriate spouse.

**PHYSICIAN'S STATEMENT REQUIRED?** *(auto-calc)* Answered No only if you could answer Yes to BOTH of the above two questions.

If a physician's statement is required, you must have a physician sign the statement at the end of the IRS Instructions for Schedule R and keep this signed statement with your records. You should no longer file the statement with your return.

**PART III, AMOUNT OF YOUR CREDIT.** The computation is based on the above entries plus any adjustment you make to line 13, below. When all calculated entries are zero it means that you are not eligible for the credit.

**10 Amount based on answers in Part I.** *(auto-calc)* \$5,000, \$7,500, or \$3,750 will appear here based on the Schedule R filing status determined above.

**11 Taxable disability income.** *(auto-calc)* Taken from your prior entries for taxable disability income, depending on your Schedule R filing status.

**12 Line 10, or smaller of lines 10 and 11.** *(auto-calc)* Taken as line 10 if line 11 is zero, and the smaller of lines 10 and 11 otherwise.

**Nontaxable social security benefits not on Form 1040.** Enter here all nontaxable social security (and railroad retirement benefits treated as social security) not included in line 20a of Form 1040.

**13a Nontaxable part of social security benefits.** *(auto-calc)* Computed as line 20a less line 20b of Form 1040 plus the above amount.

**Nontaxable pensions not on Form 1040.** Enter here any nontaxable part of pensions received but not reported on line 16a of Form 1040,

including nontaxable veteran's pensions (but NOT military disability pensions) and any other pension, annuity, or disability benefit that is excluded from income under any other provision of federal law (but NOT disability under section 808 of the Foreign Service Act of 1980). Enter as a negative here the part of line 16a of Form 1040 that is a return of capital.

**13b Nontaxable part of other pensions.** *(auto-calc)* Computed as line 16a less line 16b of Form 1040 plus the above additional amount.

**13c Add lines 13a and 13b.** *(auto-calc)* Computed as indicated.

**14 Amount from Form 1040, line 38.** *(auto-calc)* Automatically taken from Form 1040 as indicated.

**15 Amount based on answers in Part I.** *(auto-calc)* \$7,500, \$10,000, or \$5,000 depending on the Schedule R filing status.

**16 Subtract line 15 from line 14.** *(auto-calc)* Computed as indicated.

**17 Enter one-half of line 16.** *(auto-calc)* Computed as indicated.

**18 Add lines 13c and 17.** *(auto-calc)* Computed as indicated.

**19 Subtract line 18 from line 12.** *(auto-calc)* If the sum of the reductions at lines 13c and 17 equals or exceeds the base on line 12, line 19 will be zero and you cannot take the credit.

**20 Multiply line 19 by 15%.** *(auto-calc)* Computed as indicated.

**Amount from Form 1040, line 47.** *(auto-calc)* Taken from Form 1040 as indicated.

**Amounts from Form 1040, lines 48 and 49.** *(auto-calc)* The sum of amounts on Form 1040 are computed as indicated. These are the only credits to be taken before the credit from Schedule R, even though the credit from Schedule R is not reported until line 54c of Form 1040.

**21 Tax liability limit.** *(auto-calc)* Computed as Form 1040, line 47, less Form 1040, lines 48 and 49, but no less than zero. This result matches that from the *Credit Limb Worksheet—Line 21* in the IRS 2014 *Instructions for Schedule R* except that a negative result is disallowed.

**22 CREDIT FOR THE ELDERLY OR DISABLED.** *(auto-calc)* Computed as the lesser of line 20 or line 21

The result on line 22 is posted to the Schedule R component of line 54c of Form 1040.

### Schedule SE / Self-Employment Tax

**Who is it for.** This form is for self-employed taxpayers who owe social security and Medicare tax on their self-employment income. Liabile income includes business income, farm income, certain partnership income, and wages from a church that elects exemption from employer social security taxes. *This tax applies no matter how old you are, and whether or not you are already receiving social security benefits.* See IRS Instructions for Schedule SE and IRS Pub. 533 (*Self-Employment Tax*).

**Fully automatic for most liable taxpayers.** Schedule SE is automatically generated when required based on results on Form 1040, unless you choose to block its auto-creation through the Control Form. However, *you may have to supply additional information directly on Schedule SE if you are a church employee, a minister, or a member of some other special group.* (*Schedule SE is accessible through the Road Map at Form 1040, line 57.*)

**GENERAL INFORMATION.** Schedule SE contains a short form (Section A) and a long form (Section B). The software completes the proper one based on your entries.

**Social security number for this copy.** (*auto-calc*) One copy of Schedule SE is available for each spouse. The social security number entered on Form 1040 for the spouse whose copy you chose when you entered Schedule SE appears here.

**Is this spouse's copy (vs. you)?** (*auto-calc*) This answer is also based on the copy you chose.

**Who Must File Schedule SE.** If you have net self-employment of more than \$433.13 (\$400 divided by 0.9235), or church employee income (other than for services as a minister or member of a religious order) of \$108.28 or more, you must file this schedule.

#### EXCEPTIONS:

**Exempt from Schedule SE tax based on an IRS-approved Form 4361 or 4029?** (*auto-calc lines, supported by Control Form*) If you claimed an exemption from this copy of Schedule SE on our Control Form (claiming an approved Form 4361 or 4029 that applies to ALL of your self-employment income), a Yes answer will appear here.

**IRS approved your Form 4361 claim not to be taxed, but you have other earnings subject to self-employment tax?** If your *ONLY* self-employment income was from earnings as a minister, you do not have to file Schedule SE if you file Form 4361 and receive IRS approval. But if you have more than \$433.13 of *OTHER* self-employment earnings you may have to file Schedule SE anyway. See "ADJUSTMENTS FOR CLERGY" on the next page.

**WAGE AND TIP INCOME.** The remaining entries help determine which section you must use, and are then used in the appropriate section:

**Qualifying church wages on W-2.** If you are an employee of a church or a qualified church-controlled organization that has in effect a certificate electing exemption from employer social security taxes, a tax

applies even when your self-employment income is less than \$400, and you must use the Long Schedule SE. (If *CLERGY*, see "Adjustments for Clergy," next, and do not make an entry here.)

**Social security wages from Forms W-2 reported on Form 1040.** (*auto-calc*) Taken from your entry for social security wages on the W-2 Worksheets for the appropriate spouse.

**Adjustment to social security wage total.** Enter here any additional wages that qualify for inclusion that were not included as social security wages on the W-2 Worksheet, such as certain railroad retirement compensation, or any special adjustment.

**Net social security wages.** (*auto-calc*) Computed as the social security wages plus the above adjustment less the Medicare qualified government wages. If you are not eligible for the Short Schedule SE, this result is used for line 8a of the Long Schedule SE.

**Unreported tips subject to social security tax.** (*If Premium Level, auto-calc line supported by Form 4137.*) Tips not reported to your employer that are subject to social security tax through Form 4137 are reported here from line 9 of Form 4137. This entry is used for line 8b of the Long Schedule SE.

**ADJUSTMENTS FOR CLERGY.** Because of the way clergy are often compensated for their services, special rules must often be followed for clergy income. You should make entries on the following lines only for clergy who are subject to the social security tax:

**Social security wages not taxed on W-2.** (*auto-calc*) Taken from the W-2 Worksheets for line 7, this is the amount identified as clergy wages subject to the social security tax but for which withholding on Form W-2 was excepted. It will be added to net and gross nonfarm income for Schedule SE.

**Net income on C not social security liable.** If you report all ministerial income on Schedule C or C-EZ but that income is exempt from social security tax by way of Form 4361, enter the net income for that Schedule C here so that it can be subtracted from the net nonfarm income posted to Schedule SE from Schedule C or C-EZ.

**Gross income on C not social security liable.** If you report all ministerial income on Schedule C or C-EZ but that income is exempt from social security tax by way of Form 4361, enter the gross income for that Schedule C here so that it can be subtracted from the gross nonfarm income posted to Schedule SE from Schedule C or C-EZ.

**Nontaxable income that is social security liable.** Enter here any amount not subject to regular income tax but still subject to the social security tax, such as housing allowance or rental value of your home provided to you as a minister. This amount will be added to net and gross nonfarm income for Schedule SE. (Note that clergy no longer have to include as self-employment income retirement benefits received from a church plan after retirement and the rental value of a home or an allowance for a home furnished after retirement.)

**EXEMPT Notary Public Income.** Enter fees received for services performed as a notary public that are reported on a Schedule C. These fees are not subject to the self-employment tax, and are therefore subtracted from the amount in line 2 (whether the short or long form is used) when computing line 3. "EXEMPT NOTARY" will print next to line 3 on the official printout of Schedule SE if you make an entry here.

**FARM SELF-EMPLOYMENT INCOME.** Farm self-employment income is computed from amounts on Schedules E and F for the proper spouse, as follows:

**Net farm income:**

**Net profit or loss from Schedule F.** *(auto-calc)* Taken from the appropriate spouse's part of line 18 of Form 1040, where net profit from all Schedules F is posted.

**Net farm profit or loss from Schedule K-1.** *(auto-calc)* Taken from the net farm self-employment income you identified on the Partnership and S Corp Worksheets in Part II of Schedule E (for the appropriate spouse).

**Adjustment to farm net.** Enter here any net farm self-employment income for the appropriate spouse not reported on Schedule E or F, or any other special adjustments.

**Net farm profit or loss.** *(auto-calc)* Computed as the sum of the above three lines.

**CRP payments in Schedule F, line 6b.** *(auto-calc, supported by Schedule E)* Taken from the amount you identified below line 6b of Schedule F as taxable Conservation Reserve Program payments received (on copies of Schedule F for the appropriate spouse). Thanks to the *Food, Conservation and Energy Act of 2008*, this amount is not subject to social security tax if you received social security benefits during the year.

**CRP payments on Schedule K-1 (Form 1065).** Enter the Conservation Reserve Program payments reported to you from a partnership on Schedule K-1 (Form 1065), box 20, code X.

**Did you receive social security retirement or disability benefits?** If Yes, the preceding two CRP payment amounts are not subject to self-employment tax, thanks to the *Food, Conservation and Energy Act of 2008*.

**Amount for Schedule SE, line 1b.** *(auto-calc)* Computed as the sum of CRP payments if your answer to the preceding question is Yes; otherwise, zero. Unless the Farm Optional Method is used, this amount is used for line 1b of Section A or Section B of Schedule SE (depending on whether the Short Schedule SE or Long Schedule SE is used). But if the Farm Optional Method is elected, the net profit used to determine eligibility for the method is reduced by this amount.

**Gross farm income:**

**Gross income from Schedule F.** *(auto-calc)* Taken from line 11 of all copies of Schedule F for the appropriate spouse.

**Gross farm income from Schedule K-1.** *(auto-calc)* Taken from Part II of Schedule E (for the appropriate spouse).

## Schedule SE

**Other gross farm income.** Enter any gross farm self-employment income for the appropriate spouse not included above.

**Gross farm income.** *(auto-calc)* Computed as the sum of the above three lines.

**Elect to use the Farm Optional Method?** If net farm self-employment income is low, you may choose to use an optional method in order to raise your social security contributions or to ensure a child care or earned income credit. The software will automatically control all limitations that apply to current-year amounts.

**FARM OPTIONAL METHOD USED.** *(auto-calc)* This answer is Yes only if you elect the method and meet all the monetary requirements computed in Part II of Section B of this schedule.

**NONFARM SELF-EMPLOYMENT INCOME.** Nonfarm self-employment income is computed from amounts on Schedules C and E, as follows:

**Net nonfarm income:**

**Net profit or loss from Schedule C or C-EZ.** *(auto-calc)* Taken from Schedule C or C-EZ through line 12 of Form 1040.

**Amount on Schedule C or C-EZ received as a statutory employee.** *(auto-calc)* Taken as the net income on any Schedule C or C-EZ identified as completed for a statutory employee.

**Net profit on Schedule C or C-EZ for Schedule SE.** *(auto-calc)* Computed as the net profit or loss on Schedule C or C-EZ less the above statutory amount. (Statutory employees have already paid social security and Medicare tax as reported on their W-2 forms.)

**Net nonfarm profit or loss from Schedule K-1.** *(auto-calc)* Taken from the net nonfarm self-employment income you identified on the Partnership and S Corp Worksheets in Part II of Schedule E.

**Adjustment for clergy.** *(auto-calc)* Taken from the entries in the previous ADJUSTMENTS FOR CLERGY section as described there.

**Other net nonfarm income.** Enter here any net nonfarm self-employment income for the selected spouse not reported on Schedule C, C-EZ, or E, or any other special adjustments.

**Net nonfarm profit or loss.** *(auto-calc)* Computed as the sum of all the above lines.

**Gross nonfarm income:**

**Gross income from Schedule C or C-EZ.** *(auto-calc)* From line 7 of Schedules C and C-EZ.

**Gross nonfarm income from Schedule K-1.** *(auto-calc)* From Part II of Schedule E.

**Adjustment for clergy.** *(auto-calc)* Taken from the entries in the previous ADJUSTMENTS FOR CLERGY section as described there.

**Other gross nonfarm income.** Enter any gross nonfarm self-employment income not included above.

**Gross nonfarm income.** *(auto-calc)* Computed as the sum of all the above lines.

**Elect to use the Nonfarm Optional Method?** If your net nonfarm self-employment income is low, you may choose to use this optional method in order to raise your social security contributions or to ensure a child care

or earned income credit. The software will automatically control all limitations that apply to current-year amounts, but there are further restrictions that depend on earlier years, as follows.

**Self-employment net was \$400 or more 2 of the last 3 years?** You cannot use the Nonfarm Optional Method unless you can answer Yes. (Only 92.35% of your self-employment income is subjected to the \$400 test, due a deduction based on the rate of this tax.)

**Number of years previously used Nonfarm Optional Method.** You cannot use the Nonfarm Optional Method unless you can enter 4 or less here, because you cannot use the method more than five times in your lifetime.

**NONFARM OPTIONAL METHOD USED.** *(auto-calc)* This answer is Yes only if you elect the method and meet all the monetary requirements computed in Part II of Section B of this schedule.

**SECTION A, SHORT SCHEDULE SE.** If you are eligible to use the short of Schedule SE, it is completed automatically here based on the preceding entries. For 2014 only the first \$117,000 of income is subject to the full 15.3% tax, and all remaining income is taxed at a 2.9% rate. The results on lines 5 and 6 are posted to lines 57 and 27 of Form 1040, respectively. (The software uses the flow chart on page 1 of the official Schedule SE to determine eligibility to use the short Schedule SE.)

**SECTION B, LONG SCHEDULE SE.** Conversely, if you are required to use the long version of Schedule SE, it is completed automatically here, and lines 12 and 13 are posted to lines 57 and 27 of Form 1040, respectively.

**Part I, Self-Employment Tax.** The tax is figured in this part, which is fully automatic. For 2014 only the first \$117,000 of income is subject to the full 15.3% tax, and all remaining income is taxed at a 2.9% rate. The results on lines 12 and 13 are posted to lines 57 and 27 of Form 1040, respectively.

**Part II, Optional Method to Figure Net Earnings.** If you answered Yes to one of the Optional Method questions previously, and are otherwise eligible for it, this section is used to determine the income for line 4b of Section B, Part I, and is completely automatic. However, income must be quite low to qualify for one of the Optional Methods:

- **Farm Optional Method.** You cannot use this method for 2014 unless your net farm profits (less qualifying CRP payments) were less than \$5,198 or your gross farm income was \$7,200 or less. (Net and gross farm income is shown on screen 2 of this schedule.)
- **Nonfarm Optional Method.** You cannot use this method unless your net nonfarm profits are less than *BOTH \$5,198 AND 72.189% of your total gross nonfarm income.* (The gross and net nonfarm amounts are seen on screen 3 of this schedule.)

**Extra line for personal memos.** The supporting statement you create for this line is not printed as a part of the official return, but is intended for private notes or reminders for this schedule.

## Schedule SE

**Exempt from filing (NOTARY).** *(auto-calc)* Automatically Yes if you made an entry earlier for "EXEMPT Notary Public Income," had less than \$433.14 (\$400 divided by 0.9235) earnings, did *NOT* elect one of the Optional Methods, do not have to file Schedule SE, and owe no self-employment tax. If Yes, Schedule SE will be omitted from printing, and "EXEMPT Notary" will be printed next to line 57 of Form 1040 on the official printout of the return to let the IRS know.

**Form 1116\*\* / Foreign Tax Credit**

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of Tax Preparer.

**Purpose.** Form 1116 is used to claim credit for income taxes paid to a qualifying foreign country or U.S. possession. It's purpose is to prevent you from being double-taxed on the same income – once by the U.S. and once by the foreign country. Form 1116 is *accessible through the Road Map at line 48 of Form 1040*. Ten copies of Form 1116 are built into the software.

**Prepare Form 1116 only after Form 1040 is complete and final through line 44.** Because of the unique structure of Form 1116, you should prepare Forms 1116 only after the return is complete and final through and including tax on line 44 of Form 1040. Especially important are all income items through line 22, itemized deductions on Schedule A for line 40, and tax on lump-sum distributions on Form 4972 for line 44b. *If any of these amounts change after you prepare Forms 1116, you must itemize to the worksheets accessed at line 1a of Form 1116 and view all worksheets so that they are updated with the new amounts, since worksheets only recalculate when you view them.*

**You may qualify for the credit without filing Form 1116.** You can claim the credit *without* filing Form 1116 *if all of the following conditions are met:*

- (1) All foreign income was investment income.** Income that falls into this category includes interest, dividends, royalties, rents, annuities, gain from sale of investment property, and capital gains not associated with your active conduct of a trade or business. *(The IRS confusingly calls this the "passive income" category, but it has no relation to "passive activity income" defined for Form 8582. Rather, it includes "portfolio income" as defined for Schedule D and is therefore "nonpassive income" in the context of Form 8582!)*
- (2) All foreign income and withholding were reported to you on a qualified statement.** Qualified statements include Form 1099-INT, 1099-DIV, and Schedule K-1.
- (3) Total foreign taxes do not exceed \$300 (\$600 if married filing jointly).**  
Only creditable foreign taxes count in this determination.

However, the ability to omit Form 1116 does not give you the ability to ignore its rules. You must still reduce your credit by amounts described in IRS instructions for line 12 of Form 1116, which generally means that you cannot claim credit for taxes on income that you have excluded from U.S. income tax.

***CAUTION:*** *It may be to your benefit to use Form 1116 even when you are qualified to omit it, because you cannot carry over any unused credit to another year if you omit Form 1116.*

**Copy 1 is ALWAYS REQUIRED.** Unlike other forms for which we provide multiple copies, copy 1 is mandatory for Form 1116 because of the unconventional design of the form by the IRS. The IRS requires that you post the credits from all Forms 1116 to Part IV of a single Form 1116, leaving Part IV blank for all other copies of Form 1116. The result in Part IV of that one Form 1116 is then posted to line 48 of Form 1040. We have therefore designated copy 1 of Form 1116 as the single copy for which Part IV is completed. As a result, if you do not create a copy 1 of Form 1116, no credit will be posted to Form 1040. Therefore, whether you need one or more copies of Form 1116, copy 1 must be one of the copies.

**IMPORTANT: Use IRS resources for important details.** The IRS Instructions for Form 1116 includes several topics that may require your attention, including a list of foreign taxes that are not eligible for the Foreign Tax Credit, situations that may require a redetermination of the credit on an amended return, and adjustment of income to compensate for the lower rates that apply to capital gains. IRS Pub. 514 (*Foreign Tax Credit for Individuals*) provides even more detail on what taxes qualify for the credit and includes helpful filled-in examples for Form 1116. We strongly recommend that you carefully read both documents before preparing Form 1116, unless you are only claiming a credit for foreign taxes paid on interest and dividends received from foreign sources.

**Category of income.** You must identify the category of income to which this copy of Form 1116 applies. You must use a separate Form 1116 for foreign tax related to each separate category. See the IRS's *2014 Instructions for Form 1116* for more information on each category.

- a. Passive category income.** This is generally portfolio income or other investment income from sources in which you are not an active participant. It is the most popular category because it includes dividends from foreign stocks. It also includes interest, royalties, rents, annuities, gain from sale of investment property, and capital gains not associated with your active conduct of a trade or business. This category includes dividends from a DISC (domestic international sales corporation), or former DISC, and certain distributions from a FSC (foreign sales corporation), or former FSC. (**CAUTION:** *This category has no relation to "passive activity income" defined by the IRS for Form 8582. Rather, it is related to "portfolio income" as defined for Schedule D and is therefore "nonpassive income" in the context of Form 8582.*)
- b. General category income.** This is foreign income that does not fit into any of the other categories, including wages or salary as an employee, income from your conduct of a business not described in other categories, and gains from sale of inventory or depreciable property from a trade or business not described in any other category. It also includes financial services income. *If it is financial services income, you must report in a supporting statement for this line the*

*type of income and amount for each income item that qualifies as financial services income.*

- c. Section 901(j) income.** This is income derived from certain sanctioned countries. No tax credit is allowed for these countries, but you must still complete Form 1116 through line 16 to determine foreign source taxable income. Unlike the other categories, you must use a separate copy of Form 1116 for each separate country from which you receive section 901(j) income. *The IRS instructs you NOT to use copy 1 of Form 1116 for this category if you are filing more than one Form 1116; nevertheless, the return will show the proper credits even if you do.*
- d. Certain income re-sourced by treaty.** This is income you elect to treat as foreign source income by application of an income tax treaty with the country.
- e. Lump-sum distributions.** These are foreign-source lump-sum distributions from a pension plan. If you elected to have this income taxed using one of the options on Form 4972, a separate limitation applies, as explained later in these details. *The IRS instructs you NOT to use copy 1 of Form 1116 for this category if you are filing more than one Form 1116; nevertheless, the return will show the proper credits even if you do.*

**Special handling.** Two types of income must be flagged to the IRS for special handling:

**Is any passive income in category b because it is high-taxed?** Passive income that is taxed by the foreign entity at a rate higher than the highest U.S. tax that could be imposed on that income must be categorized as passive income. If this case applies, you must answer Yes to this question on two copies of Form 1116: the one that applies to passive category income (category a) and the one that applies to general category income (category b). If you answer Yes here, you must adjust line 13 (in Part III of Form 1116) in accordance with IRS instructions for that line. The adjustment must be a positive adjustment on the copy of Form 1116 for general category income, and a negative for the copy for passive category income. A Yes answer here causes the code HTKO to be printed at line g in Part I on page 1 of Form 1116 to flag the situation to the IRS. (A Yes answer is not allowed for copies of Form 1116 for categories other than category a or b.)

**Is any income passed through to you from a RIC (regulated investment company)?** If so, that income does not have to be reported on a country-by-country basis. Instead, all income can be consolidated into a single column of Form 1116, Part I, and a single row in Part II. A Yes answer here causes the code RIC to be printed at line g on page 1 of Form 1116 to flag the situation to the IRS.

### Country or U.S. possession:

- f. Resident of (name of country or U.S. possession).** Name the country in 25 characters or less, abbreviating if necessary. (Even though there is room on the form for a longer entry, we limit your entry to 25 characters because that is all the IRS will process.)

**Preparation for completing Parts I and II of Form 1116.** Before you can complete Parts I and II, you must complete a number of special sections we have provided in order to automate the form. The need for these entries is not evident from the form itself but is buried in the IRS Instructions for Form 1116 and IRS Pub. 514 (*Foreign Tax Credit for Individuals*). You should refer to those sources if you have questions not answered here.

**Deductions for lines 3a and 3b.** In determining the taxable income attributable to a particular category and country, Form 1116 includes the reporting of expenses that cannot be definitely attributable to any one category and country. Those expenses apply to all countries reported on Forms 1116 but are divided among them and the U.S. in proportion to their respective gross incomes. Each column of Form 1116, Part I (and each worksheet that Tax Preparer provides to support them) shows the required proration, which is generally different for each country. But the expenses to which the proration is applied are the same for all countries and categories. We therefore provide the expense entries for lines 3a and 3b here to eliminate duplicate data entry that might otherwise be required.

**3a Certain itemized deductions or standard deduction.** You report here either your standard deduction or a portion of your itemized deductions, depending on which is used for line 40 of Form 1040:

**Schedule A used for Form 1040, line 40? (*auto-calc*)** Taken from Form 1040, as indicated. If No, all amounts below from Schedule A will be zero and you need make no entries below for line 3a of Form 1116. But if Yes, you must determine the amounts to exclude from selected parts of Schedule A for the purposes of this line.

**If Yes, enter Schedule A amounts to exclude.** The amounts you must exclude below are amounts that cannot be prorated because they are definitely related to either foreign or U.S. source income. Only amounts that cannot be identified as relating to particular income can be prorated.

**Medical and dental (Schedule A, line 4). (*auto-calc*)** Taken from Schedule A, this is the medical expense deducted.

**Part to exclude from line 3a.** Enter the part of the preceding amount that applies to a particular category and country, or applies to the U.S. An amount that applies to a particular category and country will be reported on line 2 of the respective worksheet instead.

**General sales tax (Schedule A, line 5). (*auto-calc*)** Taken from Schedule A, this is the deduction for general sales tax, if any. If income tax was deducted at Schedule A, line 5, rather than sales tax, no amount will appear here.

**Part to exclude from line 3a.** Enter the part of the preceding amount that applies to a particular category and country, or applies to the U.S. An amount that applies to a particular category and country will be reported on line 2 of the respective worksheet instead.

**Real estate tax (Schedule A, line 6).** *(auto-calc)* Taken from Schedule A, this is the deduction for real estate tax.

**Part to exclude from line 3a.** Enter the part of the preceding amount that applies to a particular category and country, or applies to the U.S. An amount that applies to a particular category and country will be reported on line 2 of the respective worksheet instead.

**Reduction % on Schedule A.** *(auto-calc)* The amounts to be used on line 3a are subject to the same high-income limitations as are applied on Schedule A. To determine the proper reduction, a reduction percentage is computed by dividing the amount disallowed on Schedule A (shown below line 29 on the on-screen Schedule A) by the total of amounts on Schedule A that are subject to the limitation (all amounts on Schedule A except lines 4, 14, 20, and the gambling and Form 4684 parts of Schedule A, line 29).

**3a Amount for line 3a of all Forms 1116.** *(auto-calc)* If itemized deductions were used for Form 1040, line 40, this line is computed as the sum of the above amounts for Schedule A lines 4, 5, and 6, less the entered exclusions, reduced by the "Reduction % on Schedule A." Otherwise, the standard deduction used on Form 1040, line 40, appears here. This result is used for line 3a of all worksheets for Form 1116 (except those for category e with a Form 4972 election, as described later).

**3b Amount for line 3b of all Forms 1116.** Enter any other deductions that do not definitely relate to any particular type of income or country. Do not include interest expense or losses here; they will be reported on lines 4 and 5 instead. You must explain your entry in supporting statements on screen 5, using a separate supporting statement for each column used. Failure to do this will cause an e-filed return to be rejected by the IRS.

**Gross income for prorating.** The prorating of amounts not definitely related to a particular type of income or country requires a knowledge of the gross income for the type and country, entered on line 3d of the respective worksheet, and the gross income for all sources combined, including the U.S. The latter amount is computed here and is used for line 3e of all worksheets.

**Gross income on Form 1040, line 22.** *(auto-calc)* Taken from line 22 of Form 1040, as indicated.

**Income excluded via Form 2555 or 2555-EZ.** *(auto-calc)* Taken from the Form 2555 and 2555-EZ components of Form 1040, line 21, but shown as a positive number. This is the amount by which gross income was reduced in computing Form 1040, line 22, and must be added back to income for the purposes of Form 1116, line 3e.

**Other deductions and losses reflected in Form 1040, line 22.** For the purposes of lines 3d and 3e, the IRS defines gross income as income without regard to deductions and losses. You must therefore enter any other deductions and losses that reduced income in computing Form 1040, line 22, and must be added back to income for the purposes of Form 1116, line 3e.

**3e Gross income without exclusions, losses, and deductions.** *(auto-calc)* Computed as Form 1040, line 22, with the preceding two amounts added back to income.

**Gross income with exclusions for line 4a worksheet.** *(auto-calc)* Computed as the preceding result reduced by the exclusions from Forms 2555 and 2555-EZ. The prorating for line 4a is different from that for lines 3a and 3b in that the exclusions from Forms 2555 and 2555-EZ are not added back to income for the purposes of the former. This result is used on the worksheets in computing the prorated amount for line 4a.

**Information for deduction at line 4a.** The prorating for line 4a is computed on each worksheet, but the amount to be prorated is the same for all worksheets and is the amount deducted on Schedule A for home mortgage interest.

**Schedule A, lines 10 through 12.** *(auto-calc)* Taken from Schedule A, as indicated, this is the amount shown on Schedule A for home mortgage interest, including deductible points. If Schedule A was not used for Form 1040, line 40, this amount will be zero.

**Reduction % on Schedule A.** *(auto-calc)* Taken from the previously-computed percentage, shown above line 3a, this is the amount by which the preceding deduction must be reduced before being used on Form 1116.

**4a Amount for line 4a BEFORE pro rate.** *(auto-calc)* If itemized deductions were used for Form 1040, line 40, computed as the amount on lines 10 through 12 of Schedule A reduced by the preceding percentage. Otherwise, zero. This result is prorated on each individual worksheet for Form 1116 in accordance with a worksheet in the IRS instructions. *TIP: If your gross foreign source income (including income excluded on Forms 2555 and 2555-EZ) does not exceed \$5,000, you are allowed to allocate all of this home mortgage interest to the U.S. instead of any foreign country. To make this election, use the Override Key to access this computed line and change it to zero.*

**Election for category e.** Lump-sum distributions (category e) are eligible for favorable tax treatment under certain conditions through Form 4972 (*Tax on Lump-Sum Distributions*). The participant in the plan from which the distributions were made must have been born before January 2, 1936, but if you qualify you may elect a 10-year option or, if capital gains are included, a capital gain election through that form. If you make such an election for the foreign-source lump-sum distribution you report here, you must so identify in this section so that the proper special limitations are applied. When you make this choice the normal instructions for Part III of Form 1116 are replaced by special

instructions on the IRS *Worksheet for Lump-Sum Distributions*, all of which is performed automatically by the software based on your following entries and the amounts you report on our worksheets for line 1a, later. **CAUTION:** You must prepare Form 4972 (if Premium Level, accessible through the Road Map at line 44b of Form 1040) *before* you prepare this copy of Form 1116 in order for the proper calculations to be applied.

**Form 4972, line 6.** (If Premium Level, auto-calc line supported by Form 4972) The amount on line 6 of Form(s) 4972 for the return is reported here.

**Form 4972, line 12.** (If Premium Level, auto-calc line supported by Form 4972) The amount on line 12 of Form(s) 4972 for the return is reported here.

**Elected Form 4972 for this income?** You can answer Yes only if you have already prepared a Form 4972 for the return and you have chosen category e for this copy of Form 1116. Amounts from Form 4972 will then appear below.

**Form 4972, lines 6 and 12.** (auto-calc) If the preceding answer is Yes, computed as the sum of amounts from lines 6 and 12 of Form 4972; otherwise, zero. This is the total of all lump-sum distributions reported on the form(s). This total is used for line 17 of this copy of Form 1116 in place of the normal amount.

**Foreign source part of the above.** Enter the amount you reported on Form 4972 for the foreign-source distribution reported here. Your entry can be no more than the amount on the preceding line. **CAUTION:** This entry is critical for a Form 1116 that uses the Form 4972 election. It is used for line 16 of this copy of Form 1116 in place of the normal amount.

**Form 4972, line 30.** (auto-calc) If Form 4972 elected, taken from Form 1040, line 44b; otherwise, zero. This tax is used for line 19 of this copy of Form 1116 in place of the normal amount.

In addition to the modifications to lines 16, 17, and 19 noted above, if you make this election the computations for lines 18, 20, and 21 are modified as well, as noted in our instructions for those lines. Furthermore, the worksheets you prepare in support of line 1a will have lines 1a through 6 zeroed; you will make monetary entries only in Part II so that line (s) has an amount, which will be reflected in line 8 of Form 1116 and used in the computation at line 21.

**PART I, TAXABLE INCOME OR LOSS FROM SOURCES OUTSIDE THE UNITED STATES.** After all the preparation in the preceding sections, you are now ready to compute the taxable foreign-source income for the category you selected for this copy of Form 1116. You must use the worksheets accessed at line 1a in this section for all monetary entries for Parts I and II of Form 1116 (lines 1a through 8).

**Foreign qualified dividends and capital gains.** Because of their favorable tax treatment, qualified dividends and capital gains are handled in a special way on this form. Generally only a fraction of these sources of income are included in foreign-source income for lines 1a and 5 of Form 1116, and the taxable income from all sources for line 17 is reduced in proportion to this type of income from all sources. As a result, both line 16 (for foreign-source income) and line 17 (for all-source income) are adjusted lower than the total income for each, which affects the computation of the credit for this form. However, an exception applies if certain conditions are met, as explained for the next two data entry lines:

**Foreign qualified dividends + net capital gains.** Enter the sum of your foreign-source qualified dividends plus your foreign-source net capital gains, where *foreign-source net capital gain is defined by the IRS as the amount by which foreign-source net long-term capital gain exceeds foreign-source net short-term capital loss*. If this amount is \$20,000 or more, you do not qualify for an exception to the adjustment of qualified dividends and capital gains on Form 1116.

**Qualify for "adjustment exception." (*auto-calc*)** Automatically Yes only if both of the following two conditions are met:

**(1) Line 18 of the Schedule D Tax Worksheet does not exceed specified thresholds.** Although the IRS defines the exception using other worksheets as well, only the Schedule D Tax Worksheet need be considered for *Tax Preparer* because *Tax Preparer* creates the Schedule D Tax Worksheet whenever the specified types of income must be taxed at a reduced rate. Therefore, only the instructions relating to the Schedule D Tax Worksheet in the IRS 2014 Instructions for Form 1116 apply. (The thresholds are the end of the 4<sup>th</sup> tax bracket for 2014: \$186,350 if single, \$226,850 if married filing jointly or qualifying widow(er), \$113,425 if married filing separately, and \$206,600 if head of household.)

**(2) Foreign qualified dividends + net capital gains is less than \$20,000.** This test is based on your preceding entry.

If you qualify for the exception, none of your entries for qualified dividends, capital gains, or capital losses are reduced at lines 1 and 5, and the taxable income for line 17 reflects Form 1040, line 41 without adjustment. (The tax code is so complex that you can choose to make your own determination of adjustments by consulting IRS sections 1(h)(11)(C)(iv) and 904(b)(2). If you do so, you will have to modify your entries on the worksheets so that the results at lines 1 and 5 match the results of your own determination.)

**For category on screen 1.** Entries for both Part I and Part II of Form 1116 are supplied on the worksheets that support line 1a and must relate, either directly

or through prorating, to the category you specified for this copy of Form 1116. *See the section following Part II for special lines that allow you to create special statements to justify amounts on lines 2 and 8.*

**1a Gross income from sources within country entered.** *(Supported by the Foreign Source Worksheet, Figures 2-19a and 2-19b.)* You must complete the supporting worksheets for the type of income you previously specified in lines a through j. When you return from the worksheets the sum of line 1a of all worksheets appears here. *(If this copy of Form 1116 is for a lump-sum distribution you reported on Form 4972, the amount on this line will be zero if you properly identified the Form 4972 election earlier.)*

**Type of income.** This entry applies to all worksheets prepared for this copy of Form 1116. You must identify the type of income reported on the worksheets. For example, you would enter "Interest and dividends" if you chose category a for this form and the type of passive income you reported was comprised solely of interest and dividends. Abbreviate your entry if necessary to fit the 25-character entry width provided.

**1b through 5.** These lines are visible only on the worksheets you access at line 1a, above. See the details for the Foreign Source Worksheet on the next page.

**6 Add lines 2, 3g, 4a, 4b, and 5.** *(auto-calc, supported by the Foreign Source Worksheet, Figures 2-19a and 2-19b)* Computed as the sum of line 6 for all worksheets that support line 1a combined.

**7 Subtract line 6 from line 1a.** *(auto-calc)* Computed as indicated, this is your foreign-source taxable income for the category chosen for this copy of Form 1116 (before adjustment).

**PART II, FOREIGN TAXES PAID OR ACCRUED.** In this section you report the taxes you paid or accrued for each separate country listed in Part I. Lines (h) and (i) of this section are entered below, but lines (j) through (s) are entered on screen 2 of the worksheets that support line 1a, using one worksheet for each separate country or U.S. possession.

**Credit is claimed for taxes:**

**(h) Paid.** You would normally answer Yes here if you report income on a cash basis. However, you can elect to use the accrual method for foreign taxes by answering No here; but once you make this election you must make it in all future years as well.

**(i) Accrued.** *(auto-calc)* Automatically the opposite of your preceding answer.

**(j) through (s).** These lines are visible only on screen 2 of the worksheets you access at line 1a, above. See the details for the Foreign Source Worksheet on the next page.

**8 Add lines A through C, column (s).** *(auto-calc, supported by the Foreign Source Worksheet, Figures 2-19a and 2-19b)* Computed as the sum of line (s) for all worksheets that support line 1a combined, this is your total foreign taxes paid or accrued for the category chosen for this copy of Form 1116. *If no amount appears here, check your en-*

*tries in Part II of the worksheets for line 1a because no tax credit will result on this copy of Form 1116 unless an amount appears here.*

**Foreign Source Worksheet, Figures 2-19a and 2-19b.** You must use a separate worksheet for each separate country or U.S. possession from which you received income in the category you identified for this copy of Form 1116. Note that each worksheet consists of two screens: screen 1 for Part I lines 1 through 4b, screen 2 for Part I lines 5 and 6 and Part II lines (j) through (s). Limitation for e-file: No more than 3 worksheets for any one copy of Form 1116 (that is, any one income category) are supported by the software for e-file. As a result, if you have more than 3 countries for any one income category, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.

### **Screen 1 of 2:**

#### **PART I, TAXABLE INCOME OR LOSS FROM SOURCES OUTSIDE THE U.S.**

**g Name country of U.S. possession.** Enter the country or possession in 10 characters or less, abbreviating your entry to fit (because of the severely limited space the IRS provides on the form). U.S. possessions that qualify for this credit are Puerto Rico, Guam, Commonwealth of the Mariana Islands, and American Samoa. Taxes paid to any subdivision of the country or U.S. possession also qualify, but you should combine all such amounts (for the selected income category) with any amounts paid directly to the country or U.S. possession, and enter only the name of the country or U.S. possession here.

**Category e with Form 4972 election? *(auto-calc)*** If this copy of Form 1116 is for a lump-sum distribution (category e) and you indicated on screen 3 that you elected to use Form 4972 for the distribution, the answer here will be Yes. For a Yes answer lines 1 through 6 of this worksheet will be zero, in accordance with IRS instructions, and you should proceed to Part II on the second screen of the worksheet. Otherwise you must complete the rest of Part I.

**Qualified dividends and capital gains.** Qualified dividends and capital gains are generally reported at a reduced amount because of their favorable tax treatment, unless you qualify for the exception described earlier in the paragraph *Foreign qualified dividends and capital gains*. The amount of reduction can be complex if you have a complex Schedule D. But for most situations the income to report is 42.86% of the full amount. The amount you enter here will be multiplied by 0.4286 before being included in line 1a, below, unless you qualify for the exception as indicated by a Yes answer for "Qualify for adjustment exception" on screen 2 of Form 1116. If you are required to file Schedule D, you may have to enter a modified amount here such that your entry times 0.4286 produces the proper adjusted amount for line 1a. See pages 7 through 13 of the IRS Instructions for Form 1116 for details. CAUTION: Enter only capital gains here; capital losses are reported separately at line 5.

Other gross income from the country or U.S. possession and category. Enter all other income here that applies to the identified category and country. Do not reduce your entry here by any losses or deductions that are reported in lines 2 through 5.

FOREIGN SOURCE(screen1of2)	
I-TAXABLE INCOME OR LOSS	
g	Name country or U.S. poss. Category e with 4972 election? <input type="checkbox"/> No
If Yes, skip lines 1 through 6	
	Qlfd divs & capital gains. 0
	Othr gross for country/cat 0
	2555 excls for country/cat 0
1a	Gross income from country.. 0
b	Used alt basis to determine? <input type="checkbox"/> No
Answer No if not pers svc emp or all source comp undr \$250K	
2	Expenses DEFINITELY RELATED. 0
3	Pro rate other deductions:
a	Crtn itemized or std ded... 0
b	Other deductions..... 0
c	Add lines 3a and 3b..... 0
d	Gross foreign source inc... 0
e	Gross income all sources... 0
f	Divide 3d by 3e..... 0
g	Multiply 3c by 3f..... 0

**Form 2555 or Figure 2-19a. Foreign Source Worksheet, Screen 1**  
**2555-EZ exclusion for the country or U.S. possession and category.**  
 Enter any exclusion on Forms 2555 and 2555-EZ that relates to the specified country and category. This amount will reduce the gross income for the purposes of line 1a.

- 1a Gross income from sources within country. (auto-calc)** Computed as the "Other gross income" less "Form 2555 or 2555-EZ exclusion" plus either (a) the full amount of "Qualified dividends and capital gains" if you qualify for the "adjustment exception" (described previously and shown at the top of screen 4 of Form 1116), or (b) 0.4286 times "Qualified dividends and capital gains" if you do not.
- 1b Used alternative basis to determine source of compensation?** Answer Yes if line 1a is compensation for personal services as an employee, your total compensation from all sources is \$250,000 or more, and you used an alternative basis to determine its sources. *If you answer Yes, you must provide detailed information in a supporting statement for the line at the top of screen 5.*

**2 Expenses DEFINITELY RELATED to the income on line 1a.** Enter here the expenses that can be identified as pertaining only to the income on line 1a. All other expenses are reported on lines 3 through 5 as a prorated share of expenses in accordance with IRS instructions. If you include here any amounts deducted on Schedule A that are subject to the high-income limitation (all amounts on Schedule A except lines 4, 14, 20, and the gambling and Form 4684 parts of line 28), you must reduce your entry by the "Reduction % on Schedule A" shown on screen 2 of our Form 1116. If any of these amounts were reported on Schedule A line 4, 5, 6, or 18, you must also exclude them from the applicable amounts on screen 2 of our Form 1116. **CAUTION: You must explain your entry for line 2 of any worksheet in a separate supporting statement accessible from screen 5 of our**

*Form 1116. Failure to do so will cause an e-filed return to be rejected by the IRS.*

### **3 Pro rata share of other deductions NOT DEFINITELY RELATED:**

**a Certain itemized deductions or standard deduction.** *(auto-calc)* Taken from the result for line 3a on screen 2 of our Form 1116, this is either a portion of itemized deductions or the entire standard deduction depending on whether or not the standard deduction is used for Form 1040, line 40.

**b Other deductions.** *(auto-calc)* Taken from the result for line 3b on screen 2 of our Form 1116, this is other deductions to be prorated among countries (including the U.S.) and categories.

**c Add lines 3a and 3b.** *(auto-calc)* Computed as indicated.

**d Gross foreign source income.** *(auto-calc)* Computed as sum of "Qualified dividends and capital gains" and "Other gross income from the country or U.S. possession and category" entered above line 1a, this is the gross income used for the purposes of prorating the expenses (for the country and category indicated). It is a line 1a without any 0.4286 adjustment for capital gains and with exclusions from Forms 2555 and 2555-EZ added back to income.

**e Gross income from all sources.** *(auto-calc)* Taken from the result for line 3e on screen 3 of our Form 1116, this is the gross income for the entire return, including all foreign and U.S. sources, for the purposes of prorating expenses.

**f Divide line 3d by line 3e.** *(auto-calc)* Computed as indicated and shown as a decimal to 4 places, this is the fraction of deductions on line 3c to be deducted from income on line 1a.

**g Multiply line 3c by line 3f.** *(auto-calc)* Computed as indicated, this is the part of deductions on line 3c to be applied to the income for this worksheet (that is, this country and category).

### **Screen 2 of 2:**

#### **4 Pro rata share of interest expense:**

**a Home mortgage interest.** *(auto-calc)* This is a prorated share of the amount for line 4a on screen 3 of our Form 1116. The prorating for line 4a differs from that for line 3 in that the exclusions from Forms 2555 and 2555-EZ are not added back to income when computing gross income. As a result, the prorating fraction is computed as the amount on line 3d reduced by the exclusions on Forms 2555 and 2555-EZ, divided by the amount for "Gross income with exclusions for line 4a worksheet" on screen 3 of our Form 1116. This line is computed as this revised prorating fraction times the amount for line 4a on screen 3 of our Form 1116, in accordance with the IRS *Worksheet for Home Mortgage Interest – Line 4a* (in the IRS Instructions for Form 1116).

**b Other interest expense.** Enter the prorated share of other interest here, including investment interest. *TIP: If your gross foreign source income (including income excluded on Forms 2555 and 2555-EZ) does not exceed \$5,000, you are allowed to allocate all of this inter-*

est to the U.S. instead of any foreign country. To make this election, enter zero here.

**Capital losses.**

Like capital gains, capital losses are generally reported at a reduced amount, unless you qualify for the exception described earlier in the paragraph *Foreign qualified dividends and capital gains*. The amount of reduction can be complex if you

FOREIGN SOURCE(screen2of2)		
4	Pro rata interest expense:	
	a Home mortgage interest.....	0
	b Other interest expense.....	0
	Capital losses.....	0
	Other loss for country/cat	0
5	Loss from foreign sources..	0
6	Add lines 2, 3g, 4a, 4b, & 5	0
<b>II-TAXES PAID/ACCRUED(1n8)</b>		
j	Date paid or accrued.....	
In	foreign currency:	
k	Dividends.....	0
l	Rents and royalties.....	0
m	Interest.....	0
n	Other foreign taxes.....	0
In	U.S. dollars:	
o	Dividends.....	0
p	Rents and royalties.....	0
q	Interest.....	0
r	Other foreign taxes.....	0
s	Total foreign taxes.....	0

have a complex Schedule D. But for most situations the income to report is 42.86% of the full amount. The amount you enter here will be multiplied by 0.4286 before being included in line 5, below, unless you qualify for the exception as indicated by a Yes answer for "Qualify for adjustment exception" on screen 2 of Form 1116. *If you are required to file Schedule D, you may have to enter a modified amount here such that your entry times 0.4286 produces the proper adjusted amount for line 5. See pages 7 through 13 of the IRS Instructions for Form 1116 for details*

Figure 2-19b. Foreign Source Worksheet, Screen 2

**Other losses for the country or U.S. possession and category.** Enter all other losses not reflected in lines 1 through 4b that apply to the identified category and country.

- 5 **Losses from foreign sources.** *(auto-calc)* Computed as "Other losses" plus either (a) the full amount of "Capital losses" if you qualify for the "adjustment exception" (described previously and shown at the top of screen 4 of Form 1116), or (b) 0.4286 times "Capital losses" if you do not. In spite of the vague IRS label for the line, this is the total of losses only for the specified country and category.
- 6 **Add lines 2, 3g, 4a, 4b, and 5.** *(auto-calc)* Computed as indicated, this amount is subtracted from line 1a to arrive at the taxable income or loss for the specified country and category.

**PART II, FOREIGN TAXES PAID OR ACCRUED.** You should have already identified on Form 1116 whether you account for taxes as paid or accrued, which appears as lines (h) and (i) of Form 1116. All other entries for Form 1116, Part II, are provided here.

(j) **Date paid or accrued.** Generally enter the date in the standard mo/dy/year format. However, if the amount is reported to you on a Form 1099-INT or 1099-DIV in U.S. dollars, enter only "1099 tax" here and skip lines (k) through (n).

**In foreign currency.** If the tax is reported to you in foreign currency, you must enter the amount in line (k), (l), (m), or (n). You must then convert the amount to U.S. dollars and enter it in line (o), (p), (q), or (r). **CAUTION:** If you make any entry in this section you must explain your conversion to U.S. dollars in a separate supporting statement accessible from screen 5 of our Form 1116. Failure to do so will cause an e-filed return to be rejected by the IRS.

- (k) Dividends.
- (l) Rents and royalties.
- (m) Interest.
- (n) Other foreign taxes.

**In U.S. dollars.** This section is mandatory for all Forms 1116. You must enter the foreign tax paid here in U.S. dollars. Only the amounts you report here are used in figuring the credit for foreign taxes.

- (o) Dividends.
- (p) Rents and royalties.
- (q) Interest.
- (r) Other foreign taxes.
- (s) **Total foreign taxes.** *(auto-calc)* Computed as the sum of lines (o) through (r), this is the amount of tax upon which your foreign tax credit is figured for this copy of Form 1116.

**Required statement for line 1b.** If you answered Yes to line 1b on any of the worksheets for line 1a, you must justify your answer:

**Is line 1b Yes for any worksheet?** *(auto-calc)* Answered Yes if any worksheet for line 1a has a Yes answer for line 1b.

**If Yes, itemize here for line 1b.** *(Supported by the Alternative Basis for Compensation Source Worksheet, Figure 2-20)* If you used an alternative basis to determine the source of the compensation entered for line 1a of any of the worksheets, you must explain how the alternative basis was computed and how it affects the results in a supporting statement for this line. The supporting worksheets guide you through the required explanation in the format required for e-file. See IRS Pub. 514 for more information.

ALT. BASIS FOR COMP. SOURCES  
 a. Name of employee.....:  
 b. SSN of employee.....  
 c. Specific compensation inc.  
 or fringe benef.  
 d. Alt. basis of allocation  
 of source used..  
 e. How was alt. allocation  
 computed?.....  
 f. Compare comp. under alt. vs.  
 time or geogrphy  
 Use 2 25-char. lines for each.

**Alternative Basis for Compensation Source Worksheet, Figure 2-20.** The format for the required explanation is determined by the IRS:

- a. Name of employee.**  
Enter the full name in 30 characters or less.
- b. SSN of employee.**  
Enter 9-digit SSN in the standard

**Figure 2-20. Alternative Basis for Compensation Source**

xxx-xx-xxxx format.

**c through f.** The data entry fields for each of these four line items are provided in two 25-character lines. For an e-file return, the two lines are appended in the e-file output, forming a single continuous 50-character line. For a paper return, the two lines are printed on separate lines in the supporting statements, one under the other:

- c. Specific compensation income or fringe benefit.** Describe the specific compensation income or the specific fringe benefit for which the alternative basis is used.
- d. Alternative basis of allocation of source used.** For each such item, describe the alternative basis of allocation of source used.
- e. How was alternative allocation computed?** For each such item, show how the alternative allocation was computed.
- f. Compare compensation under alternative vs. time or geography.**  
Compare the dollar amount of the compensation sourced within and without the United States under both the alternative basis and the time or geographical basis for determining the source.

**Itemize statements for worksheets for print columns A, B, and C.** Certain amounts you have entered on our worksheets must be justified in the generic supporting statements you create here. The statements are explanatory only, so no amounts are posted to any other part of Form 1116. *e-file TIP: For an e-file return, only the description fields are used in the e-file output and the amount fields are ignored. Furthermore, the description fields for each successive line of the 20-line general itemized list are concatenated together, so you can split words among lines and they will appear together in the e-file output. Limitation for e-file: No more than 3 worksheets for any one copy of Form 1116 (that is, any one income category) are supported by the software for e-file. As a result, if you have more than 3 worksheets for any one income category, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

**Allocable expenses for lines 2(A), 2(B), and 2(C).** You must explain how you determined expenses definitely related to the country and category for each worksheet you prepare. For the on-screen labels, A, B, and C refer to columns in Part I of the printed Form 1116, so you should use the line for 2(A) for amounts entered on the first worksheet, the line for 2(B) for amounts entered on the second worksheet, and the line for 2(C) for amounts entered on the third *and all subsequent worksheets*. ***CAUTION: Failure to explain here an entry on line 2 of any worksheet will cause an e-filed return to be rejected by the IRS.***

**Allocable deductions for lines 3b(A), 3b(B), and 3b(C).** You must explain how you determined deductions NOT definitely related to the country and category for each worksheet you prepare. For the on-screen labels, A, B, and C refer to columns in Part I of the printed Form 1116, so you should use the line for 3(A) for amounts entered on the first worksheet, the line for 3(B) for amounts entered on the second worksheet, and the line for 3(C) for amounts entered on the third *and all subsequent worksheets*. ***CAUTION: Failure to explain here an entry on line 3 of any worksheet will cause an e-filed return to be rejected by the IRS.***

**Currency conversion for lines 8(A), 8(B), and 8(C).** For any worksheet on which you made an entry in line (k), (l), (m), or (n), you must explain how you converted the foreign currencies in lines (k) through (n) to the U.S. currency in lines (o) through (r). For the on-screen labels, A, B, and C refer to rows in Part II of the printed Form 1116, so you should use the line for (A) for amounts entered on the first worksheet, the line for (B) for amounts entered on the second worksheet, and the line for (C) for amounts entered on the third *and all subsequent worksheet*. ***CAUTION: Failure to explain a currency conversion here when you have an entry on line (k), (l), (m), or (n) of any worksheet will cause an e-filed return to be rejected by the IRS.***

**If credit claim is due to filing an amended return or a foreign audit, itemize here and identify the additional taxes claimed.** This statement is used to support any additional taxes you claim in lines (o) through (r) as a result of an amended return or a foreign audit. You must clearly identify the taxes to which these reasons apply.

**PART III, FIGURING THE CREDIT.** In this section you figure the credit for this copy of Form 1116.

**9 Amount from line 8. (auto-calc)** Normally computed as indicated, the amount will be zero if for a Form 1116 for category e with a Form 4972 election.

**10 Carryback or carryforward (itemize).** If you had a foreign tax that you could not claim because it was more than its limitation, you can carryback the unused tax 2 years then carry if forward 10 years. You must make your entry for this line in a supporting statement for this line showing your computation in detail. ***Failure to provide support for an entry for this line will cause an e-filed return to be rejected by the***

*IRS.* If for a Form 1116 for category e with a Form 4972 election, an entry here will be ignored in the calculations and printouts.

**11 Add lines 9 and 10.** *(auto-calc)* Computed as indicated.

**12 Reduction in foreign taxes (itemize).** You may have to reduce the tax shown on line 11 for a number of special situations, including tax on excluded or exempt income. See the IRS instructions for line 12 for specific examples. You must make your entry for this line in a supporting statement for this line explaining the reduction in the description fields of the support. *Failure to provide support for an entry for this line will cause an e-filed return to be rejected by the IRS.* If for a Form 1116 for category e with a Form 4972 election, an entry here will be ignored in the calculations and printouts. *TIP: You must enter the reduction as a positive number here; the software will print it within parentheses on the official printout, and will treat it as a negative number in computing line 14.*

**13 Taxes reclassified under high tax kickout (HTKO).** If you answered Yes to the Special Handling question on screen 1 indicating that some passive income is treated as general income because it is high taxed, you must enter an adjustment here on the copies of Form 1116 for passive or general category income. The amount of adjustment is the amount of foreign taxes that relate to that income. If this is the copy of Form 1116 for passive category income (category a), you must enter the adjustment as a negative number; if this is the copy of Form 1116 for general category income (category b), you must enter the adjustment a positive number.

**14 Combine lines 11, 12, and 13.** Computed as line 11 less line 12 plus line 13, but no less than zero.

**15 Amount from line 7.** *(auto-calc)* Normally computed as indicated, the amount will be zero if for a Form 1116 for category e with a Form 4972 election.

**16 Adjustments to line 15 (itemize).** You may have to adjust the taxable income shown on line 15 for a number of special situations, including allocation of losses and recapture of foreign losses. See the IRS Instructions for Form 1116 for specific examples. You must make your entry for this line in a supporting statement for this line explaining the reduction in the description fields of the support. *Failure to provide support for an entry for this line will cause an e-filed return to be rejected by the IRS.* If for a Form 1116 for category e with a Form 4972 election, an entry here will be ignored in the calculations and printouts.

**17 Combine lines 15 and 16.** *(auto-calc)* Normally computed as indicated. For a Form 1116 for category e with a Form 4972 election, the amount you entered as the foreign source part of Form 4972 lines 6 and 12 appears here.

**18 Amount from Form 1040, line 41.** This IRS label for this line is misleading because the indicated amount is only one component of line 18 if there is any qualified dividend or capital gain income, and sometimes is not used at all. Instead, line 18 is normally computed using the IRS

*Worksheet for Line 18 (Worldwide Qualified Dividends and Capital Gains)* in the IRS 2014 Instructions for Form 1116:

**Form 1040, line 41.** *(auto-calc)* Computed as indicated.

**Worldwide 28% gains.** *(auto-calc)* Taken from line 40 of the Schedule D Tax Worksheet.

**Worldwide 25% gains.** *(auto-calc)* Taken from line 37 of the Schedule D Tax Worksheet.

**Worldwide 20% gains and qualified dividends.** *(auto-calc)* Taken from line 31 of the Schedule D Tax Worksheet.

**Worldwide 15% gains and qualified dividends.** *(auto-calc)* Taken from line 28 of the Schedule D Tax Worksheet.

**Worldwide 0% gains and qualified dividends.** *(auto-calc)* Taken from line 20 of the Schedule D Tax Worksheet.

**Adjustment for line 18.** *(auto-calc)* Computed as zero if "Qualify for adjustment exception" at the top of screen 4 is Yes. Otherwise computed in accordance with the IRS's *Worksheet for Line 18 (Worldwide Qualified Dividends and Capital Gains)* as the sum of 29.29% of the "Worldwide 28% gains" plus 36.87% of the "Worldwide 25% gains" plus 49.49% of the "Worldwide 20% gains" plus 62.12% of the "Worldwide 15% gains and qualified dividends" plus 100% of the "Worldwide 0% gains and qualified dividends," but shown as a negative number (since this is a negative adjustment).

**18 Amount from Form 1040, line 41.** *(auto-calc)* Normally computed as "Form 1040, line 41" plus "Adjustment for line 18." However, if for a Form 1116 for category e with a Form 4972 election, computed as the total of lines 6 and 12 of all Forms 4972 for the return instead.

**19 Divide line 17 by line 18.** *(auto-calc)* Computed as indicated (but no more than 1) and shown as a decimal to 4 places.

**20 Amount from Form 1040, lines 44 and 46.** *(auto-calc. NOT shown on screen)* This IRS label for this line is also misleading. Normally computed as Form 1040, line 44 plus line 46, less Form 1040, line 44b (tax on lump-sum distributions from Form 4972). However, for a Form 1116 for category e with a Form 4972 election, the tax from Form 4972 is added back to the computation so that the result is Form 1040, lines 44 and 46 alone. And for a Form 1116 for category c, the amount computed here is zero because no tax credit is allowed for this category even though you must file the associated Form 1116. *(This line is not shown on the screen so that all other lines in Part III can be shown on one screen. However, it is shown on all printouts.)*

**21 Multiply line 20 by line 19.** *(auto-calc)* Computed as indicated.

**22 SMALLER of line 14 or line 21.** *(auto-calc)* Normally computed as indicated. However, for a Form 1116 for category e with a Form 4972 election, computed as the lesser of line 8 or line 21. This is the credit for the category specified for this copy of Form 1116 alone.

**PART IV, SUMMARY OF CREDITS FROM SEPARATE PARTS III.** (Used *ONLY* for copy 1 of Form 1116. For all other copies, all amounts in Part III will be zero.) In this section you combine the credit from all copies of Form 1116 you have prepared and figure the amount to report on line 48 of Form 1040. **CAUTION:** This part of the form may be inaccurate until the final recalculation of the return. To see an accurate result NOW, press the Recalc Key (ctrl-B or shift-F8). (Note that if this is the only copy of Form 1116 created for the return, lines 23 through 27 will be zero and line 22 will be used for line 28.)

**23 Credit for taxes on passive category income.** *(auto-calc)* Taken as line 22 of all Forms 1116 with category a specified.

**24 Credit for taxes on general category income.** *(auto-calc)* Taken as line 22 of all Forms 1116 with category b specified.

**25 Credit for taxes on certain income re-sourced by treaty.** *(auto-calc)* Taken as line 22 of all Forms 1116 with category d specified.

**26 Credit for taxes on lump-sum distributions.** *(auto-calc)* Taken as line 22 of all Forms 1116 with category e specified.

**27 Add lines 23 through 26.** *(auto-calc)* Computed as indicated.

**28 SMALLER of line 20 or line 27.** *(auto-calc)* Normally computed as indicated, but taken as line 22 if this is the only copy of Form 1116 for the return.

**29 Reduction of credit for international boycott operations.** You may have to reduce your credit here if you cooperated with an international boycott and cannot figure the amount of taxes specifically attributable to boycott operations. See the IRS instructions for line 12 (last bullet) and IRS Form 5713 for the amount to enter here. **CAUTION:** Any required reduction must be entered on copy 1 of Form 1116. An entry on any other copy of Form 1116 is ignored in the calculations and printouts in accordance with IRS instructions.

**30 FOREIGN TAX CREDIT.** *(auto-calc)* Computed as line 28 less line 29, but no less than zero, this is the credit for Form 1040 from all Forms 1116 combined.

The result on line 30 of Form 1116, copy 1, is posted to line 48 of Form 1040.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 1310\* / Refund Due a Deceased Taxpayer

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** Form 1310 is used to claim a refund on behalf of a deceased taxpayer, and is usually filed with the final return for the deceased taxpayer. However, you do *not* have to file Form 1310 with the return if

**You are surviving spouse of decedent** and are filing jointly with the decedent, *or*

**You are personal representative of decedent's estate** and are attaching a court certificate showing your appointment as the executor or administrator of the estate (or have it on file with the IRS).

Anyone else who files the return and claims the refund *must* file Form 1310. In addition, you must file Form 1310 with an amended return whether or not you are a surviving spouse or court-appointed personal representative.

**Refund returns only.** Form 1310 is relevant only for returns that show a refund on Form 1040 line 76a. It is accessible through the Road Map from the line below line 76a, and two copies are available – one for each spouse.

**IDENTITY OF DECEDENT.** If the return is a joint return and both spouses are deceased, you must file a separate Form 1310 for each spouse. Copy 1 of Form 1310 is always for the principal taxpayer and copy 2 is always for that taxpayer's spouse.

**Decedent's SSN.** *(auto-calc)* Taken from Form 1040, this will be the principal taxpayer's SSN if copy 1, and the spouse's SSN if copy 2.

**Is spouse the decedent.** *(auto-calc)* Automatically No if copy 1, Yes if copy 2.

**Tax year decedent due a refund.** *(auto-calc)* Taken from the Control Form, this is the tax year for the return for which a refund is being claimed.

**Date of death (from 1040).** *(auto-calc)* Taken from your entry on Form 1040 for the appropriate spouse. **CAUTION: Form 1310 will be rejected by the IRS if no date appears here. You MUST enter the date of death on screen 1 of Form 1040 (screen 2 if for spouse).**

**IDENTITY OF CLAIMANT.** You must supply the name and address where the refund check should be sent.

**First name and initial.** Enter your first name and initial in 15 characters or less.

**Last name.** Enter last name in 25 characters or less.

**Full name in e-file format.** *(auto-calc)* Your combined first and last names are reformatted into 35 characters or less in a format required for e-file.

**e-file name control.** *(auto-calc)* Usually the first four characters of the last name, which follows the first < symbol in the preceding entry.

**Full name for printouts.** *(auto-calc)* Your combined first and last names are reformatted into 35 characters or less for official printouts. ***This entry will always be used for the "in care of" line in the address block***

*of Form 1040, page 1 (shown on screen 3 of our Form 1040, page 1), as required by the IRS.*

**Your social security number.** Enter your 9-digit SSN.

**Home address.** Enter address without Apt. No. in 35 characters or less.

**Apt. no.** Enter apartment number in 10 characters or less.

**City.** Enter city in 22 characters or less.

**State.** Enter the standard 2-character state code.

**ZIP code.** Enter the ZIP code in 10 characters or less.

**Do you have valid proof of death?** If you answer Yes, the phrase "have valid proof of death" will be printed on the official printed Form 1310 under box C, below, to reaffirm the death to the IRS. You should not file the proof with the return, but rather retain it for future inquiry from the IRS. **CAUTION:** A Yes answer is mandatory for any Form 1310 that must be filed with the Form 1040 return. Accordingly, an e-file return will be rejected by the IRS if you answer No.

**PART I, CHECK THE BOX THAT APPLIES TO YOU.** You must identify status with respect to the decedent:

**A Surviving spouse seeking reissuance of refund check.** *If Yes, do not file Form 1310 with the return.* Instead, send the completed Form 1310 along with the refund check to your local IRS office, or the IRS center where you filed the associated return. The IRS will then issue a check for the refund in your name alone.

**B Court-appointed or certified personal representative.** *If Yes,* and you are filing the original final return for the decedent, *do not file Form 1310 with a Form 1040 return* because you only need proof of your appointment by the court. However, if you are filing an amended return (Form 1040X) or Form 843, *do* include Form 1310 along with the court certificate.

**If "Yes," was court certificate previously filed with the IRS?** If you previously sent to the IRS a copy of the court certificate that shows your appointment as the personal representative for the estate, you do not need to do so again. Instead, if you answer Yes here the phrase "Certificate Previously Filed" will be printed near the bottom of the official printed Form 1310.

**C Person other than A or B, claiming for decedent's estate.** All others must answer Yes here. If you answer Yes, you must proceed to Part II, below. **CAUTION for e-file:** *You must answer Yes here for an e-filed Form 1040 return to be accepted by the IRS. If line C does not apply, you must omit Form 1310 from the return.*

**PART II, COMPLETE THIS PART ONLY IF YOU CHECKED BOX C ABOVE.** If you are neither the surviving spouse nor the personal representative, you must justify your claim to the refund in your answers to the following questions:

**1 Did the decedent leave a will?**

**2a Has a court appointed a personal representative?**

**2b If "No," will one be appointed?**

If you answered "Yes" to 2a or 2b, a personal representative must file the return. You are not eligible to file for the refund.

- 3 As person claiming refund, will you pay out refund according to laws of state where decedent was legal resident?** If not, you cannot claim a refund until you submit proof to the satisfaction of the IRS that you are entitled to it.

**PART III, SIGNATURE AND VERIFICATION.** For a paper return you *must* sign and date the official printed Form 1310 and file it with the return. ***CAUTION: For e-file returns the jurat is displayed on the screen and you must complete the following two lines or else the return will be rejected by the IRS:***

**Signed by (enter full name).** Technically, for an e-file return, the claimant should read the on-screen jurat and enter his or her name here in 35 characters or less. For an e-file return, this entry takes the place of a signature, so it is not completed automatically even though it should be the same as the name entered on screen 1.

**Date signed by claimant.** Enter, in the standard mo/dy/yr format, the date the preceding entry was made.

## Form 2106 & 2106-EZ / Employee Business Expenses

**Who is it for?** This form is used to report expenses incurred as an employee and reimbursements received for such expenses from your employer, and is ***FOR EMPLOYEES ONLY***. While the worksheets and depreciation calculations may appear relevant to a business, and therefore applicable to Schedule C, they are designed by the IRS for employee expenses and reimbursements alone and should **NOT** be used to support Schedule C. *Form 2106 is accessible through the Road Map at line 21 of Schedule A.*

**Use separate copies for separate employers.** Five copies of Form 2106 are built into the software for reporting expenses as an employee for each of five different employers, and each copy can be used by either spouse, but you must identify the spouse for whom each form is completed. (The software supports an unlimited number of cars on one Form 2106 through its supporting worksheets. Note that you can use different expense methods for different cars as long as you do not use more than one car at the same time in the business.)

**Form 2106-EZ used in lieu of Form 2106 when eligible.** Form 2106-EZ was designed by the IRS to simplify the *manual* preparation of Form 2106. You are qualified to use this short form only if you do **NOT** get reimbursed by your employer for any expenses, you neither use nor are required to use the Actual Expenses Method for car expenses, and you have not claimed car depreciation in the past. The software determines your eligibility for this short form and prints it in place of the long form when you qualify, as detailed at the end of these instructions.

**GENERAL INFORMATION.** You must identify for whom this form is completed:

**Copy number (1 through 5).** *(auto-calc)* Automatically the copy you chose when you accessed the form.

**Is spouse the employee (vs. you)?** Your answer determines which name and SSN to print on the schedule.

**Occupation.** Enter the occupation in which expenses were incurred, in 25 characters or less.

**PART I, EMPLOYEE BUSINESS EXPENSES AND REIMBURSEMENTS.** This is the main part of the form. Part II supports it with details on vehicle expenses. Part I follows a two-column form: column A for all expenses other than meals and entertainment (which we label "A-Not M&E"), and column B for meals and entertainment expenses (which we label "B-M&E Only").

**STEP 1, Enter Your Expenses.** Lines 1 through 4 relate only to column A (Not M&E) expenses; line 5 relates only to column B (M&E Only) expenses. For all lines you must enter only amounts attributable to business use:

**Rural mail carrier allowance.** Qualifying rural mail carriers can treat the entire qualified reimbursement for vehicle expense as their allowed expense. Those who qualify should enter their equipment maintenance allowance here. No amounts from Part II of Form 2106 will be used if you make an entry here. Your entry will be used for the vehicle expense in line 1 and will also be included in the total reimburse-

ments at line 7. Since these amounts cancel each other on the form, you should not file Form 2106 unless there are other expenses to deduct.

- 1 Vehicle expenses from line 22 or line 29. (*auto-calc*)** If you entered an amount on the preceding line, that amount appears here. Otherwise this line is computed as the sum of lines 22 and 29 in Part II. (The determination of whether the standard mileage method or the actual expenses method is used is made on each Vehicle Expense Worksheet in Part II, and the appropriate amount is included in either line 22 or line 29 for each worksheet, but not both.)
- 2 Parking fees, tolls, and local transportation. (*Not M&E*)** You can include here airplane expenses that didn't involve overnight travel, but not commuting to and from work.
- 3 Travel expense while away from home, including lodging, airplane, car rental, etc. (*Not M&E*)** Include expenses for temporary business assignments for periods of one year or less, excluding meals and entertainment. For days that you do not claim meal expenses you can use an optional method for computing incidental expenses at the rate of \$5 a day.
- 4 All other EXCEPT Meals & Entertainment:**
  - Other itemized. (*Not M&E*)** Enter in a supporting statement for this line all other business expenses not included in lines 1 through 3, except meals and entertainment, depreciation, and amortization. Include expenses for education (tuition and books), home office, trade publications, business gifts, etc. See IRS Pub. 463 (*Travel, Entertainment, Gift, and Car Expenses*) and Pub. 529 (*Miscellaneous Deductions*) for limitations, and Pub. 587 (*Business Use of Your Home*) for special instructions for home office expenses.
  - Non-vehicle depreciation (Form 4562). (*Road Map line, supported by Form 4562.*)** The result on line 21 of the copy of Form 4562 attached to this copy of Form 2106 is posted to this line. ***Do NOT claim car depreciation on this copy of Form 4562; car depreciation is claimed in Part II of Form 2106, and included in line 1, above.***
  - Amortization (Form 4562). (*Road Map line, supported by Form 4562.*)** The result on line 42 of the copy of Form 4562 that is attached to this copy of Form 2106 is posted to this line.
- 4 Business expenses not in lines 1 through 3. (*auto-calc*)** Computed as the sum of the above three expense lines.
- 5 Meals and entertainment expenses. (*M&E Only*)** Enter actual full expenses for allowable activities, including meals while away from home overnight and other business meals and entertainment. (They will be *reduced by* 50% later, or 20% for the DOT exception.) Instead of using actual costs, you can figure away from home meals at rates periodically set by the IRS for specific localities. The rates range from \$46 a day in smaller localities to \$71 a day for high-cost cities like Los Angeles, San Francisco, Boston, and New York City. See IRS Pub. 1542 (*Per Diem Rates*) for details tables of allowed amounts. For the latest allowances, go to the internet site [www.gsa.gov](http://www.gsa.gov) and

click on *Per Diem Rates* under *Most Requested Links*. Information for both domestic and international travel is available from that website.

**6 TOTAL EXPENSES.** *(auto-calc)* Lines 1 through 4 are summed into 6A (Not M&E), and line 5 is used for 6B (M&E Only).

**STEP 2, Amounts Employer Gave You for Expenses in STEP 1.** If your employer reimbursed you for any of the above expenses, you must report so here if not included in wages reported to you in box 1 of Form W-2:

*for expenses in line 1 to 4:*

**Rural mail carrier allowance.** *(auto-calc)* Taken from your entry above line 1, this is the amount reimbursed by the U.S. Postal Service.

**Part in W-2 box 12, code L.** Include only amounts separately identified on Form W-2 and reported under code "L" in box 12 of W-2, and *NOT* amounts already reported as income in box 1 of W-2. You must enter here only the part related to expenses on lines 1 through 4, and *NOT* for meals and entertainment. (NOTE: If an employer-provided vehicle is not reported at full annual lease value, see instructions for line 25 of the Vehicle Expense Worksheet, detailed later.)

**Other employer-paid amounts for line 7A.** Include other amounts not reported as income on Form 1040 that relate to expenses on lines 1 through 4, and *NOT* for meals and entertainment.

**7 Reimbursements Not in Form W-2 box 1. A-Not M&E.** *(auto-calc)* Computed as the sum of the preceding three amounts.

**Expenses in lines 1 through 4.** *(auto-calc)* Computed as the sum of lines 1 through 4.

**EXCESS IN 7A for Form 1040, line 7.** *(auto-calc lines)* If line 7A exceeds the total for lines 1 through 4, you have been overpaid and must report the excess as income. This excess is automatically posted to line 7 of Form 1040 and identified as wages for the appropriate spouse.

*for expenses in line 5:*

**Part in W-2 box 12, code L.** Include only amounts separately identified on Form W-2 and reported under code "L" in box 12 of W-2, and *NOT* amounts already reported as income in box 1 of W-2. You must enter here only the part related to expenses on line 5, *ONLY* for meals and entertainment.

**Other employer-paid amounts for line 7B.** Include other amounts not reported as income on Form 1040 that relate to expenses on line 5 for meals and entertainment.

**7 Reimbursements Not in Form W-2 box 1. B-M&E only.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**STEP 3, Expenses to Deduct on Schedule A.** The IRS title for this section is misleading because deductions are not always reported on Schedule A, and income can result in this section as well:

**8 Subtract line 7 from line 6. A-Not M&E. *(auto-calc)*** Computed as indicated separately for column A.

**Subject to DOT hours of service limits?** The allowance for meal expenses is now 80% of the actual expense instead of 50% for employees subject to Department of Transportation (DOT) hours of service limits. This includes certain air transportation employees (pilots, crew, etc.), interstate bus and truck drivers, certain railroad employees (engineers, conductors, crew, etc.), and certain merchant marines.

**8 Subtract line 7 from line 6. B-M&E Only. *(auto-calc)*** Computed as indicated for column B.

**9A Amount from line 8. A-Not M&E. *(auto-calc)*** Computed as indicated.

**9B Amount on line 8 multiplied by 50%. B-M&E Only. *(auto-calc line, M&E Only)*** Computed as indicated for most employees, but using 80% in place of 50% if you answered Yes to the DOT question at line 8.

**10 Add amounts on line 9. *(auto-calc)*** Computed as 9A plus 9B.

**SPECIAL AMOUNTS IN LINE 10.** Most taxpayers must claim the amount on line 10 on line 21 of Schedule A, where it is subjected to a limitation based on 2% of AGI. However, certain targeted groups are given more favorable treatment. Disabled taxpayers are allowed to deduct the expenses fully on Schedule A, without the 2% AGI floor. Reservists, fee-basis government officials, and qualified performing artists are not required to use Schedule A at all, and can deduct the expenses at Form 1040, line 24, as an adjustment to income.

***Armed Forces Reservists:***

**Qualified expenses for travel more than 100 miles from home.** If you are a member of the Army Reserve, Naval Reserve, Marine Corps Reserve, Air Force Reserve, or Coast Guard Reserve, enter the part of line 10 that is attributable to the cited travel.

***Fee-basis Government Officials:***

**Expenses for services as an F.B.O.** If you were a fee-basis state or local government official who is compensated at least in part on a fee basis, enter the part of line 10 that is attributable to that job.

***Qualified Performing Artists):***

**Performing-arts related expenses.** Enter the part of line 10 that is attributable to performing-arts-related expenses. The following entries are used to determine whether or not you are qualified to report this amount on Form 1040, line 24, instead of Schedule A.

**Performing Artist gross income.** Enter gross income from your activities as a performing artist.

**Expenses over 10% of Performing Artist income? *(auto-calc)*** Automatically Yes if "Performing-arts related expenses" exceeds 10% of "Performing Artist gross income." If the result is No, you do not qualify for the favored treatment.

**Number of Performing Artist employers who paid you at least \$200 each.**

Unless you have at least two employers who paid you \$200 or more as a performing artist during the tax year, you do not qualify for the favored treatment.

**AGI (before deduction) \$16,000 or less?** *(auto-calc)* Answered Yes only if the AGI on Form 1040, line 38, less any amount on Form 1040, line 24, used in figuring that AGI, is \$16,000 or less. If the result is NO, you do not qualify for the favored treatment.

***Disabled Individuals:***

**Impairment-related work expense.** If you have physical or mental disability that requires attendant care at your place of work, enter the impairment-related work expenses included in line 10, including attendant care and certain other expenses that allow you to work.

**POSTING TO FORM 1040 AND SCHEDULE A.** Based on your entries in the preceding section, the deduction on line 10 is posted to Form 1040 and Schedule A as follows:

**Adjustment for Form 1040, line 24.** *(auto-calc)* Computed as the qualified amounts entered above for reservists, fee-basis government officials, and performing artists, but no more than the amount on line 10. These targeted groups are allowed this adjustment in lieu of an itemized deduction on Schedule A.

**Deduction for Schedule A, line 28.** *(auto-calc)* Computed as the amount you entered for disabled individuals, but no more than line 10 less the amount on the preceding line. This amount is claimed as an itemized deduction on Schedule A without any limitation involving AGI.

**Remainder for Schedule A, line 21.** *(auto-calc)* Computed as line 10 less the preceding two amounts, this is the amount to be claimed as an itemized deduction on Schedule A as a job expense.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return, but is provided for private notes or reminders for this or any other section of Form 2106.

**PART II, VEHICLE EXPENSES.** This part is used to determine the expenses claimed for line 1 of Part I. Both the Standard Mileage Rate Method and the Actual Expenses Method are supported and fully automated. The software ensures that the most favorable method is used when allowable as long as you supply all information in the Vehicle Expense Worksheets that support this part of the form, using a separate worksheet page for each separate vehicle, but if you qualify for Form 2106-EZ, you will have to make an entry for line 7 of Form 2106-EZ yourself if you claim car expenses.

**Section A-General Information.** Lines 11 through 17 and 23 through 38 are supported by the Vehicle Expense Worksheets, one for each vehicle. Lines 18 through 21, however, apply to all vehicles as a whole, and are answered directly on Form 2106:

- 11 Date vehicle was placed in service.** (*auto-calc*) You MUST enter all dates on the Vehicle Expense Worksheets that support the next line, so you are not allowed to make an entry here. Only dates entered on the worksheets (or a reference to the supporting statement) will appear on the official printout of Form 2106.
- 12 Total mileage vehicle was driven during 2014.** (*Supported by the Vehicle Expense Worksheet, Figures 2-21a and 2-21b.*) The total mileage posted here from the worksheet includes both business and personal mileage.
- 13 Business miles included on line 12.** (*Supported by the Vehicle Expense Worksheet, Figures 2-21a and 2-21b.*) The business part of the mileage is posted here from the worksheet.  
**Standard mileage rate miles.** (*Supported by the Vehicle Expense Worksheet, Figures 2-21a and 2-21b.*) This is the business mileage driven during the tax year *only for vehicles identified on the worksheets as using the Standard Mileage Rate method.*
- 14, 15.** The entries for these lines appear only on the individual Vehicle Expense Worksheets for each vehicle.
- 16 Commuting miles included on line 12.** (*Supported by the Vehicle Expense Worksheet, Figures 2-21a and 2-21b.*) This is the commuting mileage entered on line 16 of all worksheets.
- 17 Other personal miles.** (*auto-calc*) Computed as line 12 less lines 13 and 16.
- 18 Do you or spouse have another vehicle available for personal use?**  
All taxpayers who claim vehicle expense deductions must answer.
- 19 Was your vehicle available for personal use during off duty hours permitted?** All must answer.
- 20 Do you have evidence to support your deduction?** All must answer.
- 21 If "Yes," is the evidence written?** You must answer if you answered Yes to the preceding question.

**Standard Mileage Rate vs. Actual Expenses.** There are two alternative methods for deducting vehicle expenses. The *Standard Mileage Rate* method makes it unnecessary to keep detailed expense records for the vehicle, allowing a deduction that is just your business mileage times a standard rate set by the IRS each year. You cannot deduct any other expenses for the car when you use this method, including depreciation, gasoline, insurance, etc. The *Actual Expenses* method, on the other hand, allows your deduction to be determined from out-of-pocket expenses plus depreciation. There are restrictions on the use of each method, but if you qualify for either one for a particular car, you can use the method that gives you the largest deduction, and the software ensures this choice on our *Vehicle Expense Worksheets*, described later. Among the considerations in selecting the method are:

- If you use more than one vehicle at the same time in the business, such as a fleet operation, you **MUST** use the Actual Expense method for ALL vehicles in the business. Note that if you alternate use of more than one vehicle, but never use them at the same exact time, you are not subject to this restriction.
- For a leased vehicle, you cannot use the Standard Mileage Rate method if you ever used the Actual Expense method for the vehicle after December 31, 1997.
- For a vehicle you own, you cannot use the Standard Mileage Rate method in any year unless you use it in the first year you placed it in business service.
- You cannot use the Standard Mileage Rate method for a vehicle you use for hire.
- If you previously used the Standard Mileage Rate method but want to use the Actual Expense method this year, your depreciation deduction must be based on straight-line depreciation. An accelerated method (ACRS or MACRS) is not allowed.

For additional information, see IRS Pub. 463.

**Section B-Standard Mileage Rate.** The standard rate is a single rate for all of 2014:

**22 Multiply line 13 by .56.** *(auto-calc)* Computed from the amount below line 13 labeled “Standard mileage rate miles” times the rate of 56 cents per mile, this is the standard deduction for 2014.

**Section C-Actual Expenses.** This entire section, lines 23 through 29, is supported by the Vehicle Expense Worksheets, one for each vehicle.

**23 through 26.** The entries for these lines appear only on the individual Vehicle Expense Worksheets.

**Additional notes (itemize).** Any additional details you choose to supply in a supporting statement for this line will appear in the official printout as a supporting statement for line 27.

**27 Multiply line 26 by % on 14.** *(Supported by the Vehicle Expense Worksheet, Figures 2-21a and 2-21b.)* Taken from line 27 of all worksheets supporting this copy of Form 2106, this is the total of actual expenses, exclusive of depreciation.

**28 Depreciation from lines 38.** *(auto-calc)* Taken from the result for Section D, below.

**29 Add lines 27 and 28.** *(auto-calc)* Computed as indicated, this is the total of actual expenses, including depreciation, for vehicles identified on the worksheets as using the Actual Expenses method.

The sum of line 22c (mileage rate deduction) and line 29 (actual expenses deduction) is posted to line 1 of Part I of Form 2106.

**Section D-Depreciation of Vehicles.** Depreciation is only relevant to the Actual Expenses Method, and is shown individually for each vehicle on the Vehicle Expense Worksheets.

**RULES for SUVs.** The “SUV loophole” was tightened for certain sport utility vehicles (SUVs) acquired after October 22, 2004. Under prior law, you were not subject to the usual restrictions on annual deductions for vehicles if the SUV was rated at 6,000 pounds gross vehicle weight or more. As a result, because of the increase in the section 179 ceiling to \$100,000 for 2003, you could generally deduct the entire cost of a heavy SUV in the first year if used mostly for business! The *American Jobs Creation Act of 2004* took a first step at closing the loophole. For heavy SUVs placed in service after October 22, 2004 but rated at no more than 14,000 pounds gross weight, the maximum section 179 deduction is now \$25,000. However, there is still no annual limit on other depreciation, so a large first-year deduction is still available. (You should identify these vehicles as Vehicle Type 4 on our Vehicle Expense Worksheet so that the proper limitations are applied.)

**30 through 37.** The entries for these lines appear only on the Vehicle Expense Worksheets, described next.

**38 Smaller of line 35 or line 37.** *(Supported by the Vehicle Expense Worksheet, Figures 2-21a and 2-21b.)* The total from all worksheets is posted here, then used in line 28, above.

**Vehicle Expense Worksheet, Figures 2-21a and 2-21b.** The Vehicle Expense Worksheet provides all of the detail required for Part II of the official Form 2106. Whether you use the Actual Expenses Method or the Standard Mileage Rate Method, you MUST use the worksheet to report the detail, using a separate worksheet page for each separate vehicle. The worksheet is accessible at lines 12, 13, 16, 27, and 38. Limitation for e-file: Because of the IRS format for this form, no more than 4 vehicles are supported by the software for e-file. As a result, if you have more than 4 vehicles to report, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.

**Vehicle identification.** Identify vehicle in 10 characters or less.

**Date vehicle acquired – mm/dd/yy.** Enter the date you purchased or otherwise acquired the vehicle, in the standard date format. The date you enter here is initially used for the next line, as the date business use started. It is also used in a special prorationing for line 14 when

the date on the next line is after this date and after January 1 of the current tax year.

<p><b>11 Date placed in service</b> – mm/dd/yy. If different from the above date, enter the date the vehicle was placed in service for business use. If in the current tax year and later than the preceding date, this date is used to specially</p>	<pre> VEHICLE EXPENSE-Screen1of2   Vehicle identification....     Date veh. acquired-mm/dd/yy 11 Date placed in svc-mm/dd/yy 12 Total miles driven in 2014 13 Business miles on line 12. 14 Percent of business use... 15 Avg daily rnd-trip commutg 16 Commuting miles on line 12 17 Other personal miles..... Mthd:1=StdRate,2=Actual,3=Best 23 Gas,oil,repair,insurnc,etc 24a Vehicle rentals..... 24b Inclusion amount..... 24c Subtract 24b from 24a..... 25 Value employer-prov(W-2).. 26 Add lines 23, 24c,&amp; 25.... 27 Multiply 26 by % on 14.... 28 Depreciation from line 38, 22 or 29 vehicle expns claimed                 </pre>	<p>0 0 0 0 0 0 0 1 0 0 0 0 0 0 0 0 0 0</p>
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**Figure 2-21a. Vehicle Expense Worksheet, Screen 1**

prorate the result for line 14 for those who started a new job in which a car is required (when the old job did not require one). If the car is newly purchased and immediately put into business use, as indicated by both dates being the same, no prorating will result. (*TIP:* The prorating of line 14 is not required if you have records to prove your nonbusiness mileage for the car starting on the date placed in service. If this is the case, change “Date vehicle acquired” to be the same as “Date placed in service” and enter on lines 12 and 13 only the mileage starting on the “Date placed in service” rather than the mileage for the entire year.) *This date is also used as the starting date for depreciation* in lines 30 through 38.

- 12 Total miles vehicle was driven during 2014.** Include both personal and business mileage for the months starting at the beginning of the tax year or the immediately preceding date, whichever is later.
- 13 Business miles included on line 12.** Enter the business part of the total mileage here. Do NOT include commuting mileage.
- 14 Percent of business use.** (*auto-calc*) Normally computed as the ratio of line 13 to line 12 (expressed as a percentage). However, if the date started for business use is in the current tax year, a special prorating may be used.
- 15 Average daily round-trip commuting distance.** Enter here the mileage from home to the first business stop and from the last business stop to home, averaged over the months of business use. (Used by IRS for auditing information only.)
- 16 Commuting miles included on line 12.** Enter the part of total mileage attributable to commuting to and from work.

**17 Other personal miles.** *(auto-calc)* Computed as line 12 less lines 13 and 16.

**18 through 22.** These lines appear on Form 2106 itself, not this worksheet, because they apply to ALL vehicles.

**Method: 1=Standard Rate, 2=Actual Expenses, 3=Best.** Using the previously described rules as a guidance (in the shaded section titled "Standard Mileage Rate vs. Actual Expenses"), enter 1 if you must use the Standard Mileage Rate method for this vehicle, 2 if you must use the Actual Expense method for this vehicle, or 3 if you can use the best method (the one with the highest deduction). *TIP: If you choose method 1, you do not have to complete lines 23 through 28, which relate only to the Actual Expense method.* (The Standard Mileage Rate for 2014 is 56 cents per mile, which is applied at line 22 of Form 2106, not on the worksheet.)

**23 Gasoline, oil, repairs, vehicle insurance, etc.** Enter all out-of-pocket expenses here.

**24a Vehicle rentals.** Enter rental expenses here.

**24b Inclusion amount.** You may have to reduce your rental deduction by an inclusion amount if the lease term began after June 18, 1984 and the term of the lease was 30 days or more. The reduction generally applies only to leases beginning after 1986 for equipment with an initial market value in excess of \$12,800 if begun before 1991, \$13,400 if begun in 1991, \$13,700 if begun in 1992, \$14,300 if begun in 1993, \$14,600 if begun in 1994, \$15,500 if begun in 1995 or 1996, \$15,800 if begun in 1997 or 1998, \$15,500 if begun in 1999, 2000, 2001, or 2002, \$18,000 if begun in 2003, \$17,500 if begun in 2004, \$15,200 if begun in 2005 or 2006, \$15,500 if begun in 2007, \$18,500 if begun in 2008 through 2012, and \$19,000 if begun in 2013. (Slightly higher amounts apply to trucks and vans.) See IRS Pub. 463 (*Travel, Entertainment, Gift, and Car Expenses*) for details.

**24c Subtract line 24b from line 24a.** *(auto-calc)* Computed as indicated.

**25 Value of employer-provided vehicle (on W-2).** Enter here the value of an employer-provided vehicle *only if included with wages in box 1 of Form W-2 at full annual lease value.* If not reported at full annual lease value, include the amount in line 7 of Form 2106 rather than here if claiming a deduction for vehicle expenses.

**26 Add lines 23, 24c, and 25.** *(auto-calc)* As indicated.

**27 Multiply line 26 by the percentage on line 14.** *(auto-calc)* Computed as indicated.

**28 Depreciation from line 38.** *(auto-calc)* This amount is computed after you complete lines 30 through 38, below.

**22 or 29 Vehicle expense claimed.** *(auto-calc)* This is the claim that will be reflected in the totals on Form 2106. This result is controlled by your choice of method above line 23. If you chose method 1, this result will be reflected in line 22 of Form 2106 based on the Standard Mileage Rate method, using the mileage on line 13. For this method, the deductible expense for 2014 is the business mileage times 56

cents per mile. If you chose method 2, this result will be reflected in line 29 of Form 2106 based on the Actual Expense method, and is computed as line 27 plus line 28. If you chose method 3, the result for either line 22 or line 29 is shown here, whichever is greater. (Note that when the Standard Mileage Rate is used, whether by your choice or the software's optimization, calculated results for lines 27, 28, and 29 appear as zero on the official printout of Form 2106 in order to mitigate any confusion about which method is used for a particular vehicle. To further minimize confusion you can zero all actual expense entries for this vehicle, since they are not needed in this case.)

**Paging among screens.** Press the Page Down Key (or >) to continue to lines 30 through 38 of this worksheet. (The Page Up Key, or <, will return you to lines 11 through 29.)

**Screen 2 of Vehicle Expense Worksheet.** Depreciation for the Actual Expenses Method is computed in lines 30 through 38. *See Figure 2-21b.*

**Eligible for special allowance?** A first-year special allowance is now available for nearly all vehicles acquired after 2007 and placed in service during the tax year. Under the current law, the percentage of cost or basis allowed is 50% for vehicles placed in service before January 1, 2015 (but after December 31, 2011). *You can answer Yes here only if the percent of business use on line 14 of this worksheet is more than 50%, the date acquired is after 12/31/2007, and the date placed in service (line 11) is within the tax year of the return.*

**Elect out of special allowance?** If you elect out of the special allowance, *you must elect out for all other property of the same class throughout the return, including all copies of Form 4562.*

**1=regular, 2=OEM electric, 3=truck, 4=big SUV, 5=exempt.** This entry is used to control the ceiling on depreciation for passenger vehicles, often called the "luxury car limitation," which are shown later in Table 2-12, and apply a limit on sec. 179 deductions for big SUVs not subject to these limitations. For most vehicles, 1 is the appropriate entry. Enter 2 if the vehicle was produced by an original equipment manufacturer (OEM) and designed to run primarily on electricity. The ceiling on depreciation for OEM electric vehicles that were placed in service after August 5, 1997 but before January 1, 2007 is approximately triple that for regular cars. (*NEW: No special treatment is available for electric cars placed in service in 2007 and later.*) Enter 3 if the vehicle is a passenger truck or van (including minivans and SUVs built on a truck chassis) rated at 6,000 pounds gross vehicle weight or less. The ceiling on first-year depreciation is \$300 higher for trucks and vans than it is for regular cars. Enter 4 if the vehicle is an SUV (or other passenger vehicle) rated at more than 6,000 pounds gross vehicle but no more than 14,000 pounds. This class of vehicle is not subject to the limitations in Table 2-12, but is subject to a reduced maximum for sec. 179 deduction of \$25,000. Enter 5

for vehicles not fitting into any of these categories, which are vehicles excepted from all ceilings. Excepted vehicles include ambulances, hearses, and taxicabs.

VEHICLE EXPENSE-Screen2of2	
Eligible for spec. allowance?	
Elect out of spec. allowance?	
1=reg,2=elec,3=truck,4=SUV (5=exempt. See instr'ns.)	1
30 Cost or other basis.....	0
Sc.179exp.&PRIOR spec allow	0
31 Sec.179 & spec allow(2014)	0
32 Multiply ln30 by ln 14....	0
Deprec'n in past years	0
Recovery period(years)	0
Farm or elect 150% DB.? No	
MUST use mid-qtr convn? No	
33 Method (DB,ACRS,orSL).....	0
Month sold (if this year).	0
Percentage this year.....	0
34 Multiply 32 by % on 33....	0
35 Add lines 31 and 34.....	0
36 Limitation amount.....	0
37 Multiply 36 by % on 14....	0
38 Smaller of ln 35 or 37....	0

**30 Cost or other basis.** Enter the total cost (including sales tax paid after 1986) BEFORE adjusting it for prior depreciation or reducing it to account for nonbusiness usage. However, reduce the basis by any diesel fuel tax credit, electric vehicle credit or clean-fuel vehicle deduction you

Figure 2-21b. Vehicle Expense Worksheet, Screen 2

claimed, and increase the basis by any recapture on Form 4797, line 35 that applies to this vehicle.

**Section 179 deduction and PRIOR special allowance.** If the vehicle is new this year, enter the section 179 deduction to be taken. Your entry may be reduced in accordance with Table 2-12. The reduced amount will also be reflected in line 31, below, and the depreciable basis (line 32) will be reduced by the deduction taken. On the other hand, if the vehicle was placed in service in a prior year, enter here the section 179 deduction actually taken in the past plus any basis reduction required for a previously claimed special allowance or the Investment Tax Credit (ITC) and any adjustment required for past years when you used the standard mileage method at 12 cents per mile since 1994. For this case your entry will *not* be reduced and will *not* be reflected in line 31. Instead, it will be used *only* to properly compute the depreciable basis for line 32. Also include here any special depreciation allowance taken in the past.

**31 Section 179 deduction and special allowance (2014).** *(auto-calc)* If "Date placed in service" lies in the current tax year and the business use percentage on line 14 exceeds 50%, then this line is computed as the preceding section 179 deduction plus (if you indicated eligibility for it and didn't elect out) a special allowance. The special allowance is figured as 50% of the business basis remaining after subtracting the section 179 deduction from the product of line 30 and line 13. Otherwise, this line is computed as zero. *TIP: The IRS's "Worksheet for the Special Depreciation Allowance" on page 7 of the 2014 Instructions of Form 2106 is wrong! It assumes a 100%*

*special allowance (as was proper only before 2012), but the proper percentage for 2014 by law is 50%. By contrast, the software uses the proper computation in accordance with the law.*

**32 Multiply line 30 by line 14.** *(auto-calc)* This is the basis for depreciation. In spite of the label for this line, the line is computed as the //cost (line 30) times the percentage of business use (line 14), *less* either line 31 (if business use started this year) or the entry above line 31 (if business use did *not* start this year).

**Depreciation in past years.** You must include all past depreciation allowed, whether taken or not, including past sec. 179 expense and past special allowance taken. In other words, except for years you used the Standard Mileage Rate, you have to compute past depreciation as if you had used the Actual Expense method for all the other years. This entry is used to determine any additional depreciation you can deduct now because prior depreciation was reduced by the limitations on luxury cars, which are shown in Table 2-12.

**Recovery period (years).** This entry is checked against the law and changed to the closest legal period if it is improper.

**Farm or elect 150% DB method?** Since 1990, property used in a farming business cannot be depreciated at the 200% declining balance rate. If the declining balance method is chosen, property used in a farming business **MUST** be depreciated at a 150% rate instead. In addition, nonfarm property can be depreciated at 150% by election (in order to avoid the complications of the alternate minimum tax). In either case, answer Yes here to force 150% DB for classes where 200% DB would be used otherwise.

**MUST use mid-quarter convention?** Normally you must use the mid-quarter convention when more than 40% of the value of all property placed in service in the same year is placed in service in the last quarter of the year. You therefore cannot answer this question properly without considering ALL of the property (including other property in addition to cars) you start depreciating this year on the tax return.

**33 Method (DB, ACRS, or SL).** The method is restricted for cars: if the vehicle is placed in service after June 18, 1984 and used 50% or less for business, the method should be SL, and the software ensures this. The IRS prefers standard entries like MACRS, ACRS, and SL, but the software will accept any entry starting with MA, AC, or DB as a MACRS/ACRS type, and any entry starting with SL or S/ as an SL type. Everything else is taken as manual entry, for which you can enter any percentage, below.

**Month sold (if this year).** Enter month from 1 to 12 to indicate a sale.

**Percentage this year.** *(auto-calc)* This line normally shows the percentage deduction resulting from the automatic calculations. But if you entered an unrecognized method above, you can make any manual entry here yourself.

**34 Multiply line 32 by the percentage on line 33.** *(auto-calc)* Normally computed as indicated, this is the depreciation deduction before luxury car and business use limitations are applied. If the vehicle was sold

during the current year, the appropriate percentage is applied based on year and month the vehicle was placed in service and month sold.

**35 Add lines 31 and 34.** *(auto-calc)* Computed as indicated.

**36 Limitation amount from table.** *(auto-calc)* The limitations on depreciation plus section 179 deductions are shown in Table 2-12. If you entered 4 or 5 for the vehicle type, indicating that no limitation applies, zero will appear here and on line 38.

**37 Multiply line 36 by the percentage on line 14.** *(auto-calc)* Computed as indicated, this is the limitation that applies this year.

**38 Smaller of line 35 or line 37.** *(auto-calc)* Computed as indicated, this is the total depreciation deduction allowed this year, including section 179 expense and any special first-year allowance. It is used in line 28, above, as a component of total actual expense in line 29.

For more details on the depreciation methods used, see the instructions in this manual for the Listed Property Worksheet for Form 4562. Also see IRS Instructions for Form 2106. Since worksheet lines cannot be itemized, an extra line is provided above line 27 of Form 2106 itself for your use to supply additional details in a supporting statement.

Table 2-12. Limitations on Cars

<u>DATE PLACED IN SERVICE</u>	<u>TAX YEAR</u>	<u>MAXIMUM</u>
6/19/84 through 12/31/84	all	\$6,000
1/1/85 through 4/2/85	all	\$6,200
4/3/85 through 12/31/86	all	\$4,800
1/1/87 through 12/31/90	after 3rd	\$1,475
1/1/91 through 12/31/92	after 3rd	\$1,575
1/1/93 through 12/31/94	after 3rd	\$1,675
1/1/95 through 12/31/96	after 3rd	\$1,775
1/1/97 through 12/31/03	after 3rd	\$1,775 (*)
1/1/04 through 12/31/05	after 3rd	\$1,675 (*)
1/1/06 through 12/31/09	after 3rd	\$1,775 (*)
1/1/10 through 12/31/10	3rd	\$2,950
" " "	4rd	\$1,775
1/1/11 through 12/31/11	2nd	\$4,900
" " "	3rd	\$2,950
1/1/12 through 12/31/12	2nd	\$5,100
" " "	3rd	\$3,050
1/1/13 through 12/31/13	1st	\$3,160 (**)
" " "	2nd	\$5,100

(\*) Increases to these limits apply to electric passenger automobiles and trucks and vans as follows:

***For electric passenger automobiles after 8/5/1997 but before 1/1/2007:***  
 All limits are approximately triple (within plus or minus \$200) for OEM electric vehicles. See IRS tables for limits.

***For trucks and vans after 12/31/02 (under 6,000 lb. gross):***  
 For 2013, add \$200 to 1st-year and \$300 to 2nd-year limits.  
 For 2012, add \$200 to 1st-year and 2nd-year limits.  
 For 2011, add \$200 to 1st-year and \$300 to 2nd-year limits.  
 For 2010, add \$200 to 2nd-year and \$100 to 3rd-year limits.  
 For 2009, add \$100 to 3rd-year limit only.  
 For 2006 through 2008, add \$100 to limits after 3rd year.  
 For 2003 through 2005, add \$200 to limits after 3rd year.

(\*\*) Raised by \$8,000 if special allowance elected for this property.

NOTE: Actual limitation is THE ABOVE AMOUNT MULTIPLIED BY THE BUSINESS USE PERCENTAGE. (After the recovery period has expired, the remaining depreciation not taken because of the above limitations can be deducted subject to these limitations each year until fully depreciated.)

**FORM 2106-EZ QUALIFICATION.** This section lets you know whether the short form (2106-EZ) will be printed for the official printout in place of the long form (2106), and what the entries will be if it is.

**Are you qualified for 2106-EZ?** *(auto-calc)* You are disqualified if you get reimbursed by your employer for *any* expenses, or, if claiming vehicle expenses, you do not own the vehicle or you are not using the standard mileage rate to compute expenses or you are otherwise required to use the Actual Expenses Method. This answer is determined from the preceding entries on Form 2106 and its worksheets.

**Elect NOT to use Form 2106-EZ?** If you prefer not to have the new short form printed with the return, even when eligible for it, answer Yes here.

Most of the remaining lines on the screen are automatic based on the entries on the long form, but you must make an entry on lines 7 and 10, below.

**7 When did you place vehicle in business service?** *(auto-calc if you completed Vehicle Expense Worksheet)* If you completed the worksheet that supports Part II of the long form (Form 2106), the date in service for the first worksheet appears here. However, if you did not complete the worksheet, or you detached it, you can enter any date here yourself.

**8 through 11b Other information about your use of the vehicle.** *(auto-calc lines)* The remaining lines are taken directly from your entries and answers in Part II of Form 2106.

## Form 2120\* / Multiple Support Declaration

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form must be filed by *those who claim a dependent for whom they did not provide more than 50% of the dependent's support* unless the dependent is a qualifying child. You must have provided more than 10% of the support, no-one else can have provided more than 50% of the support, and you must have signed statements from all others who provided more than 10% of the support relinquishing their claim to an exemption for the dependent in the current tax year.

**Use a separate Form 2120 for each dependent.** You must use each Form 2120 for just one dependent. *Five copies are provided* by the software, which are *accessible through the Road Map below line 6d of Form 1040.*

**Form 2120 no longer required for a qualifying child.** Since tax year 2005, you do not have to file this form for a dependent who is your "qualifying child" in accordance with the current definition in the IRS Form 1040 Instructions. By this definition, a qualifying child is your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendent of any of them, who is under age 19 at year-end 2014 (or a student under 24, or a permanently and totally disabled person of any age), who does not provide over half of his or her own support for 2014, and who lived with you more than half of 2014. If the child is a qualifying child of more than one person and lived with neither more than half the year, the IRS will apply the rules summarized in the IRS Form 1040 Instructions, including giving the dependency to the parent with whom the child lived longer or, if lived with both the same amount of time, the parent with the higher AGI. It is no longer up to the parents to decide which parent will claim the dependency.

**During calendar year 2014, the eligible persons listed below EACH paid over 10% of the support of:**

**First name of person supported.** Enter the first name and initial of the dependent in 10 characters or less.

**Last name of person supported.** Enter the last name in 15 characters or less.

**I have a signed statement from each eligible person waiving his or her right to claim this person as a dependent for any tax year that began in 2014:**

**Eligible supporters (itemize).** *(Supported by the Eligible Person Worksheet, Figure 2-22.)* The number of persons you properly identify in the supporting worksheets for this line appears here

**Eligible Person Worksheet, Figure 2-22.** You must identify ALL other persons who provided more than 10% of the support for the dependent named on this form.

**First Name.** Enter in 10 characters or less.

**Last Name.** Enter in 15 characters or less.

**Social security number.** You *MUST* enter the person's SSN.

**U.S. address:**

**Street address.** Enter here the person's street address or P.O. box in 30 characters or less.

**City.** Enter city in 25 characters or less.

**State.** Enter the standard 2-letter state code.

**ZIP code.** Enter the standard 5-digit or 9-digit (xxxxx-xxxx) ZIP code.

**Foreign address:**

**Street address.** Enter here the person's foreign street address or P.O. box in 30 characters or less. *e-file restriction: For a person with both a domestic address and a foreign address, you must choose which to enter on this worksheet. If you enter both, the e-file return will be rejected by the IRS.*

**City.** Enter foreign city in 25 characters or less.

**Province or Sstate.** Enter the foreign province or state in 15 characters or less.

**Country code.** Enter the standard 2-letter country code. *See Table 2-6 on page 2-22 for a list of official country codes.*

**Postal code.** Enter the foreign postal code in 15 characters or less.

**Have a signed statement from him or her?** You *MUST* have a signed statement from the person stating that he or she will not claim the dependent on his or her return for the applicable year. Do NOT send the statement to the IRS, but keep it with your records.

ELIGIBLE PERSON WORKSHEET  
First Name.....  
Last Name.....  
Soc. sec. no. ....  
U.S. address:  
Street address.....:  
  
City.....  
State.....  
ZIP code.....  
Foreign address:  
Street address.....:  
  
City.....:  
  
Province/state.....  
Country code.....  
Postal code.....  
Have signed stmt from him/her? No

Figure 2-22. Eligible Person Worksheet

## Form 2210 & 2210-F / Underpayment of Estimated Tax

**Why a penalty?** The penalty computed through Form 2210 is a nondeductible charge that the IRS imposes when prior withholding plus estimated tax payments fall substantially short of the tax liability for the year. *This form is automatically generated when a penalty appears likely.* You will have to access this form yourself, however, to provide additional information for a lower penalty. *Form 2210 is accessible through the Road Map at line 79 of Form 1040.* (Note that this form assesses a penalty only through April 15, 2015. The IRS alone computes interest and penalties after that time and sends a bill to the taxpayer. There is no IRS form for computing these post-April 15 interest and penalties.)

**TIP: It may be advisable NOT to file Form 2210.** After a long history of confusing and often inconsistent instructions, and frequent errors on the part of taxpayers in completing the form, the IRS now encourages taxpayers to let the IRS compute the penalty! *Unless you need to supply more information to justify a lower penalty, you can let the IRS figure the penalty for you. If you file Form 2210 and compute the penalty yourself, you must pay the penalty with the return; but if you let the IRS compute the penalty, you do NOT have to pay the penalty until the IRS bills you.* And, as long as you file your return by April 15, 2015 and pay any tax due (other than the penalty), you will not be charged interest on the unpaid penalty if you pay the amount billed within 10 days of the billing date. In any case, we provide the form with its full automation so that taxpayers are not caught unaware of a penalty they may owe.

**More favorable Form 2210-F for farmers and fishermen built-in.** If your gross income from farming or fishing is at least two-thirds of your gross income from all sources for 2013 or 2014, you qualify for the simpler Form 2210-F, which imposes less severe penalties than Form 2210. The penalty for this form is computed based only on the number of days after January 15, 2015 that all tax due is paid; *there is NO penalty for late quarterly payments for periods before January 15. Moreover, if you file Form 1040 and pay all tax due by March 2, 2015, you do not owe ANY penalty.*

**Form 2210 is a complex 4-page form.** This form is so long and involved that it is four printed pages long. It is split in the software into two interrelated parts, each of which is independently accessible from the Forms Menu:

**Form 2210, Main Form.** The first three pages comprise the main form. The annual changes usually stem from the variations in the penalty rates that apply, which can alter the look of page 3 depending on the length of time a penalty remains constant.

**Form 2210, Schedule AI.** Page 4 comprises Schedule AI, Annualized Income Installment Method. It is used to justify lower payments in earlier quarters based on lower income in those quarters.

*Schedule AI of Form 2210 is accessible through the Road Map in the middle of screen 1 of the main Form 2210.*

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Form 2210/2210-F

**DATE TO BE FILED AND PAID.** This information is used in computing special exceptions and reduced penalties for early filing and payment.

**Date return filed.** You must enter the date the return will be filed in the mm/dd/yy format.

**Tax due on Form 1040 (line 63 less line 74).** *(auto-calc)* Taken from Form 1040, as indicated.

**\$ NOT paid when return filed.** If you will not be paying the entire tax due when filing the return, enter the amount of underpayment here.

**Tax paid when return filed.** *(auto-calc)* Computed as the tax due less the above underpayment.

There are decided benefits for early filing when you pay tax with the return. Dates earlier than 1/15/2015 produce no extra benefit because the IRS does not pay interest for early payments. Conversely, dates later than 4/15/2015 produce no extra penalty on this form because Form 2210 is *NOT* designed for computing the penalty for late returns, only the penalty for insufficient withholding or quarterly estimated tax payments. However, *if you pay on or before 2/2/2015, any tax paid with the return will be considered as an additional estimated tax payment made by 1/15/2015 for the purposes of this form.* And, *if you qualify as a farmer or fisherman, below, dates on or before 3/2/2015 will result in no penalty if you pay all tax due by that time.* (Note that if an amount is due on a Saturday, Sunday, or federal holiday, the IRS will consider the payment timely if you pay on the next business day.)

**AMOUNT OF WAIVER REQUESTED.** All or part of the penalty may be eligible for a waiver under special circumstances delineated by the IRS. To claim a waiver you must itemize the below line and explain the reason. *TIP: To request a FULL waiver before knowing the penalty, enter an amount larger than the largest penalty you expect.*

**Waiver requested (itemize).** Explain your justification for a waiver in a supporting statement for this line, with the amount to be waived in the amount column. *CAUTION: The circumstances under which the IRS will accept a waiver are very narrow. Enter an amount here ONLY if your underpayments are a result of a new tax law or you suffered a casualty, disaster, retirement, or disablement during the tax year that has been specifically allowed by the IRS as reasonable cause for a waiver.* You may also have to attach official documentation of the event.

**NEW: Waiver from penalty due to excess advance payment of the PTC.** For 2014, you are allowed a waiver from an underpayment penalty that is caused by the tax on Form 1040, line 46. This tax arises only for those who purchase health insurance through the insurance Marketplace (commonly called the Exchange) and have their premiums reduced by the estimated Premium Tax Credit to which they would be allowed in 2015. If the actual allowed amount is less than the premium reductions for 2014, the difference is the tax for Form 1040, line 46. Any underpayment caused by that additional tax is not subject to an underpayment penalty, so a waiver is allowed. To claim the waiver you must explain in a supporting statement for the above "Waiver requested" line with the statement "Received excess advance payment of the PTC."

**ANNUALIZED INSTALLMENTS.** *(Not relevant if qualified for Form 2210-F, since the penalty for that form is based solely on the number of days late after January 15, 2015.) You can skip this section if* your income is received relatively uniformly throughout the year, or you receive more income in the first half of the year than you do in the second half of the year. It will be to your benefit to complete Schedule AI of Form 2210 (Annualized Income Installment Method), which supports these lines, *only* if you can show that you received more income in later quarters than in earlier quarters:

**Annualized installments for 1st quarter, 2nd quarter, 3rd quarter, and 4th quarter.** *(Road Map lines, supported by Form 2210 Schedule AI.)*

The results on line 25(a), 25(b), 25(c), and 25(d) of Schedule AI of Form 2210 appear on these four lines after you complete this supporting schedule.

**FEDERAL INCOME TAX WITHHELD.** It is standard practice to assume that withholding from wages is equal in all four quarters, and the IRS always allows this. But it may be to your benefit to override the below automatically computed amounts with the actual exact amounts if you have a penalty and your wages in the first half of the year significantly exceed your wages in the second half of the year.

**Tax withheld on Form 1040, line 64.** *(auto-calc)* Taken from line 64 of Form 1040.

**Excess tax on Form 1040, line 71.** *(auto-calc)* Taken from line 71 of Form 1040, this is the excess social security and RRTA tax caused by more than one employer deducting these taxes.

**Other federal income tax withheld.** Enter here all other applicable withholding, including any credit from Form 4469.

**TOTAL federal income tax withheld.** *(auto-calc)* The sum of the above three amounts, this result is used for line 6 of Form 2210. If you will use the Regular Method for Form 2210 rather than the Short Method, it may be to your advantage to determine an accurate quarter-by-quarter breakdown of this total, as explained in the next.

**Part withheld in (a)1st quarter, (b)2nd quarter, (c)3rd quarter, and (d)4th quarter.** *(auto-calc lines)* The above total is divided equally among all four quarters and displayed here. *If you can show that your actual payments were unequal, and these actual payments result in a lower penalty, you should use the Override Key (described in Chapter 7 of the separate User's Guide) to access and change these computed amounts,* and explain them in a supporting statement for this line.

**FORM 2210-F QUALIFICATION (for farmers and fishermen).** Qualifying farmers and fishermen benefit from a simpler calculation, a lower penalty, and sometimes even zero penalty, as noted previously. But qualification can be difficult to determine if the taxpayer has nonfarm income as well. The IRS will allow you to use the more favorable rules for farmers and fishermen if your gross income from farming and fishing is at least 2/3 of your annual gross income from all sources for *EITHER* 2013 or 2014. The software can help with the determination for 2014, but you must answer the question for 2013 yourself:

**2/3 of 2013 gross income is from farming and fishing?** In order to answer this question, you must compute gross farm and nonfarm income in the same way as we detail for 2014 below.

The following lines determine the answer to the analogous question for 2014:

**Schedule F, line 9.** *(auto-calc)* This is the gross income reported on Schedule F for 2014.

**Farm gross on Schedule K-1s and Form 4835.** *(auto-calc)* Computed from entries on Schedule E, this is the sum of self-employment gross on the Partnership and S Corps Worksheets for farm activities (in Part II of Schedule E) plus the gross farm rental income from Form 4835, which appears above line 39 of Schedule E (in Part V).

**Other farm gross on Schedule SE.** *(auto-calc)* Taken from Schedule SE, this is the entry you made on Schedule SE for gross farm self-employment income not reported on Schedule E or F.

**Other farm gross (Form 4797, etc.).** Use this line to report all gross farm income not included above. If it stems from Form 4797 or Schedule D, you will have to separately sum items sold for a profit and items sold for a loss, and enter here only the gain from those items sold for a profit.

**2014 FARM Gross.** *(auto-calc)* The sum of the above four lines.

**Form 1040, line 22 less amounts from Schedules C, D, E, and F, and Form 4797.** *(auto-calc)* Computed as Form 1040, line 22 less lines 12, 13, 14, 17, and 18.

**Nonfarm gross on Schedules C, K-1s, and SE.** *(auto-calc)* Computed as the sum of line 7 of Schedule C, self-employment gross on the Partnership and S Corps Worksheets for nonfarm activities (in Part II of Schedule E), and the entry you made on Schedule SE, if any, for gross nonfarm self-employment income not reported on Schedule E or F.

**Nonfarm gross on Schedule E, Part I.** *(auto-calc)* Computed as the sum of rent and royalty gross income included in line 4 of Schedule E.

**Nonfarm gross on Schedule D, Form 4797, and others.** Use this line to report all gross nonfarm income not included above. If it stems from Form 4797 or Schedule D, you will have to separately sum items sold for a profit and items sold for a loss, and enter here only the gain from those items sold for a profit. You may also have to determine gross amounts in Parts III and IV of Schedule E. (Parts I and II of Schedule E are handled automatically.)

**2014 NONFARM Gross.** *(auto-calc)* The sum of the above four lines.

**2/3 of 2014 gross income is from farming and fishing.** *(auto-calc)* Answered Yes if the above 2014 FARM Gross divided by the sum of 2014 FARM Gross and 2014 NONFARM Gross is at least 2/3.

**QUALIFIED FOR FORM 2210-F.** *(auto-calc)* Answered Yes if either one of the "2/3 of gross" questions is answered Yes.

**Filed and paid full tax due by 3/2/2015.** *(auto-calc)* Answered Yes if the entry for "Date return filed" is 3/2/2015 or earlier **AND** "Tax paid when return filed" matches "Tax due on Form 1040."

**QUALIFY FOR ZERO PENALTY.** *(auto-calc)* Answered Yes if both of the preceding two questions are answered Yes.

If the last question is answered Yes, no penalty is due and you are not required to file Form 2210 or 2210-F. If the last question is No but you are qualified for Form 2210-F, the remainder of the form is computed using the more favorable rules for Form 2210-F.

**PART I, REQUIRED ANNUAL PAYMENT.** The quarterly overpayment or underpayment is computed here:

**Itemize to access Control Form.** *(Road Map to the Control Form.)* Because lines 2 and 8 depend critically on entries found only on the Control Form, this line is provided for easy access to that form. *You may have to make an adjustment to line 2, or enter amounts from the prior-year return for line 8, on the Control Form.*

**1 2014 tax after credits.** *(auto-calc)* Transferred automatically from line 56 of Form 1040.

**2 Other taxes (from Control Form).** *(auto-calc)* Taken from the line "Tax for 2210 line 2" on screen 3 of the Control Form, this is the sum of Form 1040 lines 57, the part of line 59 from addition tax on distributions, 60a, 60b, 62a, 62b, and 62c less the part of line 62c that is from UT, EPP, Form 8866, Form 8697, and FMSR taxes *plus any adjustment you make on the Control Form line labeled "Other adjustment for 2210 line 2"*. (See our instructions for the Control Form for examples of valid adjustments.)

### **Refundable credits for line 3:**

**Earned income credit.** *(auto-calc)* Taken from line 66a of Form 1040.

**Additional child tax credit.** *(auto-calc)* Taken from line 67 of Form 1040 (from Schedule 8812, line 13).

**American opportunity credit (Form 8863, line 8).** *(auto-calc)* Taken from line 68 of Form 1040 (from Form 8863, line 8, which is only the refundable part of the credit on Form 8863).

**Credit for Federal tax paid on fuels.** *(auto-calc)* Taken from line 69 of Form 1040 (from Form 8962, line 26).

**Premium tax credit.** *(auto-calc)* Taken from line 67 of Form 1040 (from Schedule 8812, line 13).

**Credit determined under section 1341(a)(5)(B).** *(auto-calc)* Taken from the line that follows line 71d of our Form 1040.

**3 Refundable credits.** *(auto-calc)* Computed as the sum of the preceding 6 lines. *(For Form 2210-F filers, these 6 credits are used for lines 4a through 4f of Form 2210-F.)*

**4 Current year tax.** *(auto-calc)* Computed as the sum of lines 1 through 3. *(If less than \$1,000, no penalty is due.)*

**% required to avoid penalty.** *(auto-calc)* Normally 90%, but 66-2/3% if qualified for Form 2210-F.

- 5 Multiply line 4 by above %.** *(auto-calc)* Computed as indicated. The IRS imposes penalties only for falling short of this portion of the tax liability on line 4.
- 6 Withholding taxes.** *(auto-calc)* Taken from the "TOTAL federal income tax withheld" computed on screen 1 of Form 2210 (in the section "FEDERAL INCOME TAX WITHHELD").
- 7 Subtract line 6 from line 4.** *(auto-calc)* Computed as indicated. This is the amount by which prior payments have fallen short of line 4. *If line 7 is less than \$1,000, no penalty is due,* and the remainder of the form is automatically zero.
- Adjusted tax paid in 2013 (from Control Form).** *(auto-calc)* Taken from entries on the third screen of the Control Form, computed in the same way as line 4 of Form 2210, but for 2013.
- Full-year return filed in 2013 (from Control Form)?** *(auto-calc)* Taken from your entry on the second screen of the Control Form. If you filed no return for 2013 or filed a return for less than a full year, you cannot qualify for an exclusion based on your 2013 tax. **CAUTION:** *You MUST enter the answer for this line on the Control Form or else the exception based on prior-year tax will not be considered.*
- 8 Maximum required annual payment based on prior year's tax.** *(auto-calc)* If the answer to the above question is Yes, the above tax paid in 2013 is posted to this line for most taxpayers, and a zero result means no tax was paid and hence no penalty can result. If the answer is No, however, line 8 is not only zero but is ignored in subsequent calculations. *Note that the amount that appears here may be higher than the 2013 tax if 2013 AGI exceeded \$150,000 (\$75,000 if married filing separately on the current-year return). In that case the amount is 110% of the prior-year tax.*
- 9 REQUIRED ANNUAL PAYMENT.** *(auto-calc)* Computed as the smaller of line 5 or line 8.
- Is line 9 more than line 6?** *(auto-calc)* If No, you do not owe a penalty. This means that the required annual payment is no more than withholding taken from wages. But *you may owe a penalty even when the sum of withholding and estimated tax payments exceeds the required annual payment!*

**PART II, REASONS FOR FILING.** This section shows whether you might benefit from filing Form 2210 yourself, rather than letting the IRS compute the penalty. The answers for reasons A through D are automatic based on your entries on the first screen and the result on the completed Form 2210. Therefore *the answers may not be correct until the final recalculation of the return.*

- A You request a waiver of your entire penalty.** *(auto-calc)* Answered Yes only if there is a penalty and the amount you entered in your supporting statement for a "Waiver requested (itemize)" is at least as large as that penalty.
- B You request a waiver of part of your penalty.** *(auto-calc)* Answered Yes only if there is a penalty and the amount you entered in your

supporting statement for a "Waiver requested (itemize)" is less than that penalty.

- C You use the annualized income installment method.** *(auto-calc)* This question is automatically Yes only if you completed Schedule AI of Form 2210 and it resulted in an entry on at least one of the lines on screen 1 in the section "ANNUALIZED INSTALLMENTS."
- D You treat withholding from wages as paid when it was actually withheld instead of evenly on payment due dates.** *(auto-calc)* This answer is Yes only if you overrode any of the quarterly amounts for tax withheld shown at the bottom of screen 1 of Form 2210 in the section "FEDERAL INCOME TAX WITHHELD" and the resulting amounts in the four quarters are significantly unequal.
- E You file(d) a joint return in 2013 or 2014, but not both, and line 8 is smaller than line 5.** Answer Yes if applicable.

**PAYMENT HISTORY.** A summary of payments appears here for use in Form 2210 or 2210-F.

**Tax applied from prior year.** *(auto-calc)* Taken from the first component on the Control Form for line 64 on Form 1040, this is the amount of refund on the 2013 return that is applied to estimated tax for the 2014 tax year.

**Other tax pre-paid in (a)1st quarter, (b)2nd quarter, (c)3rd quarter, and (d)4th quarter.** *(auto-calc lines)* Taken from your entries on the Control Form for this return.

**Tax paid with this return.** *(auto-calc)* Taken from the result for the line "Tax paid when return filed" on screen 1 of Form 2210, in the section "DATE TO BE FILED & PAID." This amount can be less than the tax due.

**Tax paid with this return by February 2, 2015.** *(auto-calc)* Identical to the above line if the date you entered for "Date return filed" is 2/2/2015 or earlier. Otherwise, zero.

**Quarterly payments equal.** *(auto-calc)* All payments for the four quarters, including the tax withheld in each quarter as shown at the bottom of screen 1 of Form 2210 in addition to the above entries, are added quarter by quarter, and compared to each other. If they are essentially equal, a Yes appears here and you may qualify to use the Short Method of Form 2210 described below. (You cannot use the Short Method if the payments are not equal.)

**FORM 2210-F METHOD.** If qualified for Form 2210-F, lines 1 through 16, below, are computed, and Form 2210-F is printed with the return in place of Form 2210. Lines 1 through 11 are analogous to Form 2210, Part I, lines 1 through 9, with a little more calculation detail shown.

**1 2014 tax after credits.** *(auto-calc)* Taken from line 1 of Form 2210, Part I when Form 2210-F is used; otherwise zero.

**2 Other taxes.** *(auto-calc)* Taken from line 2 of Form 2210, Part I when Form 2210-F is used; otherwise zero.

**3 Add lines 1 and 2.** *(auto-calc)* Computed as indicated.

**4a through 4f.** Not shown on the screen here, these are the six refundable credits shown on screen 3 that make up line 3 of Form 2210, Part I.

**5 Add lines 4a through 4f.** *(auto-calc)* Computed as indicated when Form 2210-F is used; otherwise zero.

**6 Current year tax. Subtract line 5 from line 3.** *(auto-calc)* Computed as indicated.

**7 Multiply line 13 by 66-2/3%.** *(auto-calc)* Computed as indicated.

**8 Withholding taxes.** *(auto-calc)* Taken from line 6 of Form 2210, Part I when Form 2210-F is used; otherwise zero.

**9 Subtract line 8 from line 6.** *(auto-calc)* Computed as indicated. If less than \$1,000 you do not owe a penalty.

**10 Tax shown on your 2013 tax return.** *(auto-calc)* Taken from line 8 of Form 2210, Part I when Form 2210-F is used; otherwise zero.

**11 REQUIRED ANNUAL PAYMENT.** *(auto-calc)* Taken from line 9 of Form 2210, Part I when Form 2210-F is used; otherwise zero.

**12 Estimated tax payments and withholding.** *(auto-calc)* Computed as the "TOTAL federal tax withheld," shown on screen 1 plus, from the preceding PAYMENT HISTORY, the "Tax applied from prior year" plus the four quarterly payments (a, b, c, and d) plus the amount of "Tax paid with this return by 2/2/2015."

**13 UNDERPAYMENT.** *(auto-calc)* Computed as line 11 less line 12. There will be no penalty unless this result is greater than zero.

**14 Date the amount on line 13 was paid (or 4/15/2015 if earlier).** *(auto-calc)* If "Tax paid when return filed" matches "Tax due on Form 1040," on screen 1, then "Date return filed" is used here. Otherwise, 4/15/2015 is entered.

**15 Number of days FROM 1/15/2015 to line 14.** *(auto-calc)* Computed as indicated.

**Tentative penalty.** *(auto-calc)* Computed as line 13 times line 15 times 0.03 divided by 365 for 2015.

**Amount WAIVED.** *(auto-calc)* Taken from your entry in the supporting statement for "Waiver requested (itemize)" on screen 1.

**16 PENALTY.** *(auto-calc)* Computed as the tentative penalty less the waiver amount you entered, but no less than zero. If qualified for Form 2210-F, this amount is posted to line 79 of Form 1040.

**PART III, SHORT METHOD.** The Short Method simplifies the calculation for taxpayers who don't qualify for the even simpler Form 2210-F. If quarterly payments are equal and estimated tax was always paid on the due dates, or if the only payments made were from withholding from wages, you may be eligible for the Short Method. However, if you use the Annualized Installment Method (so that Part II, line C is Yes), or you altered the wage withholding (so that Part II, line D is Yes), you cannot use the Short Method. The software automatically determines whether or not the Short Method applies based on your entries on this form, and completes Part III for you if it does.

**Annualized installment method used?** (auto-calc) Taken from the answer to Part II, line C. If the answer is Yes, the Short Method will not be used.

**Eligible for short method?** (auto-calc) This entry will be Yes ONLY if quarterly payments were equal (as determined by the earlier question) and the installment method is NOT used and you did NOT qualify for Form 2210-F (as determined on screen 1).

**Elect NOT to use short method?** Even though you are eligible to use the Short Method, it may be to your advantage to use the more precise Regular Method. Answer Yes here if you want to see the results of the Regular Method before filing the return.

If you are eligible for the Short Method and do not elect NOT to use it, the following lines are completed and only pages 1 and 2 of Form 2210 are printed with the official return. Otherwise, lines 10 through 17 remain blank.

**10 Amount from Form 2210, line 9.** (auto-calc) Computed as indicated.

**11 Amount from Form 2210, line 6.** (auto-calc) Computed as indicated.

**12 Total estimated tax payments.** (auto-calc) Computed as the sum of all payments listed in the PAYMENT HISTORY section of this form.

**13 Add lines 11 and 12.** (auto-calc) Computed as indicated.

**14 TOTAL UNDERPAYMENT FOR THE YEAR.** (auto-calc) Computed as line 10 less line 13. There will be no penalty unless this result is greater than zero.

**15 Multiply .01995 by line 14.** (auto-calc) Computed as indicated.

**16 If paid before 4/15/2015, credit for early return.** (auto-calc) Computed as .00008 times the amount on line 14 times the number of days BEFORE 4/15/2015 that the return is filed with the tax due paid.

**Tentative penalty.** (auto-calc) Computed as line 15 less line 16, but no less than zero.

**Amount WAIVED.** (auto-calc) Taken from your entry in the supporting statement for "Waiver requested (itemize)" on screen 1.

**17 PENALTY.** (auto-calc) Computed as the tentative penalty less the waiver amount you entered, but no less than zero. If the Short Method is used, this amount is posted to line 79 of Form 1040.

**PART IV, REGULAR METHOD.** The rest of the form relates to the complex Regular Method, for those who either cannot use or elect not to use the Short Method. The underpayment is based solely on your prior entries unless you choose the installment method below:

**One-fourth of line 9 (a)1st quarter, (b)2nd quarter, (c)3rd quarter, and (d)4th quarter. (auto-calc lines)** The liability on line 9 is divided equally among all four quarters.

**18 Required installments (a)4/15/2014, (b)6/15/2014, (c)9/15/2014, and (d)1/15/2015. (auto-calc lines)** All four quarters of line 18 will be one-fourth of line 9 unless you claimed a special exception.

**19 Tax paid and withheld (a)1st quarter, (b)2nd quarter, (c)3rd quarter, and (d)4th quarter. (auto-calc lines)** Composed of withholding amounts appearing on screen 1 and other amounts appearing in the "PAYMENT HISTORY," each quarter is computed independently. All four quarters include "Tax withheld" and "Other tax pre-paid" for the corresponding quarter. But the first quarter result additionally includes the tax applied from the prior year's return, and the fourth quarter includes the tax paid with the return by February 1. **CAUTION:** *If you are a household employer who made advance EIC payments to the employee, you must use the Override Key to access each line and increase the result by the amount of advance payments attributable to wages paid in the relevant quarter of 2014*

**Lines 20 through 27 are automatic, but intentionally deviate from IRS instructions.** The rest of the main part of Form 2210 is automatic, but it may not match the method you expect. The form has confused taxpayers for years, partly because the IRS instructions change each year, are never quite precise enough, and are often self-contradictory. In fact, starting with tax year 2010, the IRS even removed the familiar lines that follow line 26 to show how the penalty is computed, instead referring you to the instructions and a worksheet! *The IRS admits the problem in their official instructions for Form 2210 which states: "We realize that there are different ways to figure the correct penalty. You do not have to use the method prescribed by Form 2210 as long as you enter the correct penalty on the penalty line of your return."* We follow a self-consistent method that results in the proper penalty, but may result in different intermediate results for number of days late and quarterly penalties. (We still show on-screen the way we compute the penalty, even though the lines are no longer on the official form. You can therefore override parts of the computation to benefit from early payments, as described in the next paragraph. The on-screen lines represent a variation of the new IRS *Worksheet for Form 2210, Part IV, Section B.*)

**Override is possible, but use it sparingly.** If you made your estimated tax payments early in any quarter, you may be justified in overriding the computed results. In accordance with IRS regulations, overpayments from a prior period are used to cover underpayments for subsequent periods, and subsequent quarterly payments are used to reduce prior underpayments before they are applied to the tax liability for the current quarter. In our computation of days *when a re-*

*quired amount remains unpaid, we assume that the payments for subsequent quarters are paid on the due date for that quarter.* (This assumption is implicit in the IRS's Short Method, so the penalty resulting from using the Regular Method matches that for the Short Method as long as you do not claim exception C, D, or E.) As a result, the penalty is applied to the entire payment period, even if the payment that covers the prior underpayment may have been made earlier. *TIP: You can use the Override Key to change the number of days late if this assumption is inappropriate.*

**SUMMARY.** The Regular Method is concluded here, and results from this and all other methods is shown:

**Sum of penalty in all columns combined.** *(auto-calc)* Computed as the sum of all penalties for all four quarters.

**Amount WAIVED.** *(auto-calc)* Taken from your entry in the supporting statement for "Waiver requested (itemize)" on screen 1.

**27 PENALTY. Total on Worksheet for Form 2210, Part IV, Section B.** *(auto-calc)* Computed as the sum of all penalties *less the above waiver*, but no less than zero. This is the penalty using the Regular Method

**Net penalty in ANY part.** *(auto-calc)* The amount here is line 16 of Form 2210-F if qualified for Form 2210-F, line 17 of Form 2210 if the Short Method is used, or line 27 of Form 2210 if the Regular Method is used, and is posted to line 79 of Form 1040.

**Always print page 2 or page 3 with page 1?** The IRS does not require you to compute the penalty and include page 2 (Short Method) or page 3 (Regular Method) with the return when you request a waiver of the entire penalty. As a result, unless you answer Yes to this question, page 1 alone will be printed for an official printout when box A in Part II is checked, and your explanation for the waiver will be cross-referenced at that box. By contrast, if you answer Yes to this question, page 2 or 3 will be printed in addition to page 1 and your explanation for the waiver will be cross-referenced at line 17 or 35 of Form 2210. *CAUTION for e-file: You MUST answer Yes here for an e-file return in which you request a full waiver because the IRS requires the explanation for the waiver to be referenced at line 17 or 27 of Form 2210, so page 2 or 3 are included in the e-file output.* (This question has no effect on a return that uses Form 2210-F instead of Form 2210.)

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. It is intended for private notes or reminders only.

**SCHEDULE AI - Annualized Income Installment Method.** (*This schedule is accessible directly from the Forms Menu, or through the Road Map at one of the four lines in the middle of screen 1 of Form 2210.*) Unless you qualify for Form 2210-F, it will be to your benefit to complete Schedule AI of Form 2210 if you can show that you received more income in later months of the year than in earlier months. You can then minimize your overall penalty, often eliminating the penalty altogether if your quarterly tax payments were in line with your actual income for the quarters.

**Part I, Annualized Income Installments.** The basic approach for the installment method is to refigure income and deductions for each of three periods starting January 1st but ending before the end of the year, then compute tax for each of these periods as if the amounts shown for that period continued to the end of the year. In other words, if taxable income for the first period, 1/1/2014 through 3/31/2014, was \$10,000, the required tax for that period would be automatically figured on \$40,000, since the full year is four times as long as the specified period. (The full year is 2.4 times as long as the second period, 1/1/2014-5/31/2014, and 1.5 times as long as the third period. The fourth period is a full year.) With this approach, the required tax for the shorter periods will be less than that for the longer periods if most of the income was earned in the later months of the year.

**Amounts entered for each period?** In order to prevent the use of the results for this schedule before you supply the required information, *this schedule is not recognized until you answer Yes to this question*, to confirm that you are supplying the required information.

**Itemized deductions used.** (*auto-calc*) Taken from Form 1040, any itemized deductions will be ignored unless this answer is Yes.

The following data entry lines must be completed for the first, second, and third installment periods. (All amounts for the fourth period come automatically from Form 1040.) *TIP: To help you with the below entries, you can page down to the screen for the fourth period to see the corresponding amounts for the ENTIRE year.* (Although some computed lines in Schedule AI are missing from the screen, all necessary lines appear on official printouts.)

**1 Enter AGI for period shown.** Enter AGI for the period computed the same way as line 38 of Form 1040.

**Amounts from Schedule D for the period.** Because of the current complexities of the capital gains tax, the computation of tax on Schedule AI is greatly complicated by the need for several numbers from Schedule D. In order to properly complete these lines you must prepare, in addition to the Schedule D for the return, a mock Schedule D for each of the first three periods in Schedule AI. You must then make entries in the 7 lines that follow line 1, above, for each of the first three periods! (Entries for the last period are determined automatically from the Schedule D that is a part of this return.)

**3 Annualized income.** (*auto-calc*) The amount on line 1 is multiplied by the IRS-defined multipliers on line 2 in order to arrive at an equivalent annual amount. (The multipliers are 4, 2.4, 1.5, and 1 for the four successive periods on this form.)

**4 Itemized deductions for the period.** Enter the part of itemized deductions on Schedule A that apply only to the period shown. Your entry is limited to no more than the total itemized deductions for the year. (No itemized deductions will appear on line 6 in spite of an entry here if itemized deductions are not used on line 40 of Form 1040.)

**Medical/casualty/investment-interest/gambling part of line 4.** Enter the part of the full-year itemized deductions that is attributable to lines 4, 14, 20, or the gambling part of line 28 of Schedule A. Your entry is limited to no more than the full-year amount for these items. It is normally used to limit the reduction in deductions for high-income returns when computing line 6 for each period.

**Form 8615 tax for the period.** If this return is for a child with investment income who uses Form 8615, you must compute the tax using a manually-prepared Form 8615 based on the taxable income appearing on line 11 of this part of Form 2210. (You can compute the tax for the child with the aid of the software by preparing a separate return using the annualized amounts for the period that appear above this line, along with the correspondingly annualized investment income. *(The tax on line 12 is fully automatic for all other taxpayers.)*)

**14 Other taxes for the period.** Enter other taxes for the period that reflect the same taxes as appear for the entire year on screen 8 of this form. The amount for the entire year is comprised of the "other taxes" on line 2 of Form 2210 (which is computed on the Control Form) *plus* the additional tax from Form 4972 on line 44b of Form 1040 and the alternative minimum tax from Form 6251 on line 45 of Form 1040 *less* the self-employment tax on line 57 of Form 1040.

**16 Credits allowed for the period.** Enter credits for the period that are reported for the entire year on line 55 of Form 1040 and line 3 of Form 2210.

All lines not described above are automatically computed for each period. If you have self-employment income you **MUST** complete Part II of this form as well. Once the form is complete, the results on line 25 for the four periods are posted to the corresponding four lines on screen 1 of the main Form 2210, and are used in the computation of line 18 of the main Form 2210.

**Part II, Annualized Self-Employment Tax.** If either spouse has self-employment income, you must supply separate information on the self-employment income and wages for each period and for each spouse so that the self-employment tax for each period is properly computed.

**1st self-employment entries are spouse's (vs. you)?** Although the IRS has provided only one copy of Form 2210, Schedule AI, Part II, you must complete two copies of this part if both spouse's have self-employment income. The software provides the needed two copies on this one form, but if only one of the two spouses has self-employment income, you must ensure through your answer to this question that only the first copy of this part is used. (If only you, or both you and spouse, had self-employment income, you can leave this entry at its original No answer.)

The two copies for this part each have their own set of data entry lines for the following three items for each installment period. You need complete only the first set if only one spouse had self-employment income. For each item, the amount for the entire year as it appears on Form 1040 is displayed first.

**26 Net self-employment (x.9235).** The automatically computed amount for the entire year (the fourth period) is based on the amounts appearing on Form 1040 for the designated spouse. Note that the amount is only 92.35% of the full self-employment income for the year, in accordance with IRS rules. You must enter the appropriate amounts for the other periods using the same 92.35% multiplier. ***CAUTION:** In this and the remaining lines of Form 2210 the periods are shown in reverse order* in order to provide for more logical data entry of wages.

**28 Wages subject to social security tax.** The automatically computed amount for the entire year (the fourth period) is based on the W-2 worksheets completed for the designated spouse. You must enter the corresponding amount for the other periods. If the wages were earned uniformly throughout the year, the entries for these three periods would be 2/3 (.6667), 5/12 (.4167), and 1/4 (.25) of the full-year amount, respectively. You can use the built-in calculator described in Chapter 7 of the separate *User's Guide* to apply these fractions to the full-year amount. (The software ensures that your entry for the period 1/1/2014 through 8/31/2014 is no less than the automatic total for the entire year, that your entry for the period 1/1/2014 through 5/31/2014 is no less than your entry for 1/1/2014 through 8/31/2014, and that your entry for the period 1/1/2014 through 3/31/2014 is no less than your entry for 1/1/2014 through 5/31/2014. Also note that the total wages for the entire year will be set to zero if you have no self-employment income for the year, since Part II of Schedule AI (Form 2210) does not apply in that case.)

Once these entries are properly completed, the remainder of the form is computed, and line 13 in Part I of Schedule AI is updated to reflect the results on line 34 for each period. If two copies of Part II of Schedule AI are completed, one for each spouse, the sum of the two for each period is reflected in line 13 for the corresponding period.

**Form 2350\* / Application for Extension of Time to File U.S. Income Tax Return**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** In spite of the rather broad name of this form, *this is a very specialized kind of extension that is appropriate only for U.S. citizens and resident aliens living abroad who need extra time in order to meet residency tests* for the special tax treatment that is afforded them. The special treatment includes the foreign earned income exclusion, the foreign housing exclusion, and the foreign housing deduction, all *claimed through Form 2555*. If your request for an extension is approved, the IRS will generally grant an extension to a date 30 days after you expect to meet either the bona fide residence test or the physical presence test (but see line 3, below, for an exception). If your request is denied, you must file your return on time reporting all income from both U.S. and foreign sources and pay tax on that income without benefit of the special tax treatment. (*"On time" in this context means by the due date of your return, not including extensions. If your tax home and residence are outside the U.S. and Puerto Rico on April 15, 2015, your due date is June 15, 2015 instead of April 15, 2015.*) If you later meet one of the residency tests, you can file an amended return (Form 1040X) to claim a refund, backed by a revised return that reflects a foreign earned income exclusion and/or foreign housing benefit. For more details, see IRS Pub. 54 (*Tax Guide for U.S. Citizens and Resident Aliens Abroad*). Form 2350 is *accessible through the Road Map above line 70 of Form 1040*.

**Extension of time to file, not extension of time to pay.** Like other extension forms, Form 2350 does not grant you any extra time to pay any tax due. Therefore, to avoid penalties you must enter on this form the tax you expect to owe and pay it when you file the form (before the regular due date of the return). Note that the regular due date for this purpose is April 15, 2015, even when you are allowed until June 15, 2015 to file the return.

**Extension for Gift or GST tax.** Under current IRS rules, extension of time to file your U.S. Individual Income Tax Return (Form 1040) now also extends the time to file Form 709 (*United States Gift (and Generation-Skipping Transfer) Tax Return*). However, you must use Form 8892 to pay any tax due for the Form 709 return.

**EXTENSION REQUEST for Form 2555 (or 2555-EZ) filers ONLY.**

**I request an extension of time until (enter mo/dy/year)...** Enter the date you expect to meet one of the residency tests (plus 30 days) in the standard mo/dy/year format.

**...to file my income tax return for the calendar year 2014, or other tax year ending...** Usually, leave this line blank. An entry is appropriate here only if your tax year is other than the calendar year, which is rarely allowed and is not supported by the software.

...because my tax home is in a foreign country and I expect to qualify for special tax treatment by meeting the "bona fide residence test" or the "physical presence test." The special tax treatment is claimed on Form 2555 or Form 2555-EZ once you meet either test.

**2 Were you previously granted an extension of time to file for this tax year?** Answer Yes if you were already granted an extension but now need more time.

**3 Will you need additional time to allocate moving expenses?** If you move early in the year all of your moving expenses are attributed to excluded foreign earned income so that no moving expenses are deductible. However, if you move within 120 days of the end of the year you can allocate some of your moving expenses to U.S. earned income and some to excluded foreign earned income. If you must allocate some of your moving expenses to excluded income and answer Yes here, the IRS may grant an extension to a date 90 days after the end of the year following the year of the move.

**4a Date you first arrived in the foreign country.** Enter the date in the standard mo/dy/year format.

**4b Date qualifying period begins...** The qualifying period is the period during which you meet the tax home test and either residency test. Enter the date in the standard mo/dy/year format.

...and ends. The qualifying period ends when you no longer maintain your tax home in the country or no longer meet either residency test. Enter the date in the standard mo/dy/yr format.

**4c Your foreign home address.** Try first to enter the complete address in the provided 35 character data entry line. If you need more room, use the 15-character data entry line that follows it. The two entries are concatenated into a single 50-character line on the official print-out.

**4d Date you expect to return to the United States.** Enter the date in the standard mo/dy/year format.

**Estimate of Amount You Owe.** *(auto-calc)* Computed from Form 1040 as the total tax on line 63 of Form 1040, less the total payments on line 74 of Form 1040 (excluding any amount from Form 2350), plus the estimated tax penalty on line 79 of Form 1040, but no less than zero.

**5 Amount of income tax paid with this form.** Using the preceding line as your guide, enter the amount you want to pay when you file this form. **CAUTION: If the return you file later has a higher tax liability than you pay here, you may owe a penalty when you file your return.**

**SIGNATURE AND VERIFICATION.** The form must be signed, but the IRS provides some flexibility. Usually the taxpayer would acknowledge the jurat on the official printed Form 2350 by signing and dating that form, and, if married filing jointly, both spouses must generally sign. A person who prepared the form for you can sign instead of you if that person is an attorney, CPA, or enrolled agent, or has a power of attorney from you.

**If one spouse must sign for both spouses...**

**Itemize HERE to explain why.** The IRS allows one spouse to sign for both if you provide a good reason for it. The reasons you provide in a supporting statement for this line will be cross-referenced on the printed form and printed on a separate page.

**RETURN LABEL.** The bottom of the official form contains a notice that will be mailed to you once the IRS has made its decision on your request for extension. This notice also serves as a return label, so you must confirm the address to which you want the notice sent. To have the notice sent to the taxpayer at the address you entered on Form 1040, you need do nothing. The label will be completed based on the information you supplied on Form 1040. However, if you want the notice sent elsewhere, you can provide a different address here.

**Do you want to the answer to your request for an extension sent to a different address?** The return label will use the address you supply below if you answer Yes here. Otherwise, the address you supplied on Form 1040 will be used. (The taxpayer's name always appears on this label, but you can add an agent's name later if this is the address for the agent. Note that the address on Form 1040 is always used for the top of Form 2350, irrespective of what you enter here.)

**Number and street or P.O. Box.** Enter the street address in 35 characters or less.

**City or town, and state.** Enter city and state in 35 characters or less.

**ZIP code.** Enter ZIP code in the standard XXXXX or XXXXX-XXX format. If a Foreign Address, leave this entry blank, but complete the following additional lines.

**If a Foreign Address.** You must enter additional information if the preceding entries are for a foreign addresses. These entries will be printed on the return label below your entry for city and state.

**Country name.** Enter the name of the country in 25 characters or less.

**Province, county.** Enter the foreign province or counter in 17 characters or less.

**Postal code.** Enter the foreign postal code in 17 characters or less.

**If this is an agent's address, enter the agent's name here.** If you make an entry here, it will be printed on the return label below the taxpayer's name and will be preceded by the phrase "In care of:"

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 2441 / Child and Dependent Care Expenses

**Who is it for?** If you paid someone to care for your child or other qualifying person so that you could work or look for work during the tax year, you may be able to reduce your taxes with this credit. The amount of credit depends on your expense, the amount of your earned income, and the number of qualifying people. Form 2441 is accessible through the Road Map at line 49 of Form 1040.

**You may be considered an employer of the person who took care of your child.** If you paid cash wages of \$1,900 or more to any one household worker during tax year 2014, or total cash wages of \$1,000 or more in any calendar quarter to all household workers combined, you may have to file Schedule H with your return. See our instructions for Schedule H for details.

**CAUTION—New procedure required: View and update ALL worksheets after translation.** Because of major changes in format in order to fully comply with e-file requirements, the translation of some lines on the worksheets for Form 2441 are improper or incomplete. As a result, you must review every worksheet for Form 2441 to ensure that the entries are proper. For example, last year the city, state, and ZIP code of a care provider were entered all in one 35-character entry. But this year they are entered on separate lines. As a result, only the city will have a translated entry, and you must supply the entries for state and ZIP code yourself. As another example, the entries for the care provider's name and tax IDN were supplied in a pair of entries, whether the care provider was an individual or a business. But this year the entries for individuals and businesses are separate, and the names are expanded to two 15-character entries. The name and IDN from the prior year return are translated to the business lines even when the provider is a business. It is therefore imperative that you review all worksheets to confirm the proper entries and supply any missing information.

**QUALIFICATIONS.** Initial qualifications are determined here and special adjustments to earned income are entered. CAUTION: You MUST answer these questions or else no credit will be computed.

**Had care to work or seek work?** To qualify for the credit you must have paid someone to care for your child or other dependent so that you could work or look for work. If married filing jointly, your spouse must also have worked or sought work.

If married filing separately, answer the following two questions:

**Paid over half of home expenses?** To qualify for the credit when married filing separately, you must have paid over half the cost of keeping up your home.

**Spouse apart last 6 months of the year?** To qualify for the credit when married filing separately, you must have lived apart from your spouse during the last 6 months of 2014. (This answer is automatically Yes if you answered Yes to "MFS: Spouse lived APART ALL year?" below your entry for Filing Status on Form 1040.)

**MFS, but single for Form 2441.** *(auto-calc)* If married filing separately and all three of the preceding answers are Yes, a Yes appears here and you qualify for the credit as a single taxpayer and your spouse's earned income is not involved in the computation of the credit. Otherwise, you cannot take the credit. However, even if you don't qualify for the credit you may still qualify for the exclusion of employer-paid benefits in Part III of Form 2441 if you could answer Yes to the first two questions.

**Qualify for credit in Part II.** *(auto-calc)* If *not* married filing separately, you qualify if your answer to the first question is Yes. If married filing separately, however, you qualify only if your answers for all three questions is Yes.

**Qualify for exclusion in Part III.** *(auto-calc)* You qualify if your answer to the first question is Yes, irrespective of your filing status.

**Everyone can use Part III to report taxable income.** Even if the preceding two answers are No, you should still use Form 2441 to report taxable income resulting from receipt of employer-paid benefits when you had no qualifying person nor care provider for which you could claim the credit.

**Earned income for Form 2441 unique.** As of tax year 2007, earned income used in computing your credit for this form does not include nontaxable employee compensation. For example, parsonage allowances, meals and lodging furnished for the convenience of the employer, voluntary salary deferrals, and certain military allowances and payments are no longer included. (The software properly omits these items in its automatic computation of earned income for this form.) However, you can elect to include nontaxable combat pay when computing the credit in Part II or the deduction or exclusion in Part III, and you don't have to make the election in both parts.

**EARNED INCOME for Form 2441.** You must have at least some earned income in order to get a credit on this form and, if married filing jointly, the other spouse must have income as well. Earned income as defined for this form is detailed in the IRS instructions for Form 2441 and IRS Pub. 503 (*Child and Dependent Care Expenses*). It includes all taxable wages (and income treated as wages by the IRS, such as excess reimbursements from Forms 2106, 2441, and 3903) except taxable scholarships not reported to you on a Form W-2, and all self-employment income on line 3 of Schedule SE less any deduction on line 27 of Form 1040 for that spouse. The software automatically computes this version of earned income separately for each spouse. However, you may have adjustments to the automatically-computed earned income as follows:

**ELECTIONS for nontaxable combat pay.** Although nontaxable employee compensation is no longer automatically included in earned income for this form, you can elect to include nontaxable combat pay. You and spouse can make separate elections, and you can make different elections for Part II and Part III. **CAUTION:** *In order for nontaxable combat pay to be included, you must not only make the following elections but must also enter the pay in our special section "CERTAIN NONTAXABLE*

*INCOME* following line 22 of Form 1040 (on screen 10 of Form 1040, page 1).

**YOU elect inclusion of nontaxable combat pay in your earned income for Part II?** If Yes, line 4 will be increased by your nontaxable combat when computing the credit in Part II.

**YOU elect inclusion of nontaxable combat pay in your earned income for Part III?** If Yes, line 18 will be increased by your nontaxable combat when computing the deduction or exclusion in Part III.

**SPOUSE elects inclusion of nontaxable combat pay in spouse's earned income for Part II?** If Yes, line 5 will be increased by spouse's nontaxable combat when computing the credit in Part II *if married filing jointly*.

**SPOUSE elects inclusion of nontaxable combat pay in spouse's earned income for Part III?** If Yes, line 19 will be increased by spouse's nontaxable combat when computing the deduction or exclusion in Part III *if married filing jointly*.

**SPECIAL ADJUSTMENTS for student, disabled, or deceased spouse.** If you were unable to work any months of the year because you were a student or disabled, you may be considered to have earned income of up to \$250 per month (\$500 if claiming at least two children) for those months *as long as the other spouse worked*. See the IRS Instructions for Form 2441 for the complex details of this provision. If filing a joint return and one spouse died during the tax year, the surviving spouses earned income should be used for both spouses.

**YOUR special adjustment.** If you were unable to work any months of the year because you were a student or disabled, enter up to \$250 per month (\$500 if claiming at least two children). If died during the year, enter an adjustment to make your earned income match the surviving spouse's earned income. *(You can no longer include nontaxable employee compensation on this line as you could prior to tax year 2007.)*

**SPOUSE special adjustment.** The same adjustment as described above for the main taxpayer applies for the spouse. However, if both spouses were nonworking students or disableds in the same months, only one spouse is allowed the special \$250 per month adjustment. *(You can no longer include nontaxable employee compensation on this line as you could prior to tax year 2007.)*

**EARNED INCOME to be used.** The following amounts are determined from the taxable earned income on the return plus amounts resulting from the preceding elections and adjustments:

**YOUR EARNED INCOME for Part II.** *(auto-calc)* Computed as your earned income based on Form 1040 and Schedule SE amounts for taxable earned income plus the your special adjustment and your nontaxable combat pay, if elected for Part II.

**YOUR EARNED INCOME for Part III.** *(auto-calc)* Computed as your earned income based on Form 1040 and Schedule SE amounts for taxable earned income plus the your special adjustment and your nontaxable combat pay, if elected for Part III.

**SPOUSE'S EARNED INCOME for Part II.** *(auto-calc)* Computed as spouse's earned income based on Form 1040 and Schedule SE amounts for taxable earned income plus spouse's special adjustment and spouse's nontaxable combat pay, if elected for Part II.

**SPOUSE'S EARNED INCOME for Part III.** *(auto-calc)* Computed as spouse's earned income based on Form 1040 and Schedule SE amounts for taxable earned income plus spouse's special adjustment and spouse's nontaxable combat pay, if elected for Part III.

**Child Care Benefits provided by Employer (for Part III).** *You should have entered amounts paid by your employer on the W-2 Worksheets for line 7 of Form 1040.* These entries form the basis for the following lines, which are used in Part III of the form in determining amounts that are properly excluded from income:

**YOUR W-2 box 10 (excluding box 1).** *(auto-calc, supported by W-2 Worksheets for line 7a of Form 1040)* This is the part of box 10 of Form W-2 that is *not* included in box 1 of Form W-2, as computed on the W-2 Worksheets you completed for you. This is generally the lesser of \$5,000 or the amount in box 10.

**Part of above YOU forfeited (including carryover to 2015).** If you did not actually incur the entire amount reported to you in box 10 of Form W-2 and not in box 1, and therefore did not receive the benefit, enter that amount here. (If allowed by the plan, you may be able to carry forward to 2015 the amount not used in 2014, and use it in a defined grace period, rather than permanently forfeiting it.)

**SPOUSE W-2 box 10 (excluding box 1).** *(auto-calc, supported by W-2 Worksheets for line 7b of Form 1040)* If married filing jointly, this is the part of box 10 of Form W-2 that is *not* included in box 1 of Form W-2, as computed on the W-2 Worksheets you completed for spouse (generally the lesser of \$5,000 or the amount in box 10). Otherwise, this line is zero.

**Part of above SPOUSE forfeited (including carryover to 2015).** If spouse did not actually incur the entire amount reported to spouse in box 10 of Form W-2 and not in box 1, and therefore did not receive the benefit, enter that amount here. (If allowed by the plan, the spouse may be able to carry forward to 2015 the amount not used in 2014, and use it in a defined grace period, rather than permanently forfeiting it.)

**YOUR self-employment or partnership benefit received.** Enter the benefits you received from your own sole proprietorship or a partnership in which you are a partner. You will not receive a Form W-2 for this amount.

**Part of above YOU forfeited (including carryover to 2015).** If you did not actually incur the entire amount available to you, enter that amount here.

**SPOUSE self-employment or partnership benefit received.** Enter the benefits your spouse received from spouse's own sole proprietorship or a partnership in which spouse is a partner. Spouse will not receive a Form W-2 for this amount.

**Part of above SPOUSE forfeited (including carryover to 2015).** If spouse did not actually incur the entire amount available, enter that amount here.

**TOTAL benefits for line 12.** *(auto-calc)* Computed as the sum of all benefits received, before any forfeitures. This result is used for line 12 in Part III of this form.

**Forfeited amounts carried over to 2015.** If any of the amounts you included in the lines "Part of above ... forfeited (including carryover to 2015)" were for carryover to 2015, enter that carryover here. You must have already included this amount in your entries for "Part of above ... forfeited (including carryover to 2015)," and your entry here is limited to no more than the sum of those entries. This entry is not used in the current-year return, but will be used next year when you translate this return into a return for tax year 2015.

**Carryover from 2013 for line 13.** If the employer's plan allowed you to carry forward any unused amount from 2013 to use during a grace period in 2014, enter that amount here. This entry is used for line 13 in Part III of this form.

**TOTAL forfeitures and carryovers for line 14.** *(auto-calc)* Computed as the sum of all amounts entered on previous lines identified as "Part of above ... forfeited (including carryover to 2015)." This result is used for line 14 in Part III of this form.

**NET BENEFITS for line 15.** *(auto-calc)* Computed as "TOTAL benefits for line 12" plus "Carryover from 2013 for line 13" less "TOTAL forfeitures and carryovers for line 14." This result is used for line 17 in Part III of this form.

**Self-employment or partnership part of amount for line 12.** *(auto-calc)* Computed as the part of line 12 attributable to self-employment or partnerships. This result is used for line 22 in Part III of this form.

**Net employee benefits in amount for line 15.** *(auto-calc)* Computed as the net benefits for line 15 less the preceding self-employment/partnership part of current benefits.

**PART I, PERSONS OR ORGANIZATIONS WHO PROVIDED THE CARE.** All supporting details on the expenses and the care providers must be supplied here.

**1 Itemized qualified expense.** *(Supported by the Care Provider Worksheet, Figures 2-23a and 2-23b.)* You **MUST** itemize this line and supply the information requested, using a separate worksheet page for each care provider. The amount appearing on this line when you return from the worksheets, detailed below, is the total actually paid in 2014, whether expense was incurred in 2014 or prior to 2014.

**Extra line for PAPER statement.** If you need to explain the claim, or any omissions on the worksheet, do so in a supporting statement for this line. For example, if you do not enter each care provider's SSN or EIN on the worksheet, you must explain why here unless it is explained on the worksheet under "Special conditions." You must show that you have clearly requested the information from the care provider and that the care provider did not comply with the request.

1(d) **Total paid in 2014.** *(auto-calc)* The total amount on line 1 appears here.

**Part incurred and paid in 2014.** *(auto-calc)* Taken from the corresponding worksheet line for qualified expenses.

**Total incurred in 2014.** *(auto-calc)* Taken from the corresponding worksheet line for qualified expenses.

<p>a. Care provider name                  If an individual:                      First name:                      Last name:                      e-file name...                      e-file name control.....                      Social security no.(SSN)                      Is this spouse/dependent? No                  If a business:                      Name.....                          Name cont'd:                      e-file name control.....                      Employer ID number (EIN)                  Special conditions                      Employer-provided.....? No                          flag for IRS:                      Tax-exempt organization.? No                          flag for IRS:                      Living abroad.....? No                          flag for IRS:                  [Press PageDown for b, c, &amp; d]</p>	<p><b>Care Provider Worksheet, Figures 2-23a and 2-23b.</b> You <i>MUST</i> use these worksheets to report in detail the expenses paid and the expenses incurred, in order for Form 2441 to be properly automated. Moreover, if you do not provide all the information requested on the worksheet, the IRS may disallow the credit. <i>TIP: If you don't know the identifying information for the care provider, you can use a Form W-10 for</i></p>
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Figure 2-23a. Care Provider Worksheet, Screen 1

the care provider to complete and return to you. (The form is available from the IRS web site for forms, which you can reach from our web site at [www.howardsoft.com/links.htm](http://www.howardsoft.com/links.htm).) The worksheet relies on your careful distinction among expenses incurred and paid in different years. **CAUTION: See the shaded box on the first page of these details for Form 2441 for special procedures required this year for a translated return.**

**a. Care provider's name.** You must now enter the name and IDN on a separate set of lines for a care provider who is an individual rather than a business. **CAUTION: Complete only one section (individual or business), not both. For a translated return, all prior-year entries are posted to the business section. Therefore, if the care provider is an individual, you must remove the translated entries from the business section and reenter them in the section for an individual.**

**If an individual:**

**First name.** Enter the first name in 15 characters or less.

**Last name.** Enter the last name in 15 characters or less. The last name will be printed *below* the first name on the official printout.

**e-file name.** The name is reformatted for e-file into a single line with the < symbol preceding the last name.is entry is *mandatory for e-file* but unnecessary for paper returns. You must enter a 4-character name control. This is usually the first four characters of the business name or, if an in

**e-file name control for the above.** (*auto-calc*) The 4-character name control for the care provider is automatically generated from the name entries. This is usually the first four characters of the person's last name.

**Social security number (SSN).** Enter the SSN in the standard xxx-xx-xxxx format. If you have an entry for first or last name, above, your entry of the SSN here is mandatory unless one of the special conditions, below, apply. *TIP: If the care provider has no SSN, see "Special conditions" below to indicate the reason to the IRS. for valid for a because fter you answer Yes to one of the IRS.*

**Is this spouse or dependent?** If the care provider is your spouse or dependent, you cannot claim expenses paid to that person. *If you answer Yes here, no expenses you enter on this worksheet will be counted on Form 2441.*

### **If a business:**

**Name.** If the care provider is a business and you did not complete the section for an individual, above, complete the lines in this section. Enter here the business' name in 15 characters or less. *If you need more space, use the following line as well; the second line will be printed below the first line on the official printout.*

**Name continued.** Enter a continuation of the business name here in 15 characters or less.

**e-file name control for the above.** This entry is mandatory for e-file but unnecessary for paper returns. You must enter a 4-character name control. This is usually the first four characters of the business name. However, there are many special cases, so you should consult our 5-page document *Instructions for Entry of Name Controls for Businesses*, which is available online on the E-FILE ALERTS page of our "Check Web for Updates" site (accessible from the *Tax Preparer Control Panel*).

**Employer ID number (EIN).** Enter the EIN of the business in the standard xx-xxxxxxx format. *TIP: If the care provider has no EIN, see "Special conditions" below to indicate the reason to the IRS. for valid for a because fter you answer Yes to one of the IRS.*

### **Special conditions:**

**Employer-provided?** If your employer provided the care at work or employed the provider directly, the IRS instructs you to *enter the employer's name instead of the care provider's name on the preceding lines, and leave all other lines blank*. When you answer Yes here, a flag is generated on the next line, which is printed in the address column of the official printout of Form 2441, as required by the IRS. (This special condition does not apply if your employer paid a third party on your behalf.)

**flag for IRS.** (*auto-calc*) The flag "SEEW2" will appear here if you answered Yes to the preceding question. This flag is printed in the address column of the official form.

**Tax-exempt organization?** If you have not supplied an SSN or EIN because the care provider is a tax-exempt organization, answer Yes here.

When you answer Yes here, a flag is generated on the next line, which is printed in the SSN/EIN column of the official printout of Form 2441.

*TIP: You will not be able to answer Yes here if you have an entry for either SSN or EIN because this special flag is intended to explain a missing SSN or EIN.*

**flag for IRS. (auto-calc)** The flag "TAXEXEMPT" will appear here if you answered Yes to the preceding question. This flag is printed in the SSN/EIN column of the official form.

**Living abroad?** If you have not supplied an SSN or EIN because the individual or business is a foreign entity with no U.S. identification number, answer Yes here. When you answer Yes here, a flag is generated on the next line, which is printed in the SSN/EIN column of the official printout of Form 2441. *TIP: You will not be able to answer Yes here if you have an entry for either SSN or EIN because this special flag is intended to explain a missing SSN or EIN.*

**flag for IRS. (auto-calc)** The flag "LAFCP" will appear here if you answered Yes to the preceding question. This flag is printed in the SSN/EIN column of the official form.

**b. Address (unless employer-provided).** You must generally enter the address of the individual or business on the first set of lines that follow. However, *for an e-file return, if the address is a foreign address, you must use the special lines for a foreign address instead.* **CAUTION:** *For a translated return, all prior-year entries are posted to the street address and city lines alone because the state and ZIP code did not have separate lines last year. Therefore, you must enter the state and ZIP code manually.*

**Street address.** Enter number and street in 25 characters or less.

**City.** Enter the city in 22 characters or less.

**State.** Enter the standard 2-character code for the state. **CAUTION:** *For a translated return, no entry will appear here; you must enter the state manually.*

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format. **CAUTION:** *For a translated return, no entry will appear here; you must enter the Zip code manually.*

**e-file ONLY: If a foreign address, use these lines instead.** For a paper return, because of the restricted space on the official form, you must enter a foreign address on the preceding lines, abbreviating as necessary to fit. *The following lines are ignored for a paper return.* However, they are required for an e-file return. *If you enter a foreign address here you must leave the preceding address lines blank.*

<p>b. Address (unless employer-provided) Street address.. City..... State..... ZIP code..... e-file ONLY: If foreign, use these lines instead: Foreign address. Foreign city.... Foreign province or state. Fgn. country (2-ltr code). Foreign postal code.....</p> <p>c. ID no. (SSN or EIN).....</p> <table border="0"> <tr> <td>Total amt paid in 2014....</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Part incurred pre-2014</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Net paid &amp; incurred in 2014</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Add'l incurred in 2014</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Total amt incurred in 2014</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Expense qualifies for 2441</td> <td style="text-align: right;">No</td> </tr> </table> <p>d. Amount paid (in 2014) 0</p>	Total amt paid in 2014....	0	Part incurred pre-2014	0	Net paid & incurred in 2014	0	Add'l incurred in 2014	0	Total amt incurred in 2014	0	Expense qualifies for 2441	No	<p><b>For- eign address.</b> Enter the street address of the foreign location in 25 characters or less.</p> <p><b>For- eign city.</b> Enter the city in 22 characters or less.</p> <p><b>For- eign prov- ince or state.</b> Enter the province or</p>
Total amt paid in 2014....	0												
Part incurred pre-2014	0												
Net paid & incurred in 2014	0												
Add'l incurred in 2014	0												
Total amt incurred in 2014	0												
Expense qualifies for 2441	No												

Figure 2-23b. Care Provider Worksheet, Screen 2

state in 15 characters or less.

**Foreign country (2-letter code).** Enter the official country code for the country as shown in Table 2-6 on page 2-22.

**Foreign postal code.** Enter the postal code in 15 characters or less.

**c. Identifying number (SSN or EIN).** *(auto-calc)* The ID number to be printed on the official form is shown here. If there is an entry for the business name, the EIN for that business will be shown here and printed in the SSN/EIN column of the printout. Otherwise, the SSN for the individual will be shown here and printed.

**Total amount paid in 2014.** Enter the dollar amount paid to the care provider during 2014. The amount you enter must be the total of qualifying expenses you ACTUALLY PAID during 2014, whether incurred in 2014 or not, and NOT any expense paid in any other year. Do NOT enter here amounts for employer-provided benefits unless they were paid to you or paid to a third party, nor amounts for days you were off from work due to illness.

**Part incurred before 2014.** Enter the part of the above amount paid in 2014 that was actually incurred before 2014. Your entry here can be no more than the above amount paid in 2014.

**Net paid and incurred in 2014.** *(auto-calc)* Computed as the amount paid in 2014 less the amount incurred before 2014.

**Additional amount incurred in 2014.** Enter any amount incurred in 2014 but not paid in 2014. Do NOT enter here any amounts for employer-provided benefits unless they were paid to you or paid to a third party. Also do NOT include amounts for days you were off from work due to illness, because those expenses do not qualify in the IRS's mind! (Note that even though most babysitting services qualify,

some other services do not. Check IRS Pub.503, Child and Dependent Care Credit, if in doubt.)

**Total amount incurred in 2014.** *(auto-calc)* Computed as the net paid and incurred in 2014 (computed above) plus the additional amount incurred in 2014 (entered above).

**Expense qualifies for Form 2441?** *(auto-calc)* Answered Yes only if you answered Answer No to the question below line a and made an entry for the care provider's IDN at line c.

**d. Amount paid (in 2014).** *(auto-calc)* Normally taken as your entry for "Total amt paid in 2014," but zero if the answer to the preceding question is No.

When you return from the worksheets, the various amounts from the worksheets are posted to Form 2441.

**PART II, CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES.** The credit is computed in this part using the expenses listed in line 1 and line 2 and the employer payments listed in Part III.

**2 Information about your qualifying persons.** This is the section of Form 2441 where you must identify each person that qualifies you for the credit.

**Number of qualifying persons.** *(auto-calc, supported by the Qualifying Person Worksheet, Figure 2-24.)* Taken as the total number of worksheets for which "Person counted" is Yes. *(As clarified in the IRS 2014 Instructions for Form 2441, you do not have to have expenses for a child in order for that child to be counted. This is important because the limit on expenses that count for the credit is doubled if you have 2 or more qualifying children.)*

**\* Amount incurred and paid in 2014.** *(Supported by the Qualifying Person Worksheet, Figure 2-24.)* You **MUST** itemize this line and supply the information requested, using a separate worksheet page for each qualifying person. The total expenses allocated in the worksheets among the qualifying persons appears here.

**>> Discrepancy with line 1 worksheet.** *(auto-calc)* Computed as the "Amount incurred and paid in 2014" under line 2 less the "Part incurred and paid in 2014" under line 1. If these two amounts don't match, a non-zero amount will appear here to alert you of the inconsistency. You must return to the worksheets in Part I and II and resolve the difference before continuing. Otherwise the software will use the lesser of the two amounts in the remainder of the form.

**3 Amount of qualified expense.** *(auto-calc)* Normally computed as the lesser of "Part incurred and paid in 2014" under line 1 and "Amount incurred and paid in 2014" under line 2, but no more \$3,000 if there is just one qualifying person, and no more than \$6,000 if there are two or more qualifying persons. However, if there are deductible benefits on line 24 or excluded benefits on line 25 of this form, the amount at line 31 is used here in place of the stated amount.

QUALIFYING PERSON WORKSHT		Qualifying	Person
a. Qualifying person's name:		Worksheet, Figure 2-	
First	.....	24. You <b>MUST</b> use	
Last	.....	these worksheets to	
e-file name		report in detail the ex-	
e-file name control	..	penses incurred and	
Lived w/you over half 2014?	No	paid in 2014 on behalf	
b. Qualifying person's SSN		of each person cared	
Total incurred in 2014		0	for, identifying each by
Part paid after yr-end		0	name and SSN. Depen-
Bal. Incurred & pd in 2014		0	dent children under
person counted.....	No		age 13 and disabled
c. Qualifying expenses.....		0	dependents who live

Figure 2-24. Qualifying Person Worksheet

qualify. In addition, children of divorced or separated parents who lived apart from the claiming parent may still qualify under some circumstances. See *IRS Pub.503 (Child and Dependent Care Credit)* for detailed requirements. *If you do not provide all the information requested on the worksheet, the IRS may disallow the credit or may tax all employer-provided benefits.*

**a. Qualifying person's name.** Enter the first and last name of the child or dependent as follows:

- First name.** Enter the first name in 10 characters or less.
- Last name.** Enter the last name in 15 characters or less.

**e-file name.** *(auto-calc)* The name is displayed here in e-file format, with a < symbol to flag the last name and any suffix like Jr. Furthermore, suffixes like 3<sup>rd</sup> are changed to Roman numerals in accordance with IRS e-file specifications.

**e-file name control.** *(auto-calc)* The name control is displayed in accordance with IRS e-file specifications. This is usually the first four characters of the last name.

**Lived with you over half of 2014?** To qualify, the child or dependent must have lived with you more than 6 months of the year. *If you answer No here, this person and the expenses you enter on this worksheet will NOT be counted on Form 2441*

**b. Qualifying person's SSN.** You must enter a valid Social Security Number (SSN), Individual Taxpayer Identification Number (ITIN) or Adoption Taxpayer Identification Number (ATIN) for the person with only one exception: If the person was a child who was born and died during the tax year, you can enter DIED if you attach a copy of the child's birth certificate to the return. *If you do not make a valid entry here, this person and the expenses you enter on this worksheet will NOT be counted on Form 2441. CAUTION: If you entered DIED here, you must file a paper return because you must document the events with a copy of the birth certificate and death certificate of the child.*

**Total amount incurred in 2014.** Enter the amount incurred in 2014 for the care of the person named above.

**Part paid after year-end.** Enter the amount incurred in 2014 but not actually paid until 2015.

**Balance incurred and paid in 2014.** *(auto-calc)* Computed as the total amount incurred less the part paid after year-end.

**Person counted.** *(auto-calc)* Answered Yes only if you answered Yes to the question above line b and you made a valid entry for SSN at line b. *As clarified in the IRS 2014 Instructions for Form 2441, you do not have to have expenses for a child in order for that child to be counted in determining the limit on expenses at line 3 of Form 2441.*

**c. Qualifying expenses (incurred and paid in 2014).** *(auto-calc)* Normally taken from the "Balance incurred and paid in 2014" computed above, but zero if this person is not counted. This amount is included in the total for line 2 when you return to Form 2441 from this worksheet.

**CREDIT FOR 2014 AMOUNTS.** Lines 4 through 9a are fully automatic based on your prior entries:

**4 Your EARNED INCOME.** *(auto-calc)* Taken as your earned income computed on the second screen of this form.

**5 If MFJ (married filing jointly), spouse's earned income. ALL OTHERS, amount from line 4.** *(auto-calc)* Taken as line 4 if *NOT* married filing jointly or the answer for "MFS, but single for 2441" is Yes. If married filing jointly, taken as spouse's earned income computed in the first screen of the form.

**6 Smallest of lines 3, 4, and 5.** *(auto-calc)* Computed as indicated. *Notice that the credit is limited to the earned income of the spouse who has the lesser income, if filing married filing jointly.*

**7 Amount from Form 1040, line 38.** *(auto-calc)* Taken from line 38 of Form 1040, adjusted by any changes in taxable amount in Part III not already reflected in that total.

**8 Decimal amount that applies.** *(auto-calc)* The decimal amount is computed based on the above adjusted gross income (AGI). The decimal amount ranges from .35 for incomes \$15,000 and below to .20 for incomes above \$43,000.

**9a Multiply line 6 by line 8.** *(auto-calc)* Computed as indicated.

**Itemize Part I, line 1 and next line to claim 2013 expenses paid in 2014.** Expenses for the prior tax year that you paid in the current tax year qualify for the credit as well, but the decimal amount that applies may be different. This recomputation of the applicable decimal amount ensures that there is no advantage nor disadvantage to deferring or accelerating child and dependent care expenses from one year to another.

**Persons qualified in 2013.** *(Supported by the Prior-Year Qualifying Person Worksheet, Figures 2-25a and 2-25b)* The total number of qualifying worksheets you create for this line appears here. You *MUST* itemize this line and supply the information requested, *including the SSNs for the qualifying persons*, using a separate worksheet page for each. The information on the worksheets will be printed in a supporting statement for the return with a cross-reference at line 9, as required by the IRS.

**Expenses incurred in 2013 and paid in 2013.** (*Supported by the Prior-Year Qualifying Person Worksheet, Figures 2-25a and 2-25b*) The total of line d of the preceding qualified worksheets appears here.

**Expenses incurred in 2013 and paid in 2014.** (*Supported by the Prior-Year Qualifying Person Worksheet, Figures 2-25a and 2-25b*) The total of line c of the qualified worksheets appears here.

>> **Discrepancy with line 1 worksheet.** (*auto-calc*) Computed as the amount on the preceding line less the total of "Part incurred pre-2014" for all qualifying worksheets for line 1. If these two amounts don't match, a non-zero amount appears here to alert you of the inconsistency. You *must* return to the worksheets to resolve the discrepancy before continuing.

**YOUR 2013 earned income.** Enter your earned income from the prior-year return computed in the same manner as the current year.

**SPOUSE 2013 earned income.** Enter spouse's earned income from the prior-year return computed in the same manner as the current year.

**Filing status in 2013.** Enter the filing status used for the purposes of this form in 2013. Unless the filing status entered is 2 (for married filing jointly), the spouse's earned income will not be considered in computing the credit for the 2013 amounts.

**Carryover from 2013 to 2014.** (*auto-calc*) First, the amount of 2013 expenses within the 2013 limits is computed as the minimum of the appropriate earned income for 2013, the 2013 expenses paid in 2013 and 2014 as shown above, and \$3,000 (or \$6,000 if two or more persons qualified in 2013). Then the amount already claimed in 2013 is deducted. The result is the amount still eligible for credit.

**AGI from 2013 Form 1040, line 38.** Enter here the adjusted gross income on the *PRIOR*-year return.

**Decimal amount that applies.** (*auto-calc*) The applicable decimal amount is based on the above entry for prior-year AGI in the same way as line 8 is based on the current-year AGI.

**9b Qualified 2013 expenses paid in 2014 times the decimal that applies.** (*auto-calc*) Computed as the above carryover from 2013 times the above decimal amount. If an amount appears here the code "CPYE" and this amount is printed next to line 9 on the official printout. A reference to a supporting statement will also appear next to line 9. The supporting statement will show the information you entered on the *Prior-Year Qualifying Person Worksheets* and any of the above lines that have a nonzero amount will be included as well in order to explain your calculation to the IRS (for a paper return). Special requirement for e-file: The IRS does not support for e-file the explanation in the format we provide. You must therefore explain the calculation in the spaces provided on screen 2 of each *Prior-Year Qualifying Person Worksheet*.

**Credit on 2013 worksheet line e.** (*auto-calc*) Computed as the sum of line e of all worksheets combined, this amount will be the same as line 9b, above, once all worksheets are updated.

>> **Discrepancy with line 9b.** *(auto-calc)* Computed as "Credit on 2013 w/s line e" less "Qualified 2013 expenses paid in 2014 times the decimal that applies." If an amount appears here, you must itemize "Persons qualified in 2013" again and view ALL worksheets you have prepared so that line e will be recalculated on each worksheet.

**SPECIAL PROCEDURE to satisfy IRS reporting requirements.** Because the allocation among worksheets of the allowed credit on line 9b can only be determined once all worksheets have been prepared and the information above line 9b has been completed, you must return to the worksheets you created for 2013 itemize and view ALL of the worksheets in order for the amount on line e of the worksheets to properly reflect the results on line 9b. The calculations for Form 2441 will be correct whether or not you do this, but the supporting statement printout will be confusing if you don't, and an e-file return could be rejected because of inconsistencies.

**9 Sum of amounts on lines 9a and 9b.** *(auto-calc)* Computed as indicated, this is the tentative credit before limitation. (This line is labeled on the IRS form like our line 9a, since the calculations for line 9b represent a special provision not handled on the preprinted IRS form.)

**Amount on Form 1040, line 47.** *(auto-calc)* Taken from Form 1040 as indicated, this is the total tax before credits.

**Amount on Form 1040, line 48.** *(auto-calc)* Taken from Form 1040 as indicated, this is the foreign tax credit.

**10 Tax liability limit.** *(auto-calc)* Computed as "Amount on Form 1040, line 47" less "Amount on Form 1040, line 48," this is the tax balance available for reduction by this credit. (This is the result of the *Credit Limit Worksheet* in the *IRS 2014 Instructions for Form 2441*.)

**11 CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES.** *(auto-calc)* Computed as the smaller of line 9 or line 10. (This result will be zero if you are ineligible for the credit.)

The result on line 11 is posted to line 49 of Form 1040.

```

PRIOR-YR QUALIFYING PERSON
a. Qualifying person's name:
   First .....
   Last .....
   Lived w/you over half 2013? No
b. Qualifying person's SSN
   Total incurred in 2013           0
   Part paid in 2014                 0
   Part paid in 2013                 0
   Person counted..... No
c. Incurred '12,pd'13.....         0
d. Incurred & pd '12.....         0
e. Allowed credit.....             0
   (View w/s after return is
   complete to update line e)
[Press PgDn for e-file return]
    
```

**Prior-Year Qualifying Person Worksheet, Figure 2-25.** This worksheet is similar to the one that supports line 2 of Form 2441 (Figure 2-24), but it relates to amounts incurred in 2013 rather than 2014. *If you do not provide all the information requested on the worksheet, the IRS may disallow the credit or may tax all employer-provided*

Figure 2-25a. Prior-Year Qualifying Person Worksheet, Screen 1

*benefits. (CAUTION: This worksheet is NOT translated from the prior return. You MUST enter any required information anew.)*

**a. Qualifying person's name (First and Last).** Enter the first and last name of the qualified person. The entries are limited to 10 characters for the first name and 15 characters for the last name in accordance with IRS processing limitations.

**Lived with you over half of 2013?** To qualify, the child or dependent must have lived with you more than 6 months of the year. *If you answer No here, this person and the expenses you enter on this worksheet will NOT be counted on Form 2441*

**b. Qualifying person's SSN.** You must enter a valid social security number for the person with only one exception: If the person was a child who was born and died during the tax year, you can enter DIED if you attach a copy of the child's birth certificate to the return. *If you do not make a valid entry here, this person and the expenses you enter on this worksheet will NOT be counted on Form 2441.*

**Total incurred in 2013.** Enter the amount incurred in 2013 for the care of the person named above.

**Part paid in 2014.** Enter the part of the above amount not actually paid until 2014.

**Part paid in 2013.** *(auto-calc)* Computed as the "Total incurred in 2013" less the "Part paid in 2014."

**Person counted.** *(auto-calc)* Answered Yes only if you answered Yes to the question above line b and you made a valid entry for SSN at line b. (You do not have to have expenses for the child in order for the child to be counted.)

**c. Incurred in 2013, paid in 2014.** *(auto-calc)* Taken as the "Part paid in 2014" if the person is counted. Otherwise zero.

**d. Incurred and paid in 2013.** *(auto-calc)* Taken as the "Part paid in 2013" if the person is counted. Otherwise zero.

```

e-file ONLY:
Explain how line e computed by
using info on screen 5 of Form
2441. See Tax Forms guide for
details on what to enter.
Line 1:
Line 2:
Line 3:
Line 4:
Line 5:
Line 6:
Line 7:
Line 8:
Line 9:
Line 10:
Line 11:
Line 12:
Flag for IRS e-file.....

```

Figure 2-25b. Prior-Year Qualifying Person Worksheet, Screen 2

e. **Allowed credit.** (*auto-calc*) The calculation for this line is based on results on Form 2441 for all worksheets combined. The amount on calculated for line 9b of Form 2441 is allocated among the worksheets in proportion

to the amount shown on line c of each worksheet. As a result, this calculation will be accurate only after all worksheets are complete and you have returned to Form 2441 so that the worksheet totals can be recomputed. You must therefore return to the worksheets after line 9b is updated with the final calculation of the credit in order for this line to be correct.

**e-file ONLY: Explain how line e computed.** This section of the worksheet is required because the IRS only recognizes lines a and b of the worksheet for e-file and requires a separate explanation of the calculation of allowed credit for each qualifying person. You must therefore use the provided twelve 25-character data entry lines to satisfy their reporting requirements, as follows:

**Lines 1 through 12.** Each line provides a 25-character entry, so you must explain in 300 characters or less. If there is only one worksheet (one qualifying person for the prior year), it will suffice for you to summarize the lines shown on screen 5 of Form 2441 through line line 9b. But if there is more than one worksheet, you must also explain that the allowed credit for each qualifying person is their prorata share of the total on line 9b, allocated in proportion to the amount incurred in 2013 but paid in 2014.

**Flag for IRS e-file.** (*auto-calc*) The flag "CPYE" is shown here if there is an amount on line e. Otherwise, there is no credit to report and this worksheet can be removed if you are sure that a zero credit is appropriate.

**PART III, EMPLOYER-PROVIDED DEPENDENT CARE BENEFITS.** Taxable payments from the employer are reported here. Up to \$5,000 of the payments is nontaxable as long as neither the expenses on line 3 nor the earned income on line 6 is less.

**12 DEPENDENT CARE BENEFITS received.** *(auto-calc)* Taken from "TOTAL benefits for line 12" on screen 3 of this form.

**13 Amount carried over from 2013 and used in 2014 during the grace period.** *(auto-calc)* Taken from "Carryover from 2013 for line 13" on screen 3 of this form.

**14 Amount forfeited, if any.** *(auto-calc)* Taken from "TOTAL forfeitures and carryovers for line 14" on screen 3 of this form.

**15 Combine lines 12 through 14.** *(auto-calc)* Computed as line 12 plus line 13 less line 14. *If the result is zero, the remainder of this section is left blank.*

**16 QUALIFIED EXPENSES incurred in 2014.** *(auto-calc)* If line 15 has an amount, taken from "Total incurred in 2014" shown below line 1.

**17 SMALLER of line 15 or 16.** *(auto-calc)* As indicated.

**18 Your EARNED INCOME.** *(auto-calc)* When Part III is used, taken as "Your earned income for Part III" computed on the second screen of this form, which excludes any part stemming from line 26 of this form. Otherwise zero.

**19 If MFJ, spouse's earned income. ALL others, amount from line 20.** *(auto-calc)* If Part III is used, then if married filing jointly, or if married filing separately and the answer to "MFS, but single for 2441" is No, taken as "Spouse's earned income for Part III" computed on screen 2 of this form, which excludes any part stemming from line 26 of this form. Otherwise, taken as line 18 if Part III is used and zero if not.

**20 Smallest of line 17, 18, or 19.** *(auto-calc)* Computed as indicated.

**21 \$5,000 (\$2,500 if married filing separately and required to enter spouse's earned income on line 19).** *(auto-calc)* Computed as indicated.

**22 Is any amount on line 12 from your sole proprietorship or partnership?** *(auto-calc)* Answered Yes only if "Self-employment and partnership part of line 12" on screen 3 of this form is nonzero.

**Amount from your sole proprietorship or partnership.** *(auto-calc)* Taken as "Self-employment and partnership part of line 12" on screen 3 of this form.

**23 Subtract line 22 from line 15.** *(auto-calc)* Computed as indicated.

**24 DEDUCTIBLE BENEFITS.** *(auto-calc)* Computed as the smallest of line 20, 21, or 22, this is the amount you can deduct from the sole proprietor or partnership income on your return. **CAUTION: You must enter this deduction on Schedule C, E, or F, whichever is applicable. This allowed deduction is not posted anywhere automatically.**

**25 EXCLUDED BENEFITS.** *(auto-calc)* Computed as the smaller of line 20 or 21 less "Deductible benefits" on line 24. This is the amount of benefits excluded from taxation.

**26 TAXABLE BENEFITS.** *(auto-calc)* Computed as line 23 less line 25, but no less than zero, this is the taxable amount to be reflected in line 7 of Form 1040.

**Spouse's part of line 26.** *(auto-calc)* Computed as spouse's portion of line 26 prorated to spouse's portion of line 17 less self-employment and partnership part. Your and spouse's parts are separately identified to ensure that earned income used in other parts of the return is properly allocated to the proper spouse.

**Expenses after benefits.** The balance of eligible expenses after taking employer contributions into account is computed here:

**27 \$3,000 (\$6,000 if two or more qualifying).** *(auto-calc)* Computed as \$6,000 if the number of persons claimed at line 2 is two or more, \$3,000 if the number is one, and zero otherwise.

**28 Add lines 24 and 25.** *(auto-calc)* Computed as indicated.

**29 Subtract line 28 from line 27.** *(auto-calc)* Computed as indicated.

**30 Line 2, column (c) excluding amount on line 28 above.** *(auto-calc)* Computed as the amount incurred and paid in 2014 as identified below lines 1 and 2, less line 28 (which is deductible benefits on line 24 plus excluded benefits on line 25).

**31 SMALLER of line 29 or 30.** *(auto-calc)* Computed as indicated, this result is used for line 3 when Part III is used.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 2555 & 2555-EZ\* / Foreign Earned Income & Foreign Earned Income Exclusion**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used by U.S. citizens (or U.S. resident aliens) living abroad to claim an exclusion for a limited portion of income earned abroad and to claim an exclusion for employer-paid housing included in income. Form 2555 is *accessible through the Road Map above lines 21 and 36 of Form 1040*; two copies are available, one for each spouse.

**Form 2555-EZ included.** The software also provides Form 2555-EZ as a part of its Form 2555. It automatically prints Form 2555-EZ in place of Form 2555 when qualified, unless you elect (on the last screen of our Form 2555) NOT to use Form 2555-EZ. You are qualified to use Form 2555-EZ if you satisfy *all* of the following conditions:

- (1) You meet the qualifications for 2555.
- (2) Your foreign earned income does not exceed \$99,200.
- (3) You have no self-employment income.
- (4) You have no business or moving expenses.
- (5) You do not claim an exclusion or deduction for foreign housing.
- (6) All of your foreign earned income is reported on Form 1040, line 7.
- (7) You do not have a housing deduction carryover from the prior year.

Once you complete Form 2555, you must complete the last screen of our Form 2555 if you want to file the return using Form 2555-EZ in place of Form 2555.

*Exception for e-file: The software does not support Form 2555-EZ for e-file. As a result, because the software normally uses the Form 2555-EZ format automatically when a taxpayer is eligible for it, you must answer Yes to "This return will be e-filed?" on the last screen of this form so that the software will format the data for Form 2555 irrespective of eligibility for Form 2555-EZ.*

**For Use by U.S. Citizens and Resident Aliens Only.** This form can be used only by citizens and resident aliens whose tax home is in a foreign country throughout the period used in meeting the Bona Fide Residence Test or the Physical Presence Test, both of which are described later. If you are a resident alien qualifying under the Bona Fide Residence Test, you must be a citizen of a country with which the United States has an income tax treaty in effect (listed in IRS Pub. 901, *U.S. Tax Treaties*). Whether a citizen or a resident alien, any time in a country on which the United States has imposed travel restrictions (only Cuba in 2014) does not count in any of the time tests, and any income earned or housing expenses are not qualified.

**Social security number for this copy.** *(auto-calc)* One copy of Form 2555 is available for each spouse. The social security number entered on Form 1040 for the spouse whose copy you chose when you entered Form 2555 appears here.

**Is this spouse's copy (vs. you)?** *(auto-calc)* This answer is also based on the copy you chose.

## QUALIFICATIONS:

### BONA FIDE RESIDENCE TEST:

**Were you a bona fide resident of a foreign country for an uninterrupted period that includes the entire tax year?** The IRS is rather vague on what constitutes "bona fide" residency, but you are generally considered a bona fide resident if you are in the foreign country for an indefinite stay and make your home in the country. By contrast, you are not a bona fide resident if you go to the foreign country for a predefined temporary period and return to the United States when the period has ended. See the IRS instructions and IRS Pub. 54 for more detail.

### PHYSICAL PRESENCE TEST:

**Were you physically present in a foreign country for at least 330 days in any continuous 12-month period?** In determining your qualification, you can count only full 24-hours days (midnight to midnight). See the IRS Pub. 54 for more detail.

### WAIVER:

**If both answers above are No, are you CLAIMING WAIVER of time requirements?** If so, you must answer Yes here *and explain your reason in a supporting statement for this line*. Valid reasons for a waiver include having to leave the country because of war, civil unrest, etc., but you must be able to show that you could have met the time requirement had you not been required to leave.

**Was your tax home in a foreign country for the entire period of bona fide residency or physical presence?** You must be able to answer Yes to use this form.

**Was all the foreign earned income earned as an employee of the U.S. government?** Income paid to you by the U.S. government as its employee does not qualify as foreign earned income, but is taxed as if you lived in the United States. Consequently, if you answer Yes here, you do not qualify to use Form 2555.

**QUALIFIED so far to use Form 2555?** *(auto-calc)* Computed as Yes *only* if you answer Yes to one of the first three questions, No to the last question, and Yes to the question before the last one.

**PART I, GENERAL INFORMATION.** Here you must provide your foreign address, identify your employer, and answer questions about yourself and your residency:

**1 Your foreign address.** Enter the street address in 35 characters or less.

**... city.** Enter the foreign city in 35 characters or less.

- ... **province or state.** Enter the province or state in the format used by the country of residence in 15 characters or less.
- ... **country code.** Enter the standard 2-letter code shown in Table 2-6 (page 2-22).
- ... **postal code.** Enter the foreign postal code in the format used by the country of residence in 15 characters or less.
- 2 Your occupation.** Enter your occupation in 15 characters or less.
- 3 Employer's name.** Enter the name of the employer who pays you for your work in a foreign country in 35 characters or less.
- 4a ... U.S. address.** Enter the employer's U.S. address, if any, in this set of lines. Enter the street address in this first 25-character entry line.
  - ... **city.** Enter the U.S. city in 25 characters or less.
  - ... **state.** Enter the U.S. state in the standard 2-character abbreviation.
  - ... **ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.
- 4b ... foreign address.** Enter the employer's foreign address in this set of lines. Enter the street address in this first 25-character entry line.
  - ... **city.** Enter the foreign city in 25 characters or less.
  - ... **province/state.** Enter the province or state in the format used by the country of residence in 15 characters or less.
  - ... **country code.** Enter the standard 2-letter code shown in Table 2-6 (page 2-22).
  - ... **postal code.** Enter the foreign postal code in the format used by the country of residence in 15 characters or less.
- 5 Employer is (answer Yes to all that apply):**
  - a A foreign entity?**
  - b A U.S. company?**
  - c Self?**
  - d A foreign affiliate of a U.S. company?**
  - e Other?**

**Specify if e.** You must make an entry here in 15 characters or less if you answered Yes to line e, above. Supporting statements for this line are ignored by the IRS, so you must abbreviate your entry if necessary to fit into the 15-character space on the form.
- 6a If you previously filed Form 2555 or 2555-EZ, enter the last year you filed the form.** Enter zero if the entry does not apply.
- 6b If not, skip to line 7.** If you entered a year on line 6a, you must continue to line 6c. Otherwise, the box for line 6b on the printed Form 2555 will be checked and you must skip to line 7.
- 6c Have you ever revoked either of the exclusions?** If Yes, you must continue to line 6d. Otherwise, you must skip to line 7.
- 6d If you answered "Yes," enter the type of exclusion and the tax year for which the revocation was effective.** *(Supported by the Revoked Exclusions Worksheet, Figure 2-26.)* You must supply the required information in the supporting worksheet provided, which is detailed next.

**Revoked Exclusions Worksheet.** (Figure 2-26; supports line 6d of Form 2555) Use a separate worksheet for each separate tax year.

**Type of exclusion**

**revoked:** You

can answer Yes

to either or both

of the following questions.

**Foreign earned income?** Answer Yes if the Foreign Earned Income Exclusion was revoked.

**Housing?** Answer Yes if the Housing Exclusion was revoked.

**Tax year for which revoked.** Enter the 4-digit tax year for which the exclusion was revoked. Each worksheet applies to only one tax year. You must use additional worksheets if the revocation applies to more than one tax year

**Flags.** The flags to be used on the official return are controlled by your answers to the above questions. The flags for e-file are required to be one of the verbose phrases noted below. On the other hand, the flags for printouts are quite brief because of the limited space on the printed form.

**Flag for printouts.** One of three phrases will be used for an official printout: *Earned Income*, *Housing*, or *Earned Income and Housing*.

**Flag for e-file.** One of three phrases will be used for an e-file output: *FOREIGN EARNED INCOME EXCLUSION*, *HOUSING EXCLUSION*, or *FOREIGN EARNED INCOME EXCLUSION AND HOUSING EXCLUSION*.

REVOKED EXCLUSIONS WORKSHEET  
 Type of exclusion revoked:  
 Foreign earned income..? NO  
 Housing.....? NO  
 Tax year for which revoked 0  
 Flag for printouts.....  
 Flag for e-file.

Figure 2-26. Revoked Exclusions Worksheet

**7 Of what country are you a citizen/national?** Enter the country of citizenship in 25 characters or less.

**8a Did you maintain a separate foreign residence for your family because of adverse living conditions at your tax home?** You can answer Yes if the living conditions at your foreign tax home were dangerous, unhealthful, or otherwise adverse. If so, you can include the costs for both homes in your entry for housing expenses at line 28.

**8b If "Yes," enter the city and country of the separate foreign residence and the number of days during the tax year that you maintained that residence.** You must supply the required information in a supporting statement for this line, using the text column to enter the city and country (in 30 characters or less) and the amount column to enter the number of days (as a 3-digit number, 365 or less for 2014).

**9 List your tax home(s) during your tax year and date(s) established.** (Supported by the *Tax Home Worksheet*, Figure 2-27.) You must supply the required information in the supporting worksheet provided, which is detailed next. (The number that appears on this line is the number of worksheets you have completed.)



**Tax Home Worksheet.** (Figure 2-27; supports line 9 of Form 2555) Use a separate worksheet for each separate tax home. **Tax home (identify).** Describe

**Figure 2-27. Tax Home Worksheet**

the tax home in 30 characters or less.

**Date established.** Enter the date that you established the home as your tax home in the standard xx/xx/xxxx format.

**PART II. TAXPAYERS QUALIFYING UNDER BONA FIDE RESIDENCE TEST.** You can use this part only if you claimed on screen 1 that you meet this test.

**Qualified to use this part?** *(auto-calc)* Answered Yes only if you claimed on screen 1 that you meet the Bona Fide Residence Test and you are otherwise qualified to use Form 2555.

**10 Date bona fide residence began.** Enter the date in the standard xx/xx/xxxx format.

**Are you still a bona fide resident?** Answer Yes if the residence has not yet ended.

**If not, date ended.** If you answered No above, enter the termination date in the standard xx/xx/xxxx format.

**11 Kind of living quarters in foreign country:**

- a Purchased house?
- b Rented house or apartment?
- c Rented room?
- d Quarters furnished by employer?

**12a Did any of your family live with you abroad during any part of the tax year?** If no, skip to line 13a.

**12b If "Yes," who and for what period?** You must enter the relationship and the period of residency for each related party *in a supporting statement for this line.* **CAUTION for e-file:** For an e-file return you must enter the information strictly in the following format: relationship in the first 11 characters of the text field and period of residency in the remaining 19 characters of the text field, using a separate line for each family member. (The only valid entries for relationship for an e-file return are CHILD, SON, DAUGHTER, FOSTERCHILD, GRANDCHILD, PARENT, GRANDPARENT, SISTER, BROTHER, NIECE, NEPHEW, AUNT, UNCLE, SPOUSE, NONE, and OTHER, and all must be in upper case.)

**13a Have you submitted a statement to the authorities of the foreign country where you claim bona fide residence that you are not a resident of that country?** If you answer Yes and the foreign country determines that you are exempt from their income tax laws because of your statement (or has not yet made a determination), you are not qualified as a bona fide resident.

**13b Are you required to pay income tax to the country where you claim bona fide residence?** If you answer Yes to 13a and No here, you are

not qualified as a bona fide resident and should not complete the rest of Part II.

**14 If you were present in the U.S. or its possessions during the tax year, itemize income earned in the U.S. on business.** (*Supported by the U.S. Income Worksheet, Figure 2-28.*) If in the U.S. anytime during the year, supply the information on the supporting worksheet, using a separate worksheet for each separate period of presence in the U.S.

\* **Itemize computations here.** You must show in a supporting statement for this line how you computed the U.S. income you entered in line d of the worksheets for line 14. *Format for e-file: The IRS ignores the amount column in your support for this line, so you must restrict your explanation to the text column of the support.* CAUTION: You must include this income on Form 1040 (such as line 7 for wages, line 12 for non-farm self-employment, etc.), but must not include it in any entries in Part IV of this form (which is intended only for foreign income).

**15a List any contractual terms or other conditions relating to the length of your employment abroad.** Two 35-character lines are provided for your entries for this line. (*For e-file, supporting statements for this line are not recognized by the IRS.*)

**15b Enter the type of visa under which you entered the foreign country.** Enter the type in 25 characters or less.

**15c Did the visa limit the length of your stay or employment in a foreign country?** If "Yes," you must provide an explanation *in a supporting statement for this line (using only the description column of the support).*

**15d Did you maintain a home in the U.S. while living abroad?** If Yes, provide details at the next line.

**15e If "Yes," itemize here to supply the address of your home, whether it was rented, the names of the occupants, and their relationship to you.** (*Supported by the U.S. Home Maintained Worksheet, Figure 2-29.*) You must supply all required information on the supporting worksheet for this line. (The number shown on this line is the number of homes identified in the support.)

U.S. INCOME WORKSHEET	
a	Date arrived in U.S. ....
b	Date left U.S. ....
c	No. days in US on business
d	Inc. earned in US on busin
	0
	0

**U.S. Income Worksheet.** (Figure 2-28; supports line 14 of Form 2555) Use a separate worksheet for each separate visit to the United States during the tax

Figure 2-28. U.S. Income Worksheet

year.

- a Date arrived in U.S.** Enter the arrival date in the standard xx/xx/xxxx format.
- b Date left U.S.** Enter the departure date in the standard xx/xx/xxxx format.
- c Number of days in U.S. on business.** Enter the number of days within the period from line a to line b that you were in the U.S. for a business purpose.
- d Income earned in U.S. on business.** Enter income earned for the days in line c. You must show how you computed this entry in a separate supporting statement at the line below line 14, above. **CAUTION:** You must include this income on Form 1040 but not Part IV of Form 2555.

U. S. HOME MAINTAINED	
Street address.....:	
City.....	
State.....	
ZIP code.....	
Was this home rented.....? No	
Rental status.....	
Occupant's name.....:	
Occupant's relationship...	

**U.S. Home Maintained Worksheet.** (Figure 2-29; supports line 15e of Form 2555) Use a separate worksheet for each separate home maintained in the U.S.

**Street address.** Enter the street address of the U.S. home in 30 characters

Figure 2-29. U.S. Home Maintained Worksheet

- or less.
- City.** Enter the U.S. city in 22 characters or less.
- State.** Enter the standard 2-letter code for the state.
- ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.
- Was this home rented?** Answer Yes if you did not own the home.
- Rental status.** (auto-calc) The word "RENTED" appears here if you answered Yes to the preceding question. Otherwise, blank. The result is used on an official printout and in e-file output.
- Occupant's name.** Enter the name in 30 characters or less.
- Occupant's relationship.** The only valid entries are for an e-file return are CHILD, SON, DAUGHTER, FOSTERCHILD, GRANDCHILD, PARENT, GRANDPARENT, SISTER, BROTHER, NIECE, NEPHEW, AUNT, UNCLE, SPOUSE, NONE, and OTHER, and all must be in upper case.

**PART III, TAXPAYERS QUALIFYING UNDER PHYSICAL PRESENCE TEST.** You can use this part only if you claimed on screen 1 that you meet this test.

**Qualified to use this part?** *(auto-calc)* Answered Yes only if you claimed on screen 1 that you meet the Physical Presence Test and you are otherwise qualified to use Form 2555.

**16 The physical presence test is based on the 12-month period from...**  
Enter the starting date in the standard xx/xx/xxxx format.

**...through.** Enter the ending date in the standard xx/xx/xxxx format, which should be exactly one year later than the first date.

**17 Enter your principal country of employment during your tax year.** If Enter the country in 35 characters or less.

**18 If you traveled abroad during the 12-month period entered on line 16, complete the worksheet below (on the 2<sup>nd</sup> line below). Otherwise, supply the required statement in a supporting statement for the next line.**

**If NO travel, itemize here.** If you did NOT travel during the test period, you must itemize this line and enter "Physically present in a foreign country or countries for the entire 12-month period."

**If travel, itemize here.** *(Supported by the Travel Abroad Worksheet, Figure 2-30.)* If you DID travel during the test period, you must provide details on the worksheets that support this line.

**\* Itemize computations here.** You must show in a supporting statement for this line how you computed the U.S. income you entered in line f of the worksheets for line 18. *Format for e-file: The IRS ignores the amount column in your support for this line, so you must restrict your explanation to the text column of the support.* CAUTION: You must include this income on Form 1040 (such as line 7 for wages, line 12 for non-farm self-employment, etc.), but must not include it in any entries in Part IV of this form (which is intended only for foreign income).

**Travel Abroad Worksheet.** *(Figure 2-30; supports line 18 of Form 2555)* Use a separate worksheet for each separate trip. You can exclude travel for less than 24 hours that did not involve travel over international waters or the United States.

TRAVEL ABROAD DURING LN 16		
a	Name country,...	
b	Date arrived.....	
c	Date left.....	
d	Full days in country.....	0
e	Days in U.S. on business..	0
f	Inc. earned in US on busin	0

Figure 2-30. Travel Abroad Worksheet

**a Name of country.** Enter the name in 25 characters or less. Do not exclude travel to the United States.

**b Date arrived.** Enter the arrival date in the standard xx/xx/xxxx format.

**c Date left.** Enter the departure date in the standard xx/xx/xxxx format.

**d Full days present in country.** Enter the number of full days within the period from line b to line c that you were in the country.

**e Number of days in U.S. on business.** If your entry for line a was United States, enter the number of days within the period from line b to line c that you were in the U.S. for a business purpose.

**f Income earned in U.S. on business.** Enter income earned for the days in line e. You must show how you computed this entry in a separate supporting statement at the line below line 18, above. **CAUTION:** You must include this income on Form 1040 but not Part IV of Form 2555.

**PART IV, ALL TAXPAYERS.**

**2014 Foreign Earned Income.** Your 2014 foreign earned income is reported in this part, which must be completed no matter what makes you eligible to use Form 2555 or 2555-EZ. You must enter here all 2014 income earned for services performed in a foreign country, and must not include an income earned in the U.S. (as reported on the worksheets for lines 14 and 18):

**19 Total wages, salaries, bonuses, commissions, etc.** Enter all income earned in a foreign country as an employee.

**20 Allocable share of income for personal services performed:**

**20a In a business or profession.** Enter all self-employment income earned in a foreign country as an individual.

**20b In a partnership. List partnership's name, address, and type of income (itemize).** (*Supported by the Partnership Foreign Earned Income Worksheet, Figure 2-31.*) If you had foreign earned income as a member of a partnership, you must supply all required information on the supporting worksheet for this line, described next.

PARTNERSHIP FOREIGN EARNED	Partnership Foreign
Name of partnership.....	Earned Income Work-
Foreign address.....	sheet. ( <i>Figure 2-31;</i>
" city.....	<i>supports line 20b of</i>
" province or state.....	<i>Form 2555</i> ) Use a sepa-
" country.....	rate worksheet for each
" postal code.....	separate partnership in
Type of income.....	which you were a part-
Amount of income.....	ner and provided ser-
	vices in a foreign coun-
	try.

**Figure 2-31. Partnership Foreign Earned Income Worksheet**

**Name of partnership.** Enter the name in 15 characters or less.

**Foreign address.** Enter the foreign street address in 25 characters or less.

" **city.** Enter the foreign city in 25 characters or less.

" **province or state.** Enter the province or state in 15 characters or less.

" **country.** Enter the official 2-letter code for the country as shown in Table 2-6 on page 2-22.

" **postal code.** Enter the postal code in 15 characters or less.

**Type of income.** Describe in 25 characters or less.

**Amount of income.** Enter your allocable share of income from the partnership for your personal services, including all self-employment income.

**21 Noncash income (market value of property or facilities furnished by employer):**

- 21a Home (lodging).** Show how market value was determined in a supporting statement for this line.
- 21b Meals.** Show how the value was determined in a supporting statement for this line.
- 21c Car.** Show how market value was determined in a supporting statement for this line.
- 21d Other property or facilities. (List type and amount.)** When you itemize this line you must follow an IRS-specified format by entering the type or category in the 30-character text column of the support and the market value for that type in the amount column. *TIP for e-file: Even though the official form provides a space for listing other types of property, the IRS ignores this detail in their e-file specification. Therefore, if you expect to e-file the return, you can enter just the total amount for line 21d without itemizing.*
- 22 Allowances, reimbursements, or expenses paid on your behalf for services you performed:**
- 22a Cost of living and overseas differential.** No supporting statement is required for lines 22a through 22e.
- 22b Family.**
- 22c Education.**
- 22d Home leave.**
- 22e Quarters.**
- 22f For any other purpose. (List type and amount.)** You must itemize any other foreign earned income by lines 22a through 22e *in a supporting statement for this line*, entering the type in the 30-character text column of the support and the value in the amount column of the support.
- 22g Add lines 22a through 22f. (auto-calc)** Computed as indicated.
- 23 Other foreign earned income. (List type and amount.)** You must itemize any other foreign earned income *in a supporting statement for this line*, entering the type in the 30-character text column of the support and the value in the amount column of the support.
- 24 Add lines 19 through 21d, line 22g, and line 23. (auto-calc)** Computed as indicated.
- 25 Total amount of meals and lodging included on line 24 that is excludable.** Examples include meals and lodging that were provided to you for your employer's convenience and on your employer's business premises. See IRS instructions for this line and IRS Pub. 54 (the section entitled *Exclusion of Meals and Lodging*).
- 26 2014 FOREIGN EARNED INCOME. (auto-calc)** Computed as line 24 less line 25.

## **PART V, ALL TAXPAYERS.**

**27 Enter amount from line 26.** *(auto-calc)* Taken from the result in Part IV, as indicated.

The check boxes below line 27 on the IRS Form 2555 are automatically completed based on your entries in the next two sections.

**PART VI, TAXPAYERS CLAIMING THE HOUSING EXCLUSION AND/OR DEDUCTION.** The tentative housing exclusion is figured in this part. If you complete this part, Form 2555 will always be used to make the claim because Form 2555-EZ cannot be used to claim housing expenses.

**28 Qualified housing expenses for the tax year.** Enter the total reasonable expenses paid or incurred, either by you or on your behalf, for housing. You can include the expenses for a second foreign household if you answered Yes to line 8a. See page 3 of the IRS Instructions for a detailed explanation of what else qualifies for inclusion in this line.

**29a Enter location where housing expenses incurred.** You should make an entry here only if the city and country where the housing expenses were incurred appear in the IRS table of *2014 LIMITS ON HOUSING EXPENSES* on the last few pages of the IRS *2014 Instructions for Form 2555*. The table lists foreign cities for which the IRS allows more than the normal \$29,760 limit for 2014. If your city is not listed in this table, do not make an entry here; you cannot claim more than the \$29,760 limit in this case.

**Number of days in your qualifying period that fall within your 2014 tax year.** Enter the number of days as indicated, which is limited to 365 for 2014. You must make an entry here whether or not you were allowed to make an entry on line 29a.

**Full-year housing expense limit.** If you made no entry at line 29a, the entry at this line is automatically \$29,760, which is the amount allowed for 2014 for cities not listed in the IRS table (*2014 LIMITS ON HOUSING EXPENSES*). (\$29,760 is lower than any amount in the table, and is also 30% of the \$99,200 limit on the foreign earned income exclusion). This amount If you made an entry at line 29a, you can enter an amount between \$29,760 and \$114,300 (the highest amount in the table for 2014, which applies only to Hong Kong). The amount you enter must be the amount in the IRS table of Limits on Housing Expenses for the city and country you entered in line 29a. If you lived in more than one foreign location during the qualifying period, you must prorate the amount in accordance with the amount of time spent in each location, using \$29,760 for locations not listed in the IRS table.

**29b Limit on housing expenses.** *(auto-calc)* Computed as the preceding limit times your entry, above, for number of days within 2014 divided by the number of days in a year (365 for 2014).

**30 Smaller of line 28 or line 29b.** *(auto-calc)* Computed as indicated.

- 31 Number of days in your qualifying period that fall within your 2014 tax year.** *(auto-calc)* Taken from your prior entry, above, for number of days within 2014.
- 32 Multiply \$43.48 by the number of days on line 31.** *(auto-calc)* Computed as indicated except when line 31 is 365, for which \$15,872.00 is used for 2014 in accordance with IRS instructions.
- 33 Subtract line 32 from line 30.** *(auto-calc)* Computed as indicated, but no less than zero.
- 34 Enter employer-provided amounts.** Enter the total amount of wages, rent, housing expenses, and fair-market-value of property in kind that your employer provided to you or on your behalf. This amount should be included in gross income on your Form 1040. *If self-employed and all your foreign earned income is from your self-employment, enter zero here;* you cannot take the housing exclusion computed in this part of the form, but you may be able to take the housing deduction in Part IX.
- 35 Divide line 34 by line 27.** *(auto-calc)* Computed as indicated, but no more than 1.0. (We carry the result to four places, one place more accurate than the IRS requires.)
- 36 HOUSING EXCLUSION.** *(auto-calc)* Computed as line 33 multiplied by line 35, but no more than line 34.

The result on line 36 is used in all remaining parts of the form to determine the amount to either be excluded at Form 1040, line 21, and/or deducted at Form 1040, line 36.

## **PART VII, TAXPAYERS CLAIMING THE FOREIGN EARNED INCOME EXCLUSION.**

The tentative foreign earned income exclusion is figured in this part. If you completed Part VI then this part is fully automatic. Otherwise you must make an entry for line 38 in order to figure the exclusion.

**Elect OUT of this exclusion?** If you elect *NOT* to claim the foreign earned income exclusion, lines 38 through 42 will be forced to zero. Otherwise, these lines are computed as described below.

- 37 Maximum foreign earned income exclusion.** *(auto-calc)* Computed as \$99,200 for tax year 2014, this is the maximum exclusion allowed.
- 38 Number of days in your qualifying period that fall within your 2014 tax year.** *If you completed Part VI, your entry for line 31 is used here automatically.* Otherwise, you must enter the number of days within the tax year that you meet both the tax home test and the bona fide residence or physical presence test. (Up to 365 days can be entered for tax year 2014.)
- 39 Divide line 38 by the number of days in your 2014 tax year.** *(auto-calc)* Computed as indicated, but no more than 1.0. (We carry the result to four places, one place more accurate than the IRS requires.)
- 40 Multiply line 37 by line 39.** *(auto-calc)* Computed as indicated.
- 41 Subtract line 36 from line 27.** *(auto-calc)* Computed as indicated.
- 42 FOREIGN EARNED INCOME EXCLUSION.** *(auto-calc)* Computed as the smaller of line 40 or line 41.

The result on line 42 is used in the next parts of the form to determine the amount to be excluded at Form 1040, line 21.

**PART VIII, TAXPAYERS CLAIMING THE HOUSING EXCLUSION, FOREIGN EARNED INCOME EXCLUSION, OR BOTH.** The exclusion to be taken at Form 1040, line 21, is figured here.

**43 Add lines 36 and 42.** *(auto-calc)* Computed as indicated.

**44 Deductions allowed in figuring your adjusted gross income (Form 1040, line 38) that are allocable to the excluded income.** You must explain your deductions *in a supporting statement for this line*, entering each deduction in the amount column of the support and a 30-character explanation of your entry in the text column. Include all deductions you entered throughout the return that relate to the foreign earned income for which an exclusion is claimed. (The deductions are used in full elsewhere on the return, but are taken back here when you claim the exclusion so that you do not get credit for the same amount twice.) See the IRS instructions for details.

**45 FOREIGN EARNED INCOME EXCLUSION.** *(auto-calc)* Computed as line 43 less line 44.

*The result on line 45 is posted to the Form 2555 (or 2555-EZ) component of Form 1040, line 21, as a negative number*, thereby excluding the amount from the income computed at Form 1040, line 22.

**PART IX, TAXPAYERS CLAIMING THE HOUSING EXCLUSION.** If the tentative housing exclusion in line 36 is not fully reflected in line 45, you may be able to take a deduction at Form 1040, line 36, as figured here. (A deduction will result only if line 33 is more than line 36 *and* line 27 is more than line 43.)

**46 Subtract line 36 from line 33.** *(auto-calc)* Computed as indicated.

**47 Subtract line 43 from line 27.** *(auto-calc)* Computed as indicated.

**48 Enter the smaller of line 46 or line 47.** *(auto-calc)* Computed as indicated.

**49 Housing deduction carryover from 2013.** If line 47 is more than line 46 and you could not deduct all of your 2013 housing deduction because of the 2013 limit, see IRS instructions for the amount to enter here. *(If line 46 is more than line 47 you may be able to deduct some or all of the excess on your return for tax year 2015. However, if it is also limited on the 2015 return, you cannot carry it over to any later year.)*

**50 HOUSING DEDUCTION.** *(auto-calc)* Computed as the sum of lines 48 and 49..

*The result on line 50 is posted to the Form 2555 component of Form 1040, line 36*, thereby deducting the amount from adjusted gross income computed for Form 1040, line 38.

**FORM 2555-EZ QUALIFICATION.** The simpler Form 2555-EZ can be used in place of Form 2555 under certain conditions so that you do not have to provide all the detail required on Form 2555. Qualification for Form 2555-EZ is determined in this section, using the entries you have made for Form 2555.

**Do you meet a time test or claim a waiver?** *(auto-calc)* You cannot use Form 2555-EZ if “No” appears here.

**Elect NOT to use Form 2555-EZ?** If you want to provide the IRS with all the detail you must supply for Form 2555, you can choose to have Form 2555 printed with the return even when you qualify to use Form 2555-EZ by answering “Yes” here.

**Will this return be e-filed?** If “Yes,” Form 2555 will be used in the electronic filing output even when qualified to use Form 2555-EZ. *TIP for e-file: You MUST answer Yes here (or on the preceding line) or else no e-file output will be generated for this return.*

**Is foreign earned income more than \$99,200?** *(auto-calc)* Computed as “Yes” only if the amount on line 27 exceeds \$99,200. If “Yes,” you cannot use Form 2555-EZ.

**Do you have any self-employment income on your return?** If “Yes,” you cannot use Form 2555-EZ.

**Are you claiming any business expenses on your return?** If “Yes,” you cannot use Form 2555-EZ.

**Have you made an entry on Form 2555, line 44?** If any deductions allowed to reduce adjusted gross income are allocable to excluded income, you must have entered the amount on line 44 of Form 2555, and are not allowed to use Form 2555-EZ.

**Are you claiming any moving expenses on your return?** *(auto-calc)* Computed as “Yes” if an amount appears on Form 1040, line 26.

**Are you claiming the housing exclusion?** *(auto-calc)* Computed as “Yes” if an amount appears on Form 2555, line 36.

**Are you claiming the housing deduction?** *(auto-calc)* Computed as “Yes” if an amount appears on Form 2555, line 50.

**FORM 2555-EZ WILL BE USED.** *(auto-calc)* Computed as “Yes” only if the first answer above is “Yes” and all the rest are “No.” If “Yes,” Form 2555-EZ will be printed in place of Form 2555. Otherwise, Form 2555 will be printed with the return.

**Form 2555-EZ, line 10d, uses Form 2555, line 6d OR enter the tax year of revocation here.** If you enter a single year in a supporting statement for line 6d, that year will appear here. Otherwise, enter the year here yourself.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 2848\* / Power of Attorney & Declaration of Representative

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition. See the separate Partnership Edition manual for details on the version of Form 2848 that is built into the Partnership Edition software.

**Purpose.** This form is used to authorize a qualifying individual to represent you before the IRS. To qualify, this individual must be eligible to practice before the IRS. Form 2848 must NOT be filed with the taxpayer's return. Instead, you must send the form to one of the special locations listed in the IRS instructions or, if completed for a specific use, to the office handling the specific matter. Each spouse must now complete his or her own Form 2848; the form cannot be used to give authorization to represent both spouses of a joint return. Because of its stand-alone nature, Form 2848 is accessible only from the Forms Menu (as Form 24), and not through the Road Map. Two copies are available, one for each spouse.

**Representatives you appoint must be qualified.** Form 2848 requires that the representative to whom you give the power of attorney be one of a select group of individuals, such as an attorney, CPA, enrolled agent, registered tax return preparer, or other person qualified to represent you before the IRS. You identify this person in Part I, but that person must complete and sign Part II to declare qualification as your representative. **BOTH PARTS MUST BE COMPLETED, SIGNED, AND DATED** or the IRS will not accept the Form 2848 you file.

**PART I, POWER OF ATTORNEY.** This part of the form is completed and signed by the taxpayer. The representatives to whom you want to give the power of attorney are identified here along with the powers you want to give to them.

**1 Taxpayer information.** The information in this section is printed at the top of the official printed form.

**Social security number for this copy.** (auto-calc) The social security number entered on Form 1040 for the spouse whose copy you chose when you entered Form 2848.

**Is this spouse's copy (vs. you)?** (auto-calc) This answer is also automatic based on your choice when you entered.

**Plan number (3-digit).** This entry is not applicable to individuals, but applies only to employee plans that file a Form 2848 for the plan.

**Street address.** (auto-calc) Constructed from your entries for "Street address" and "Apt., Suite, Bldg., etc." on screen 3 of Form 1040 page 1, the entry can be as long as 45 characters long. Although only the first 35 characters are shown on the screen, the entire 45 character entry is printed in an official printout of the form.

**City and state.** (auto-calc) Constructed from your entries for "City or p.o." and "State" on screen 3 of Form 1040 page 1, the entry can be as long as 26 characters long. Although only the first 25 charac-

ters are shown on the screen, the entire 26 character entry is printed in an official printout of the form.

**ZIP code.** *(auto-calc)* Taken from your entry for "ZIP code" on screen 3 of Form 1040 page 1.

**Daytime telephone number.** *(auto-calc)* Taken from your entry for "Daytime phone no." on screen 3 of Form 1040 page 1.

**2 Representative(s).** You must fully identify the representatives you appoint.

The form provides space for only four representatives, but you can appoint more in a supporting statement for the special line that follows these entries. *For each representative you must supply the following information:*

**Name.** Enter the full name in 35 characters or less.

**Address.** Enter the street address or P.O. box in 35 characters or less.

**City, state, and ZIP code.** Enter the city, state, and ZIP in 35 characters or less.

**To be sent notices and communications?** Answer Yes only if you want this representative to be sent copies of any notices that the IRS sends to you. *TIP: This question appears on the form only for the first two representatives because the IRS will not send copies to more than two representatives.*

**CAF Number.** The IRS maintains a Centralized Authorization File (CAF) to keep track of appointed representatives and the tax matters and periods for which they have been given power of attorney. The first time a representative is appointed by anyone, he or she is assigned a lifetime 9-digit CAF number, and uses this number thereafter as identification to the IRS. *TIP: If no CAF number has yet been assigned to a representative you choose, enter NONE here and the IRS will assign a number for the future.*

**PTIN.** If the representative is a paid preparer, enter the Preparer Tax Identification Number (PTIN) assigned by the IRS to the preparer. A paid preparer must register annually in order to practice as a paid preparer, whether or not the preparer signs returns. Enter the PTIN in the standard Pxx-xx-xxxx format. *CAUTION: An entry here is now required for any representative who is an unenrolled return preparer or a registered tax return preparer, as highlighted in the IRS instructions for Form 2848 (Rev. July 2014).*

**Telephone number.** Enter the representative's daytime phone number in 15 characters or less.

**Fax number.** Enter the representative's fax number in 15 characters or less.

**Answer Yes if any are new.** Answer Yes for each of the following that are different on this form from the entries in the CAF. Answer Yes to *all* that apply.

**Address.** Answer Yes only if changed from the address used when the CAF number was assigned.

**Telephone number.** Answer Yes only if changed from the number used when the CAF number was assigned.

**Fax number.** Answer Yes only if changed from the number used when the CAF number was assigned..

**If more than four:**

**Itemize HERE to identify others.** Use this line to supply the same information as above for additional representatives you appoint. The itemized list will be cross-referenced on the official printout on the title line for line 2.

**3 Acts authorized.** You must identify the type of tax or penalty for which you are giving the representative(s) the power of attorney, including the related form number and the specific years (or other period) for which you want to grant the power of attorney. *For each category you must supply the following information:*

**Description of matter.** Enter here the type of return to which the representation applies, such as an individual income tax return or employment return, in 35 characters or less.

**Tax Form Number.** Enter the related form(s), such as Form 1040 or Form 941.

**Years or periods.** Enter the range of years (or other period) for which you want to grant the power of attorney.

**If more than three:**

**Itemize HERE for others.** Use this line to supply the same information as above for additional categories. The itemized list will be cross-referenced on the official printout on the title line for line 3.

**4 Specific use not recorded on CAF.** Some uses of the power of attorney are not recorded on the CAF, such as requests for private rulings or requests to change accounting methods. These are generally one-time uses. Answer Yes here only if the use is such that the CAF does not apply. See IRS instructions for a list of examples of such uses. If you answer Yes, you should send Form 2848 to the office handling the specific matter rather than one of the addresses in the IRS instructions.

**5a/5b Additions/deletions to acts authorized.** The official Form 2848 lists specific acts that are automatically authorized for or excluded from the power of attorney. However, you can modify the authorized acts through your entries of additions on line 5a and deletions on line 5b.

**5a Additional acts authorized.** Use this section to identify additions to the acts automatically authorized by the power of attorney.

**Disclosure to third parties.** Answer Yes only if you authorize the representatives to request disclosure of tax information to a third party.

**Signing a return.** Answer Yes only if you authorize the representatives to sign certain returns on your behalf.

**Substitute or add representatives.** Answer Yes only if you authorize the representatives to substitute another representative or add additional representatives.

**Explain above additions.** If you answered Yes to any of the preceding three questions, you can provide more detail here in 35 characters or less. (You can itemize if you need more room.)

**Other acts authorized.** Answer Yes only if you give other authorities as detailed in an itemized list for the next line. If Yes, you must explain on the next line.

**Explain if "Other."** If you answered Yes to the preceding question, list the other additional acts authorized in 35 characters or less, or in a supporting statement for this line.

**5b Specific acts not authorized.** Use this section to identify deletions to the acts otherwise automatically authorized by this power of attorney.

**List specific deletions to acts otherwise authorized.** List the acts specifically not authorized in 35 characters or less, or in a supporting statement for this line.

**6 Retention/revocation of prior power(s) of attorney.** Normally the IRS will revoke a prior power of attorney when they receive this form if it applies to the same tax matters and periods as listed in line 3. However, you can modify this practice as follows:

**Do you not want to revoke a prior power of attorney?** If you answer Yes, the prior power(s) of attorney you filed will not be revoked.

**7 Signature of taxpayer.** The form must be hand signed by the taxpayer identified in line 1 (you or spouse). (You can provide a PIN number for use by a representative in future electronic filing. However, Form 2848 cannot currently be filed electronically.)

**PART II, DECLARATION OF REPRESENTATIVE.** This part of the form must be completed by hand and signed by all representatives listed in line 2. Once you complete Form 2848, the representatives must complete, by hand, the bottom of Form 2848 page 2, after reading the detailed declaration in Part II of this form and detailed IRS instructions referenced in Part II. **CAUTION:** If a representative is an unenrolled return preparer or a registered tax return preparer (items h and i in the declaration), a PTIN must be entered for that representative.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 3468 / Investment Credit

**For Form 1065 returns, see separate Partnership Tax Forms Guide for additional details.** While the meanings of entries on Form 3468 are the same for Form 1065 (partnership) returns as they are for Form 1040 (individual) returns, most calculated lines are zero for a partnership return, the posting of results is more complex, and an additional entry is required for rehabilitation property. See the separate *Partnership Tax Forms Guide (2014 Edition)* for details.

**Purpose.** Form 3468 is used to claim credit for a business's investment in certain favored property, including rehabilitation property and investment in various energy projects. It grew to three pages for tax year 2008 because of the myriad of credits for different kinds of favored types of energy production, and remains at 3 pages for 2014. In the Form 1040 software, Form 3468 is *accessible through the Road Map from screens 3 and 4 of Form 3800.* (See the separate *Partnership Tax Forms Guide* for access information for the Form 1065 software, and other details unique to the Partnership Edition software.)

**CAUTION:** Additional entries may be required on Form 3800. Unless you make additional entries on screen 3 or 4 of the main Form 3800, the credit is initially assumed to be a Category A credit (*General Business Credit from a Non-passive Activity*) and posted to line 1a or 4a of Copy 2 of Form 3800, Part III. (Copy 2 of Form 3800, Part III, is reserved for the General Business Credit from a Non-passive Activity.) If the credit stems from a passive activity, or you have any carryforwards or carrybacks, you must indicate on Form 3800 screen 3 or 4 that it is not a Category A credit and manually enter the credit on line 1a or 4a of the appropriate copy of Form 3800, Part III. Also, if the credit originated from a pass-through entity, you must enter the EIN of the entity on the copy of Form 3800, Part III, that you use.

**PART I, INFORMATION REGARDING THE ELECTION TO TREAT THE LESSEE AS THE PURCHASER OF INVESTMENT CREDIT PROPERTY.** Complete this section only if you are claiming credit for any property you do not own. You can claim the credit only if you elect to be treated as the purchaser by completing this section. See IRS section 48(d) (as in effect on November 4, 2008) for information on the requirements of the election. All information for this section is entered on the supporting worksheet, accessed from line 4, below.

- 1 Name of lessor.** See supporting worksheet, below.
- 2 Address of lessor.** See supporting worksheet, below.
- 3 Description of property.** See supporting worksheet, below.
- 4 Amount for which you were treated as having acquired the property.** (*Supported by the Lessor Worksheet, Figure 2-32.*) The sum of amounts you enter on the supporting worksheet appears here. All other information appears only in the worksheets and on the official printouts.

**Lessor Worksheet.** (Figure 2-32) Use a separate worksheet for each lessor from whom you lease property for which you claim an investment credit.

**1 Name of lessor.**  
Enter the name of the person or business from which you lease the property in 30 characters or less.

**2 U.S. or foreign address.** Enter the address of the main office or place of business of the lessor. Enter only a domestic address or a foreign address, not both:

**U.S. street address.** If a domestic address is chosen, enter the street address in 25 characters or less.

**U.S. city.** If a domestic address is chosen, enter the city in 22 characters or less.

**U.S. state.** If a domestic address is chosen, enter the 2-letter mailing code for the state.

**U.S. ZIP code.** If a domestic address is chosen, enter the ZIP code in the xxxxx or xxxxx-xxxx format.

**OR Foreign street address.** If a foreign address is chosen, enter the street address in 25 characters or less.

**foreign city.** If a foreign address is chosen, enter the foreign city in 25 characters or less.

**foreign province/state.** If a foreign address is chosen, enter the foreign province or state in 15 characters or less.

**foreign country.** If a foreign address is chosen, enter the 2-letter code for the country, as shown in Table 2-6 on page 2-22.

**foreign postal code.** If a foreign address is chosen, enter the foreign postal code in 15 characters or less.

**3 Description of property.** Describe the leased property in 30 characters or less.

**4 Amount treated as acquired.** Enter your investment in the leased property. The total of line 4 for all worksheets combined is used for line 4 of the official printed form.

LESSOR WORKSHEET	
1	Name of lessor :
2	U.S. street addr
	U.S. city.....
	U.S. state.....
	U.S. ZIP code.....
	OR Foreign street..
	foreign city..
	foreign province/state..
	foreign country.....
	foreign postal code.....
3	Description of property...:
4	Amount treated as acquired 0

Figure 2-32. Lessor Worksheet

**PART II, QUALIFYING ADVANCED COAL PROJECT CREDIT, QUALIFYING GASIFICATION PROJECT CREDIT, AND QUALIFYING ADVANCED ENERGY PROJECT CREDIT.** This part includes three separate credits, as implied by the compound title. *The credits in this part are subject to reduction by the tentative alternative minimum tax (via Form 3800), and can result in no allowable current-year credit if an alternative minimum tax exists on line 45 of Form 1040. (Credits in Part III are not subject to these limitations.)*

**5 Qualifying advanced coal project credit.** See the IRS Instructions for Form 3468 for details on what qualifies for this credit.

**a Basis of qualified investment in integrated gasification combined cycle property placed in service during the tax year for projects described in section 48A(d)(3)(B)(i).** See IRS instructions for the definition of this category, which first went into effect on August 9, 2005.

x 20% ... **5a. *(auto-calc)*** Computed as 20% of the above entry.

**b Basis of qualified investment in advanced coal-based generation technology property placed in service during the tax year for projects described in section 48A(d)(3)(B)(ii).** See IRS instructions for the definition of this category.

x 15% ... **5b. *(auto-calc)*** Computed as 15% of the above entry.

**c Basis of qualified investment in advanced coal-based generation technology property placed in service during the tax year for projects described in section 48A(d)(3)(B)(iii).** See IRS instructions for the definition of this category.

x 30% ... **5c. *(auto-calc)*** Computed as 15% of the above entry.

**d Total. Add lines 5a, 5b, and 5c. *(auto-calc)*** Computed as indicated.

**6 Qualifying gasification project credit.** See the IRS Instructions for Form 3468 for details on what qualifies for this credit.

**a Basis of qualified investment in qualified gasification property placed in service during the tax year for which credits were allocated or re-allocated after October 3, 2008, and that include equipment that separates and sequesters at least 75% of the project's carbon dioxide emissions.** See IRS instructions for the definition of this category, which first went into effect on October 4, 2008.

x 30% ... **6a. *(auto-calc)*** Computed as 30% of the above entry.

**b Basis of qualified investment in property other than in a above placed in service during the tax year.** This category includes a category that first went into effect on August 9, 2005. See IRS instructions for other details.

x 20% ... **6b. *(auto-calc)*** Computed as 20% of the above entry.

**c Total. Add lines 6a and 6b. *(auto-calc)*** Computed as indicated.

**7 Qualifying gasification project credit.** See the IRS Instructions for Form 3468 for details on what qualifies for this credit.

**Basis of qualified investment in advanced energy project property placed in service during the tax year.** See IRS instructions for details.

x 30%. ***(auto-calc)*** Computed as 30% of the above entry.

**8 Reserved.** *(auto-calc)* Computed as zero because the line is not used this year. It was formerly used for credit for qualifying therapeutic discovery projects, but that credit expired at the end of 2011 and was not reinstated.

**9 Applicable unused investment credit from cooperatives.** Cooperative organizations defined under IRS section 1381(a) must allocate to patrons of the cooperative any investment credit not used by the cooperative because of tax liability limitations. Patrons must enter their allocated share of the unused credit here.

**10 Add lines 5d, 6c, 7, 8, and 9.** *(auto-calc)* Computed as indicated, this is the total credit for Part II of Form 3468, before applying any passive activity or tax liability limitations. This credit is posted to screen 3 of the main Form 3800.

**PART III, REHABILITATION CREDIT AND ENERGY CREDIT.** This part includes the rehabilitation credit that has existed for years for old and historic buildings. It also includes energy credits. *The credits in this part are not reduced by the tentative alternative minimum tax (via Form 3800) like those in Part II.*

**11 Rehabilitation credit.** This credit applies only to certain older buildings. See the IRS instructions for Form 3468 for qualifications and detailed reporting requirements (to be entered in supporting statements). Thanks to tax relief legislation for victims of various storms, multiple credit rates apply. You must separately enter expenditures for qualifying Gulf Opportunity Zone (GO Zone) property and Midwestern disaster area property in the following lines so that higher credit rates are applied -- 30% higher than the normal rates. *(GO Zone property does not include property in the Rita and Wilma disaster areas. Only expenditures in the Katrina disaster area qualify for an increased credit for GO Zone property, and must be incurred after August 27, 2005 and before January 1, 2009. See IRS Pub. 4492 for definitions of GO Zone, Rita GO Zone, and Wilma GO Zone, which makes it clear that the name GO Zone by itself applies only to the Katrina disaster area.)*

**α Electing under sec. 47(d)(5).** You can elect to take your qualified rehabilitation expenditures into account for the tax year in which actually paid (or, for self-rehabilitated property, when capitalized), instead of when the building is placed in service. You must answer Yes here to take the election, but note that the election applies to all later tax years as well, and is not revocable without IRS consent. See IRS section 47(d) for more details.

**b Date on which the 24-month or 60-month measuring period begins.** Enter the beginning date for the 24-month qualifying period within which the rehabilitation expenses or adjusted basis exceed \$5,000. A 60-month period is allowed if a written architectural plan and specifications are completed before the rehabilitation begins. The qualifying period is extended by 12 months (to 36 or 72 months) for property in the GO Zone, Rita GO Zone, and Wilma GO Zone if placed in service and rehabilitation started, but not completed, before the hurricane (as defined by dates in the IRS instructions).

**... and ends.** Enter the ending date for the qualifying period here.

**c Adjusted basis of building at beginning date** Enter the adjusted basis on the indicated date, or, if later, the first day of the holding period.

**d Qualified rehabilitation expenditures incurred in the period on line 11b.** Enter the amount incurred during the qualifying period.

**Pre-1936 buildings:**

**e Pre-1936 buildings located in the Gulf Opportunity Zone.** For buildings placed in service before 1936 and located in the GO Zone, enter qualified expenditures here. Do not include certified historic structures, even if in service before 1936, because they qualify for a higher credit at line 1h, below. *Only amounts paid or incurred before 2012 qualify.* (This line does not apply to the Rita GO Zone nor the Wilma GO Zone.)

**x 13% (.13).** *(auto-calc)* Computed as 13% of the preceding entry, this is the credit for pre-1936 buildings in the GO Zone.

**f Pre-1936 buildings affected by a Midwestern disaster.** For buildings placed in service before 1936, located in an eligible county in the Midwestern disaster area, and affected by one of the storms for which the disaster area was declared, enter qualified expenditures here if paid or incurred on or after the disaster date. Midwestern disaster areas were declared from May 20 through July 31, 2008 in 10 states. However, only expenditures in certain counties in 7 of these states are eligible for inclusion here, as listed in Table 1 of IRS Pub. 4492-B (*Information for Affected Taxpayers in the Midwestern Disaster Area*). Do not include certified historic structures, even if in service before 1936, because they qualify for a higher credit at line 1i, below. *Only amounts paid or incurred before 2012 qualify.*

**x 13% (.13).** *(auto-calc)* Computed as 13% of the preceding entry, this is the credit for pre-1936 buildings in the Midwestern disaster area.

**g Other pre-1936 buildings.** For buildings placed in service before 1936 and neither located in the GO Zone nor affected by Midwestern disaster, enter qualified expenditures here. Do not include certified historic structures, even if in service before 1936, because they qualify for a higher credit at line 1h, below. (*Include expenditures in the Rita GO Zone and the Wilma GO Zone on this line.*)

**x 10% (.10).** *(auto-calc)* Computed as 10% of the preceding entry, this is the normal credit for pre-1936 buildings.

**Certified historic buildings:**

**Certification on file?** Answer Yes if you have received certification of completed rehabilitation work for a certified historic structure. You must apply for this certification with the National Park Service (NPS), which will assign a project number once approved. (See IRS instructions for requirements to be considered a certified historic structure and circumstances under which you can claim the credit before receiving certification.)

**h Certified historic structures in the Gulf Opportunity Zone.** For certified historic buildings located in the GO Zone, enter qualified expenditures here. *Only amounts paid or incurred before 2012 qualify.* (This line does not apply to the Rita GO Zone nor the Wilma GO Zone.)

- x 26% (.26).** *(auto-calc)* Computed as 26% of the preceding entry, this is the credit for certified historic structures in the GO Zone.
- i Certified historic structures affected by a Midwestern disaster.** For certified historic buildings located in the Midwestern disaster area and affected by a storm for which the area was declared, enter qualified expenditures here. *Only amounts paid or incurred before 2012 qualify. See our details for line 11f for other restrictions.*
- x 26% (.26).** *(auto-calc)* Computed as 26% of the preceding entry, this is the credit for certified historic structures affected by a Midwestern disaster.
- j Other certified historic structures.** For certified historic buildings neither located in the GO Zone nor affected by Midwestern disaster, enter qualified expenditures here. *(Include expenditures in the Rita GO Zone and the Wilma GO Zone on this line.)*
- x 20% (.20).** *(auto-calc)* Computed as 20% of the preceding entry, this is the normal credit for certified historic structures.
- k Are amounts on lines 11h through 11j from a pass-through entity?** Answer Yes here only if you do not own the property (and do not elect to be treated as the owner), but the credit is passed through to you from a pass-through entity (partnership, S corporation, etc.). If you are claiming credit reported to you from a pass-through entity (other than an electing large partnership), you are not required to supply information on the National Park Service (NPS) certification.
- Pass-through entity's EIN.** If you answered Yes above, enter the EIN of the entity here in the standard xx-xxxxxxx format, and skip the next two entries.
- NPS project number.** If you answered No above, enter the project number assigned by the National Park Service (NPS) on this line and the date approved on the next line.
- l Date NPS approved Request for Certification of Completed Work.** Enter the date of final certification of completed work received from the Secretary of the Interior. If not received by the time this tax return is filed, see the IRS Instructions for Form 3468 for the evidence to attach to the return. *If credit was claimed for this project in prior years before certification of completed work was received, itemize this line using the F10 key and supply an explanation, including the amount of credit claim in prior years.*
- From Schedule K-1 (Form 1065-B), box 9:**
- m Rehabilitation credit from an electing large partnership.** Enter the amount in box 9 of Schedule K-1 (Form 1065-B) that you received from an electing large partnership. (Form 1065-B is used in place of Form 1065 when a partnership elects it because of the simplified reporting allowed.)

**12 Energy credit.** Credits for a number of separate types of property are reported here. See *IRS 2014 Instructions for Form 3468* for detailed requirements for each of these credits.

**a Basis of property using geothermal energy placed in service during the tax year.** See IRS instructions for the definition of this property, which was introduced for tax year 2006.

x 10% ... **12a.** *(auto-calc)* Computed as 10% of the above entry.

**b Basis of property using solar illumination or solar energy placed in service during the tax year.** See IRS instructions for the definition of this property, which was introduced for tax year 2006.

x 30% ... **12b.** *(auto-calc)* Computed as 30% of the above entry.

**Qualified fuel cell property:**

**c Basis of property placed in service during the tax year that was acquired after December 31, 2005, and before October 4, 2008.** See IRS instructions for the definition of fuel cell property.

x 30% ... **12c.** *(auto-calc)* Computed as 30% of the above entry.

**d Kilowatt capacity of property in c above.** The fuel cell power plant must generate at least 0.5 kilowatt of electricity.

x \$1,000 ... **12d.** *(auto-calc)* Computed as 1,000 times the above entry.

**e Lesser of line 12c or 12d.** *(auto-calc)* Computed as indicated.

**f Basis of property placed in service during the tax year that was acquired after October 3, 2008.** See IRS instructions for the definition of fuel cell property.

x 30% ... **12f.** *(auto-calc)* Computed as 30% of the above entry.

**g Kilowatt capacity of property in c above.** The fuel cell power plant must generate at least 0.5 kilowatt of electricity.

x \$3,000 ... **12g.** *(auto-calc)* Computed as 3,000 times the above entry.

**h Lesser of line 12f or 12g.** *(auto-calc)* Computed as indicated.

**Qualified microturbine property:**

**i Basis of property placed in service during the tax year that was acquired after December 31, 2005.** See IRS instructions for the definition of microturbine property, which was new for tax year 2006.

x 10% ... **12i.** *(auto-calc)* Computed as 10% of the above entry.

**j Kilowatt capacity of property in i above.** The microturbine power plant must generate less than 2,000 kilowatts of electricity.

x \$200 ... **12j.** *(auto-calc)* Computed as 200 times the above entry.

**k Lesser of line 12i or 12j.** *(auto-calc)* Computed as indicated.

**Combined heat and power system property:**

**l Basis of property placed in service during the tax year that was acquired after October 3, 2008.** See IRS instructions for the definition of this new class of property.

x 10% ... **12l.** *(auto-calc)* Computed as 10% of the above entry.

**m Electrical capacity of the property measured in (choose one).** You can specify the capacity of the system in either megawatts or horsepower:

**Megawatts.** If you enter megawatts, include the decimal part. The property is not qualified if it has a capacity larger than 50

megawatts, so the "Multiplier for line 12m," below, and the result for line 12n will be zero if you enter a number larger than 50.

**Horsepower.** You can make an entry here only if you made no entry for megawatt capacity. The property is not qualified if it has a capacity larger than 67,000 horsepower, so the "Multiplier for line 12m," below, and the result for line 12k will be zero if you enter a number larger than 50.

**Multiplier for line 12m.** *(auto-calc)* If you entered capacity in megawatts, normally computed as 15 divided by "Megawatts" (but no more than 1), but zero if "Megawatts" exceeds 50. If you entered capacity in horsepower, normally computed as 20,000 divided by "Horsepower" (but no more than 1), but zero if "Horsepower" exceeds 67,000.

**n Multiply line 12l by line 12m.** *(auto-calc)* Computed as indicated.

**Qualified small wind energy property:**

**o Basis of property placed in service during the tax year that was acquired after October 3, 2008, and before January 1, 2009.** See IRS instructions for the definition of small wind energy property. For this line the property must have been installed within the period from October 3, 2008 through December 31, 2008. Property installed thereafter is claimed on line 12q, not here.

**x 30% ... 12o.** *(auto-calc)* Computed as 30% of the above entry.

**p Smaller of line 12o or \$4,000.** *(auto-calc)* Computed as indicated.

**q Basis of property placed in service during the tax year that was acquired after December 31, 2008.** For this line the property must have been installed after 2008 but within the tax year.

**x 30% ... 12q.** *(auto-calc)* Computed as 30% of the above entry.

**Geothermal heat pump property:**

**r Basis of property placed in service during the tax year that was acquired after October 3, 2008.** See IRS instructions for the definition of geothermal heat pump property.

**x 10% ... 12r.** *(auto-calc)* Computed as 10% of the above entry.

**Qualified investment credit facility property:**

**s Basis of property placed in service during the tax year.** See IRS instructions for the definition of investment credit property.

**x 30% ... 12s.** *(auto-calc)* Computed as 30% of the above entry.

**13 Applicable unused investment credit from cooperatives.** Cooperative organizations defined under IRS section 1381(a) must allocate to patrons of the cooperative any investment credit not used by the cooperative because of tax liability limitations. Patrons must enter their allocated share of the unused credit here.

**14 Add lines 11e through 11j, 11m, 12a, 12b, 12e, 12h, 12k, 12n, 12p, 12q, 12r, 12s, and 13.** *(auto-calc)* Computed as indicated, this is the total of credits in Part III before applying any passive activity or tax liability limitations. This credit is posted to screen 4 of the main Form 3800.

**SUMMARY OF PARTS II AND III.** *(This summary applies only to Form 1040 returns. For Form 1065 returns, see the separate Partnership Tax Forms Guide 2014.)* The final destination of results from Form 3468 is summarized here.

**Credit for Form 3800, line 1a.** *(auto-calc)* Taken as the amount on line 10 of Form 3468, this amount is subject to the most severe tax limitations on Form 3800. In fact, no current-year credit will be allowed if there is an alternative minimum tax on line 45 of Form 1040.

**Credit for Form 3800, line 4a.** *(auto-calc)* Taken as the amount on line 14 of Form 3468, this amount is subject to less severe tax limitations on Form 3800.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return, but is provided for private notes or reminders.

## Form 3800 / General Business Credit

**Purpose.** Form 3800 consolidates certain business credits onto one form in order to integrate the limitations on those credits. In fact, even though you prepare a form designed for a particular business credit, the credit is not reflected on Form 1040 until it is reported on Form 3800. Form 3800 is therefore required (in addition to the form designed for the credit) to claim any of the credits listed in Part III of Form 3800 (which is page 3 of the 2014 Form 3800), or to claim any carryback or carryforward of any of these or most other general business credits. Fortunately, *Form 3800 is created for you by the software whenever you prepare a credit form to which it applies, and is completed for you as a general business credit from a non-passive activity*. (You can change the category through additional entries on Form 3800 when this category does not apply.) *Form 3800 is accessible through the Road Map at line 54a of Form 1040*.

**IRS design changes how you use Form 3800.** For tax years prior to 2011, you rarely had to make an entry on Form 3800 because it merely summarized information on other forms. However, the IRS totally redesigned Form 3800 for 2011 in order to collect more details on the credits claimed. As a result, there is now a great deal of information you must enter on Form 3800 if your credit is special in any way because Form 3800 depends on information not obvious from the forms that support it. You must now report credits on separate copies of Form 3800, Part III, depending on the character of the credit. The IRS provides 8 categories to classify the credit (3 of which are no longer used), and each copy of Form 3800, Part III, can only be used for a single category. In addition, there can be multiple copies for some categories, conceivably resulting in many more copies of Form 3800, Part III, than there are categories. And the IRS also reserves a copy as a consolidated copy, required to summarize credits for two of the categories.

**Software fully automates the most common case.** Even though the IRS has greatly complicated Form 3800 by the new design, *Tax Preparer* fully automates the reporting for the most common category: *general business credit from a non-passive activity*. When you complete a form that must pass its results through Form 3800 before it can be reflected on Form 1040, the software automatically creates Form 3800, including the copy of Form 3800, Part III, reserved for *general business credit from a non-passive activity*, posts the results of the form on the proper lines of Form 3800, and computes and posts the credit to Form 1040. You do not even have to view Form 3800 for this case. However, if you have any credit that falls under any of the following categories, you will have to make manual entries on Form 3800, including, in some cases, additional copies of Form 3800, Part III:

- **You have any credit from pass-through entities, such as partnerships, estates, and trusts.** You must now enter the EIN (employer identification number) of the entity on the copy of Form 3800, Part III, used to report the credit, using multiple copies of Form 3800, Part III, when more than one partnership applies to a particular credit.

- **You have any credit from a passive activity.** You must report the credit (before passive activity limitations) on the copy of Form 3800, Part III, reserved for passive activities, and include the allowed amount (usually from Form 8582-CR, not built into the software) in Part I or II of Form 3800, whichever applies. *If the credit is from a business credit form built into the Premium Level (Forms 3468, 6765, 8586, 8910, 8936, 5884, 6478, 8586, 8846, and 8941), you must also enter on screen 3 or 4 of Form 3800 the amount of credit to which the passive activity rules apply, so that the credit is not posted to the copy of Form 3800, Part III that is reserved for the “general business credit from a non-passive activity.”*
- **You have any credit carryforwards or carrybacks from other years.** You must report a carryforward on a copy of Form 3800, Part III, reserved for carryforwards, and report a carryback on a copy of Form 3800, Part III, reserved for carrybacks. (If the carryforward is from an ESBC, you must use the copy reserved for ESBC carryforwards.)

In addition, if you have credit from both passive and non-passive activities, you must manually also prepare a consolidated Form 3800, Part III, that combines the amounts on one form (in addition to the required separate copies).

**Form 3800 is mandatory.** You must always use Form 3800 whenever you have any of the credits listed in Part III of Form 3800. *You cannot deduct any of these credits on Form 1040 without Form 3800.* You must also use Form 3800 to claim any carryback or carryforward of any of these credits (or other general business credits that appeared on Form 3800 for any other year).

**Rules for carryforwards and carrybacks.** The rules for carryback and carryforward of unused credits allow you to carry back unused credits only 1 year, to the prior-year return (except for ESBCs). For ESBCs, you can carry back unused credits up to 5 years. After using the carryback, you can carry forward any remaining credits for 20 years. However, if there has been a change in the marital status since the year of the credit, you may need to refigure the credit as detailed in the IRS instructions for Form 3800.

**CATEGORIES.** The IRS requires that you separate all business credits into their predefined categories, below, and that you prepare at least one separate Form 3800, Part III (page 3 of Form 3800) for each category that applies to you. A knowledge of the categories is therefore essential.

**Eligible Small Business Credit (ESBC) expired.** The special treatment for eligible small businesses has expired, and only carryforwards of its credit can now be claimed. For the purposes of this form, an eligible small business was a business with average annual receipts of no more than \$50 million over a 3-year period that preceded the tax year of the credit claim. This test applied to corporations, partnerships, and individuals (sole proprietors). Furthermore, in order for claims passed through to partners to qualify for the favorable treatment, *both* the partner and the partnership had to pass the average annual receipts test. For ESBCs, carryovers could be carried back 5 years instead of the usual one, and could offset both the regular tax and the alternative minimum tax. However, since the credit has expired, only carryforwards are now possible.

Eight IRS-defined categories are indicated by the letters A through H, and are separated into two groups of four categories each, four for **General Business Credit (GBC)** and, originally, four for **Eligible Small Business Credit (ESBC)**:

**A – GBC from a non-passive activity.** This is the category that applies to most credits for most taxpayers, and is the one that is assumed by the software to fully automate Form 3800. *You will have to make entries on Form 3800 yourself only for credits that do not fall into this category, or credits in this category that originate from a pass-through entity (such as a partnership) or from a form not supported by the Premium Level software.* If any of these exceptional cases apply to you, you will have to make entries on screens 3 and 4 of Form 3800 (detailed next) and specific copies of Form 3800, Part III. *Copy 2 of Form 3800, Part III is reserved for this category, and is the copy you will generally use for this category.* You can use copy 10 of Form 3800, Part III (the unattached copy) if you need to report amounts in this category from more than one pass-through entity for a particular credit.

**B – GBC from a passive activity.** If the passive activity rules apply to your credit, you must not only make entries on screens 3 and 4 of Form 3800, and the applicable copy of Form 3800, Part III, but must also generally prepare a Form 8582-CR (*Passive Activity Credit Limitations*, not built into the software) to determine the amount to enter on line 3 of Form 3800, Part I, or line 33 of Form 3800, Part II, depending on whether the credit is listed on line 1 or line 4 of Form 3800, Part III, respectively. *Until you make an entry on line 3 or 33, no passive activity credits from this category will flow to Form 1040, where the credits are deducted from your tax. Copy 3 of Form 3800, Part III is reserved for this category, and is the copy you will generally use for this category.* You can use copy 10 of Form 3800, Part III

(the unattached copy) if you need to report amounts in this category from more than one pass-through entity for a particular credit.

- C – GBC credit carryforwards.** Any general business credit not used in the past because of tax liability limitations falls into this category after it has been carried back one year. You will enter the carryforward on the applicable copy of Form 3800, Part III. In addition, since the carryforward is no longer computed on the IRS form designed for the credit, you must attach a schedule describing your computation of the carryforward to claim this year in a supporting statement for line 4 of Form 3800, Part I, or line 34 of Form 3800, Part II, depending on whether the credit is listed on line 1 or line 4 of Form 3800, Part III, respectively. Copy 4 of Form 3800, Part III is reserved for this category, and is the copy you will always use for this category.
- D – GBC credit carrybacks.** This category applies only to amended returns for 2014 (using Form 1040X), for credits you claim for tax year 2015 that are limited by tax liability. As a result, you cannot use this category until 2016, after you file your tax return for 2015. The unused credit will then be entered on the applicable copy of Form 3800, Part III. Copy 5 of Form 3800, Part III is reserved for this category, and is the copy you will always use for this category.
- E – Reserved.** This category was originally designed for ESBCs from non-passive activities. However, because the ESBC has expired, this category is no longer available.
- F – Reserved.** This category was originally designed for ESBCs from passive activities. However, because the ESBC has expired, this category is no longer available.
- G – ESBC credit carryforwards.** Any eligible small business credit not used in the past because of tax liability limitations falls into this category after it has been carried back five years. You will enter the carryforward on the applicable copy of Form 3800, Part III. In addition, since the carryforward is no longer computed on the IRS form designed for the credit, you must attach a schedule describing your computation of the carryforward to claim this year in a supporting statement for line 34 of Form 3800, Part II. Copy 8 of Form 3800, Part III is reserved for this category, and is the copy you will always use for this category.
- H – Reserved.** This category was originally designed for ESBCs carrybacks. However, because the ESBC has expired, this category is no longer available.

When you are required to complete more than one Form 3800, Part III, for credits in categories A or B, you are additionally required to complete a separate copy of Form 3800, Part III, that shows the sum of amounts from all copies from both categories combined. Although not really a category, the copy of Form 3800, Part III, on which these sums are entered is identified by the letter I:

- I – Consolidated Part III.** This category applies only when you are filing more than one Part III that uses the category A or B. Copy 1 of Form 3800, Part III is reserved for this category, and is the copy you will

*always use for this category.* You must manually complete this copy of Part III when required, but no amounts are posted from this copy to Form 3800, Parts I and II, because it is only an informational form to satisfy IRS reporting requirements. *(The IRS rules for e-file require that this copy of Part III be the first copy of Part III when it is required. That is why copy 1 of Form 3800, page 3, is used for this category rather than copy 9, even though the letter I follows the other 8 letters and this copy cannot be completed until copies 2 and 3 are complete.)*

In addition to the 9 copies of Form 3800, Part III, defined above, the software provides a 10<sup>th</sup> copy that is unattached to the return. You can use it to enter data for any additional copy of Part III that you must complete for category A, B, E, or F. However, it is not integrated with the return and *its use prevents you from e-filing the return.*

**CREDIT FROM BUILT-IN FORMS (screens 3 and 4 of Form 3800).** As an aid to the automation of Form 3800, credits from business credit forms that are built into the software for the Premium Level are reported in this section of the on-screen Form 3800. *If you are using software for the Economy Level or the Standard Level, you must manually enter here any amounts from any forms not built into your level.* Screen 3 is used for credits that are reported on line 1 of Form 3800, Part III, and screen 4 is used for credits that are reported on line 4 of Form 3800, Part III.

**Credits for Part III, lines 1a through 1zz (screen 3 of Form 3800).** Credits in this section are *not* allowed against Tentative Minimum Tax.

**Investment credit in Form 3468, Part II only.** *(Road Map line, supported by Form 3468.)* Taken from line 10 of Form 3468, this is the investment credit only for qualifying advanced coal, gasification, advanced energy projects. *Other energy credits and rehabilitation credits (in Part III of Form 3468) are shown in the section for line 4 of Form 3800, Part III, not here.*

**Part NOT category A.** If any amount on the preceding line does *not* qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 1a of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Increasing research credit on Form 6765.** *(If Premium Level, Road Map line supported by Form 6765.)* The result on line 38 of Form 6765 is reported here. *You must have taxable income from the activity to which the research relates in order to claim any credit for the current year, as explained in the following box.*

**Special treatment for research credit carryovers.** Because research credit carryovers are subject to the same special limitations to attributable tax as current-year research credits, both carryforward and carryback of research credits are treated as current-year credits instead of carryovers after the limitations are applied. The amount for copy 2 of Form 3800, Part III, is therefore increased in accordance with the following computations.

**Research credit carryforward.** Carryforward of prior research credit is entered here, separately from all other carryforwards (which are reported at line 4 of Form 3800, Part I), so that it can be limited to the associated tax liability, as required by law, as explained below.

**Research credit carryback.** Carryback of research credit from 2015 or later is entered here, separately from all other carrybacks for this section (which are reported at line 5 of Form 3800, Part I), so that it can be limited to the associated tax liability, as required by law, as explained below. *TIP: Your entry will be zeroed if you have not created a Form 1040X (Amended Income Tax Return) for the return, since this line applies only to carrybacks from returns filed for 2015 or later.*

**Taxable income attributable to the claim from Form 6765.** *(If Premium Level, Road Map line supported by Form 6765.) For Premium Level software, the taxable income identified on Form 6765 as taxable income for the activity (including the amount from pass-through entities) appears here automatically. For Economy and Standard Level software, you must enter here the taxable income attributable to the business for which the increasing research credit is claimed (e.g., line 31 of the copy of Schedule C for that business). The software uses this entry to limit research credits to the tax attributable to the business from which they stem, as required by law. However, if there is more than one business for which you are claiming the credit, you may have to override the computed result for Part III, below, based on a separate computation for each separate business enterprise.*

**Total taxable income (Form 1040, line 43).** *(auto-calc)* Taken from Form 1040 as indicated, this is the Taxable Income on Form 1040.

**Increasing research credit for Part III.** *(auto-calc)* Computed as the lesser of (a) the sum of "Research credit from Form 6765," "Research credit carryforward," and "Research credit carryback" or (b) the maximum research credit allowed (described next). *The maximum research credit allowed for the year is computed as the net tax on line 11 of this form times the ratio of "Taxable income attributable line (but no less than zero and no more than one).* However, if different research credits stem from different businesses, you may need to override this line as noted above. If the result is less than the sum of research credits entered, the credit has been limited by its associated tax liability, and the remainder is a Section 41(g) carryover.

**Part NOT category A.** If any amount on the preceding line does *not* qualify as a category A credit (GBC from a non-passive activity), you

must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 1c of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Low-income housing credit in Form 8586, Part I only.** (*If Premium Level, Road Map line supported by Form 8586.*) The result on line 5 of Form 8586 (for buildings placed in service *before 2008*) is reported here. *The credit for buildings placed in service in 2008 or later is shown in the section for line 4 of Form 3800, Part III, not here.*

**Part NOT category A.** If any amount on the preceding line does *not* qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 1d of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Alternative motor vehicle credit on Form 8910.** (*If Standard or Premium Level, Road Map line supported by Form 8910.*) Only the amount on line 9 of Form 8910, which is the business part of the credit, is reported here. (The personal part of the credit, on line 15 of Form 8910, is reported at line 54c of Form 1040, not here.)

**Part NOT category A.** If any amount on the preceding line does *not* qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 1r of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Qualified plug-in electric drive motor vehicle credit on Form 8936.** (*If Premium Level, Road Map line supported by Form 8936.*) The business use part of this credit is reported here, from line 14 of Form 8936. (The personal part of the credit, on line 22 of Form 8936, is reported at line 54c of Form 1040, not here.)

**Part NOT category A.** If any amount on the preceding line does *not* qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 1y of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Credits for Part III, lines 1a through 1zz** (screen 4 of Form 3800). Credits in this section are allowed against Tentative Minimum Tax.

**Investment credit in Form 3468, Part III, line 20.** (*Road Map line supported by Form 3468.*) Taken from line 14 of Form 3468, this is the investment credit from Part III of Form 3468. *The investment credit from Part II is shown in the previous section for line 1 of Form 3800, Part III, not here.*

**Part NOT category A.** If any amount on the preceding line does not qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 4a of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Work opportunity credit on Form 5884.** (*If Premium Level, Road Map line supported by Form 5884.*) Form 5884 (Work Opportunity Credit) provides a credit for employers who hire people from certain targeted groups. First-year wages (and second-year wages for welfare recipients) generally qualify. The result on line 4 of Form 5884 is reported here.

**Part NOT category A.** If any amount on the preceding line does not qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 4b of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Biofuel producer credit on Form 6478.** (*If Premium Level, Road Map line supported by Form 6478.*) Form 6478 provides a credit for the producer of second-generation biofuel. The credit is \$1.01 per gallon. The result on line 4 of Form 6478 is reported here.

**Part NOT category A.** If any amount on the preceding line does not qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 4c of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Low-income housing credit in Form 8586, Part II.** (*If Premium Level, Road Map line supported by Form 8586.*) The result on line 14 of Form 8586 (for property placed in service after 2007) is reported here. *The credit for buildings placed in service before 2008 is shown in the previous section for line 1 of Form 3800, Part III, not here.*

**Part NOT category A.** If any amount on the preceding line does not qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 4d of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Employer taxes on certain tips credit on Form 8846.** (*If Premium Level, Road Map line supported by Form 8846.*) Form 8846 provides a

credit for employer social security and Medicare taxes paid on certain employee tips. The result on line 6 of Form 8846 is reported here.

**Part NOT category A.** If any amount on the preceding line does not qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 4f of copy 2 of Form 3800, Part III, which is automatically created for you.*

**Small employer health insurance premiums credit on Form 8941.** (*If Standard or Premium Level, Road Map line supported by Form 8941.*) Form 8941 provides a credit for health insurance premiums paid on behalf of employees. The result on line 16 of Form 8941 is reported here.

**Part NOT category A.** If any amount on the preceding line does not qualify as a category A credit (GBC from a non-passive activity), you must enter the amount here. *The amount remaining after your entry here is subtracted from the amount on the preceding line is posted to line 4h of copy 2 of Form 3800, Part III, which is automatically created for you.*

**ACCESS TO FORM 3800, PART III.** Because Part III, and only Part III, of Form 3800 can have more than one copy, it is treated as a separate form in the software. The copy reserved for category A credits is completed for you for the credits listed on screens 3 and 4 of Form 3800. However, you will need to access an appropriate copy of Form 3800, Part III, if (a) you have to enter any EINs for pass-through entities, (b) you have credit from forms not shown on screen 3 or 4 of Form 3800, or (c) you have a credit that does not qualify as a category A credit.

**ITEMIZE HERE for Form 3800, Part III.** (*Road Map line, supported by Form 3800, Part III.*) 10 copies of Form 3800, Part III are built into the software,, but only 7 are accesible for 2014. Copy 1 is a special consolidated copy, copies 2 through 9 are designed for categories A through H, and copy 10 is an unattached copy. Copy 2 (for category A) is automatically created and completed upon the final recalculation of the return if you have any credits shown on screen 3 or 4 of Form 3800 for Category A. All other copies are created only when you access them, either at this line or one of the Road Map lines in Parts I and II of Form 3800.

**PART I, CURRENT YEAR CREDIT FOR CREDITS NOT ALLOWED AGAINST TENTATIVE MINIMUM TAX (TMT).** Credits reported on lines 1a through 1zz of Form 3800, Part III, are summarized here. All amounts come automatically from the copies of Form 3800, Part III, that you prepare and the automatically-created and completed copy 2 for forms with amounts on screens 3 and 4 of Form 3800. However, you must explain how you figured any carryforwards in a supporting statement below line 4, below.

- 1 General business credit from line 2 of all Parts III with box A checked.** *(Road Map line, supported by Form 3800, Part III.)* Taken from line 2 of copy 2 of Form 3800, Part III, this is the current-year general business credit from non-passive activities.
- 2 General business credit from line 2 of all Parts III with box B checked.** *(Road Map line, supported by Form 3800, Part III.)* Taken from line 2 of copy 3 of Form 3800, Part III, this is the current-year general business credit from passive activities.
- 3 Passive activity credits allowed for 2014.** You must generally complete Form 8582-CR (not built into the software) in order to figure the amount to enter here. *Enter only the part of allowed credits associated with the credits on line 2, above.*
- 4 Carryforward of general business credit to 2014 from line 2 of all Parts III with box C checked.** *(Road Map line, supported by Form 3800, Part III.)* Taken from line 2 of copy 4 of Form 3800, Part III, this is the carryforward of unused general business credit from prior years.  
**ITEMIZE details for lines 4 and 5.** *(Supported by the Carryforward/Carryback Worksheet, Figure 2-33a through 2-33d.)* Because the credit forms do not include computations of carryovers, you must figure the amounts to enter on copy 4 of Form 3800, Part III, yourself. The IRS requires you to explain your computation by stating the amount claimed this year separately for each carryback year and each carryforward year, as shown on the supporting worksheet.
- 5 Carryback of general business credit from 2015.** *(Road Map line, supported by Form 3800, Part III.)* Taken from line 2 of copy 5 of Form 3800, Part III, this is the carryback of unused general business credit from tax year 2015. This line therefore applies only to amended returns prepared in 2016 or later, so no entry will appear here unless you have created a Form 1040X (*Amended Income Tax Return*) for the return. *Use the worksheet for the preceding line to explain the amount appearing here.*
- 6 Add lines 1, 3, 4, and 5.** *(auto-calc)* Computed as indicated, this amount is subjected to tax liability limitations on lines 7 through 17 in Part II of Form 3800.

**Carryforward/Carryback Worksheet.** (Figure 2-33a through 33d) Use a separate worksheet for each original credit leading to an amount on line 4 or 5.

**a. Identify credit.**

Enter the type of credit in 25 characters or less, such as ITC credit, alcohol, credit, etc.

**b. Tax year credit originated.**

Enter, in a 4-digit entry, the tax year when the credit was originally claimed but not fully deducted.

**c. Credit amount.**

Enter the amount of the original credit before limitation of amount deducted that year.

**d. Credit allowed that year.**

Enter the amount actually deductible for the original year.

**Credit carrybacks:**

**e. 1st carryback year.**

Enter, in a 4-digit entry, the first year to which the unallowed credit was carried back.

**f. Credit allowed that year.**

Enter the amount actually deductible for the year in line e.

**g. 2nd carryback year.**

Enter, in a 4-digit entry, the second year to which the unallowed credit was carried back.

**h. Credit allowed that year.**

Enter the amount actually deductible for the year in line g.

**i. 3rd carryback year.**

Enter, in a 4-digit entry, the third year to which the unallowed credit was carried back.

**j. Credit allowed that year.**

Enter the amount actually deductible for the year in line i.

**k. 4th carryback year.**

Enter, in a 4-digit entry, the fourth year to which the unallowed credit was carried back.

**l. Credit allowed that year.**

Enter the amount actually deductible for the year in line k.

**m. 5th carryback year.**

Enter, in a 4-digit entry, the fifth year to which the unallowed credit was carried back.

**n. Credit allowed that year.**

Enter the amount actually deductible for the year in line m.

CARRYFWD/CARRYBK WORKSHEET	
a. Identify credit.	
b. Tax year credit originated	0
c. Credit amount.....	00
d. Credit allowed that year..	00
<b>Credit carrybacks:</b>	
e. 1st carryback year.....	00
f. Credit allowed that year..	00
g. 2nd carryback year.....	00
h. Credit allowed that year..	00
i. 3rd carryback year.....	00
j. Credit allowed that year..	00
k. 4th carryback year.....	00
l. Credit allowed that year..	00
m. 5th carryback year.....	00
n. Credit allowed that year..	00
ESBCs qualify for 5-yr carryback. All others, only 1-year.	
Carryforwards on next scrn	

Figure 2-33a. Carryforward/Carryback Worksheet, Screen 1

**Credit carryforwards:** All types of credit are eligible for 20 years of credit carryforward. However, *only 13 years are supported by the software for e-file. Therefore, if you have more than 13 carryforward years, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

<b>Credit carryforwards:</b>	
o. 1st carryforward year.....	0
p. Credit allowed that year..	0
q. 2nd carryforward year.....	0
r. Credit allowed that year..	0
s. 3rd carryforward year.....	0
t. Credit allowed that year..	0
u. 4th carryforward year.....	0
v. Credit allowed that year..	0
w. 5th carryforward year.....	0
x. Credit allowed that year..	0
y. 6th carryforward year.....	0
z. Credit allowed that year..	0
aa. 7th carryforward year.....	0
ab. Credit allowed that year..	0
ac. 8th carryforward year.....	0
ad. Credit allowed that year..	0
ae. 9th carryforward year.....	0
af. Credit allowed that year..	0
More carryfws on nxt scrn	

Figure 2-33b. Carryforward/Carryback Worksheet, Screen 2

**o. 1st carryforward year.** Enter, in a 4-digit entry, the first year to which the unallowed credit was carried forward.

**p. Credit allowed that year.** Enter the amount actually deductible for the year in line o.

**q. 2nd carryforward year.** Enter, in a 4-digit entry, the sec-

ond year to which the unallowed credit was carried forward.

- r. Credit allowed that year.** Enter the amount actually deductible for the year in line q.
- s. 3rd carryforward year.** Enter, in a 4-digit entry, the third year to which the unallowed credit was carried forward.
- t. Credit allowed that year.** Enter the amount actually deductible for the year in line s.
- u. 4th carryforward year.** Enter, in a 4-digit entry, the fourth year to which the unallowed credit was carried forward.
- v. Credit allowed that year.** Enter the amount actually deductible for the year in line u.
- w. 5th carryforward year.** Enter, in a 4-digit entry, the fifth year to which the unallowed credit was carried forward.
- x. Credit allowed that year.** Enter the amount actually deductible for the year in line w.
- y. 6th carryforward year.** Enter, in a 4-digit entry, the sixth year to which the unallowed credit was carried forward.
- z. Credit allowed that year.** Enter the amount actually deductible for the year in line y.
- aa. 7th carryforward year.** Enter, in a 4-digit entry, the seventh year to which the unallowed credit was carried forward.
- ab. Credit allowed that year.** Enter the amount actually deductible for the year in line y.

- ac. 8th carryforward year.** Enter, in a 4-digit entry, the eighth year to which the unallowed credit was carried forward.
- ad. Credit allowed that year.** Enter the amount actually deductible for the year in line y.
- ae. 9th carryforward year.** Enter, in a 4-digit entry, the ninth year to which the unallowed credit was carried forward.
- af. Credit allowed that year.** Enter the amount actually deductible for the year in line ae.
- ag. 10th carryforward year.** Enter, in a 4-digit entry, the tenth year to which the unallowed credit was carried forward.
- ah. Credit allowed that year.** Enter the amount actually deductible for the year in line ag.

**ai. 11th carryforward year.** Enter, in a 4-digit entry, the eleventh year to which the unallowed credit was carried forward.

**aj. Credit allowed that year.** Enter the amount actually deductible for the year in line ai.

**ak. 12th carryforward year.** Enter, in a 4-digit entry, the twelfth year to which the unallowed credit was carried forward.

- al. Credit allowed that year.** Enter the amount actually deductible for the year in line ak.
- am. 13th carryforward year.** Enter, in a 4-digit entry, the thirteenth year to which the unallowed credit was carried forward.
- an. Credit allowed that year.** Enter the amount actually deductible for the year in line am.

**e-file limitation:** Although business credits qualify for a 20-year carryforward, *the software supports only 13 for e-file. As a result, if you have entries for any of the following lines, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

- ao. 14th carryforward year.** Enter, in a 4-digit entry, the fourteenth year to which the unallowed credit was carried forward.
- ap. Credit allowed that year.** Enter the amount actually deductible for the year in line ao.

Credit carryforwards cntd:		
ag	10th carryforward year....	0
ah	Credit allowed that year..	0
ai	11th carryforward year....	0
aj	Credit allowed that year..	0
ak	12th carryforward year....	0
al	Credit allowed that year..	0
am	13th carryforward year....	0
an	Credit allowed that year..	0
All qualify for 20-yr carryfwd but the software supports only 13 for e-file. So... remaining entries are for paper returns.		
ao	14th carryforward year....	0
ap	Credit allowed that year..	0
aq	15th carryforward year....	0
ar	Credit allowed that year..	0
as	16th carryforward year....	0
at	Credit allowed that year..	0
More carryfws on nxt scrn		

Figure 2-33c. Carryforward/Carryback Worksheet, Screen 3

- aq. 15th carryforward year.** Enter, in a 4-digit entry, the fifteenth year to which the unallowed credit was carried forward.
- ar. Credit allowed that year.** Enter the amount actually deductible for the year in line aq.
- as. 16th carryforward year.** Enter, in a 4-digit entry, the sixteenth year to which the unallowed credit was carried forward.
- at. Credit allowed that year.** Enter the amount actually deductible for the year in line as.
- au. 17th carryforward year.** Enter, in a 4-digit entry, the seventeenth year to which the unallowed credit was carried forward.
- av. Credit allowed that year.** Enter the amount actually deductible for the year in line au.

Credit carryforwards cntd:	
au. 17th carryforward year...	0
av. Credit allowed that year..	0
aw. 18th carryforward year...	0
ax. Credit allowed that year..	0
ay. 19th carryforward year...	0
az. Credit allowed that year..	0
ba. 20th carryforward year...	0
bb. Credit allowed that year..	0

**aw. 18th carryforward year.** Enter, in a 4-digit entry, the eighteenth year to which the unallowed credit was carried forward.

Figure 2-33d. Carryforward/Carryback Worksheet, Screen 4

- ax. Credit allowed that year.** Enter the amount actually deductible for the year in line aw.
- ay. 19th carryforward year.** Enter, in a 4-digit entry, the nineteenth year to which the unallowed credit was carried forward.
- az. Credit allowed that year.** Enter the amount actually deductible for the year in line ay.
- ba. 20th carryforward year.** Enter, in a 4-digit entry, the twentieth year to which the unallowed credit was carried forward.
- bb. Credit allowed that year.** Enter the amount actually deductible for the year in line ba.

**PART II, ALLOWABLE CREDIT.** The credit on line 6 may be applied to the first \$25,000 of your net tax liability (after deducting nonrefundable personal credits) plus 75% (or less if a tentative minimum tax applies) of the tax liability in excess of \$25,000:

- Form 1040, line 44.** *(auto-calc)* Taken from Form 1040, as indicated, this is the tax before additions.
- Form 1040, line 46.** *(auto-calc)* Taken from Form 1040, as undicated, this is the excess advance premium tax credit repayment.
- 7 Regular tax before credits.** *(auto-calc)* Computed as the sum of the preceding two amounts.
- 8 Alternative minimum tax.** *(auto-calc)* Taken as Form 6251, line 35.
- 9 Add lines 7 and 8.** *(auto-calc)* Computed as indicated, this amount will be the same as Form 1040, line 47.
- 10a Foreign tax credit.** *(auto-calc)* Taken from Form 1040, line 48.

- Form 1040, lines 48 through 53.** *(auto-calc)* Taken from Form 1040, as indicated, these are all personal credits through line 53 of Form 1040.
- **Form 1040, line 48.** *(auto-calc)* Taken from Form 1040, as indicated, this credit is already included in line 12a and so is subtracted from the preceding total so as not to be included again in line 10b.
  - + **Form 8834, line 7.** *(auto-calc)* Taken from the Form 8834 components of Form 1040, line 54c, this is the passive activity credit allowed this year for previously claimed *Qualified Electric or Plug-in Electric Vehicle Credit*.
  - + **Form 8911, line 19.** *(auto-calc)* Taken from the Form 8911 component of Form 1040, line 54c, this is the personal use part of the *Alternative Fuel Vehicle Refueling Property Credit*.
  - + **Form 8396, line 9, Form 8839, line 16, Form 8859, line 3, Form 8910, line 15, Form 8936, line 23, and Schedule R, line 22.** *(auto-calc)* Taken from the corresponding components of Form 1040, line 54c. These credits are, respectively, the *Mortgage Interest Credit*, the credit for *Qualified Adoption Expenses*, the *D.C. First-Time Homebuyer Credit*, the *Alternative Motor Vehicle Credit*, the *Qualified Plug-in Electric Drive Motor Vehicle Credit*, and the *Credit for the Elderly or the Disabled*.
- 10b Certain allowable credits.** *(auto-calc)* Computed as the sum of the preceding personal credits included in lines 49 through 54 of Form 1040.
- 10c Add lines 10a and 10b.** *(auto-calc)* Computed as indicated, this is the total of credits that reduce the regular tax before business credits.
- 11 NET INCOME TAX.** *(auto-calc)* Computed as line 9 less line 10c, this is the regular tax less nonrefundable personal credits.
- 12 NET REGULAR TAX.** *(auto-calc)* Computed as line 7 less line 10c, but no less than zero, this is the regular tax plus the AMT less nonrefundable personal credits.
- Spouse has investment credit too?** This answer is used only if married filing separately, ensuring the proper limitations at line 13.
- Your % in a controlled group.** The limitations are prorated among members of a controlled group, so a member of a section 38(c)(3) controlled group must enter his or her percent of ownership here.
- 13 25% of the excess of line 12 over \$25,000.** *(auto-calc)* Computed as indicated for most taxpayers. However, the \$25,000 figure is reduced to \$12,500 if married filing separately and you answered Yes to the above question. The \$25,000 is also multiplied by the preceding percentage if a nonzero percentage is entered.
- 14 Tentative minimum tax.** *(auto-calc)* Taken from Form 6251, line 33.
- 15 Greater of line 13 or line 14.** *(auto-calc)* Computed as indicated.
- 16 Subtract line 15 from line 11.** *(auto-calc)* Computed as indicated, but no less than zero, this is the limitation on credits in line 6.
- 17 Smaller of line 6 or line 16c.** *(auto-calc)* Computed as the lesser of line 6 or line 16c.

- 18 Multiply line 14 by 75%. (*auto-calc*)** Computed as line 14 times 0.75, this is 75% of the tentative minimum tax.
- 19 Greater of line 13 or line 18. (*auto-calc*)** Computed as indicated.
- 20 Subtract line 19 from line 11. (*auto-calc*)** Computed as indicated, but no less than zero.
- 21 Subtract line 17 from line 20. (*auto-calc*)** Computed as indicated, but no less than zero.
- 22 Combine the amounts from line 3 of all Parts III with box A, C, or D checked. (*Road Map line, supported by Form 3800, Part III.*)** Taken from line 3 of copies 2, 4, and 5 of Form 3800, Part III, this is the general business credit from Form 8844 treated as non-passive.
- 23 Passive activity credit from line 3 of all Parts III with box B checked. (*Road Map line, supported by Form 3800, Part III.*)** Taken from line 3 of copy 3 of Form 3800, Part III, this is the passive activity credit from Form 8824 allowed this year.
- 24 Passive activity credits allowed for 2014.** You must generally complete Form 8582-CR (not built into the software) in order to figure the amount to enter here. *Enter only the part of allowed credits associated with the Form 8824 credits on line 23, above.*
- 25 Add lines 22 and 23. (*auto-calc*)** Computed as indicated.
- 26 Smaller of line 21 or line 25. (*auto-calc*)** Computed as indicated, this is the empowerment zone and renewal community employment credit allowed.
- 27 Subtract line 13 from line 11. (*auto-calc*)** Computed as indicated, but no less than zero.
- 28 Add lines 17 and 26. (*auto-calc*)** Computed as indicated.
- 29 Subtract line 28 from line 27. (*auto-calc*)** Computed as indicated, but no less than zero.
- 30 General business credit from line 5 of all Parts III with box A checked. (*Road Map line, supported by Form 3800, Part III.*)** Taken from line 5 of copy 2 of Form 3800, Part III, this is the sum of general business credits *not* subject to tax liability limitations (those entered on lines 4a through 4z of Form 3800, Part III).
- 31 Reserved. (*auto-calc.*)** This line does not apply for 2014, so it is always zero.
- 32 Passive activity credits from line 5 of all Parts III with box B checked. (*Road Map line, supported by Form 3800, Part III.*)** Taken from line 5 of copy 3 of Form 3800, Part III, this is the sum of GBCs from passive activities.
- 33 Passive activity credits allowed for 2014.** You must generally complete Form 8582-CR (not built into the software) in order to figure the amount to enter here. *Enter only the part of allowed credits associated with the credits on line 32, above.*
- 34 Carryforward of general business credit to 2014 from line 5 of Part III with box C checked and line 6 of Part III with box G checked. (*Road Map line, supported by Form 3800, Part III.*)** Taken from line 5 of copy 4 of Form 3800, Part III, and line 6 of copy 8 of Form 3800, Part III, this is the carryforward of unused GBC for credits listed in

lines 4a through 4z and unused ESBC for all credits from prior years. See the line following line 38 for information about your entry here that you must provide in a supporting statement for that line.

**35 Carryback of general business credit from 2015 from line 5 of Part III with box D checked.** *(Road Map line, supported by Form 3800, Part III.)* Taken from line 5 of copy 4 of Form 3800, Part III, this is the carryback of unused GBCs for credits listed in lines 4a through 4z of Form 3800, Part III. This line applies only to amended returns prepared in 2016 or later, so no entry will appear here unless you have created a Form 1040X (*Amended Income Tax Return*) for the return. See the line following line 38 for information about your entry here that you must provide in a supporting statement for that line.

**36 Add lines 30, 33, 34, and 35.** *(auto-calc)* Computed as indicated.

**37 Smaller of line 29 or line 36.** *(auto-calc)* Computed as indicated.

**38 CREDIT ALLOWED FOR THE CURRENT YEAR.** *(auto-calc)* Computed as the sum of lines 28 and 37. This is the total credit allowed in the current year from all parts of Form 3800, and is posted to line 54a of Form 1040.

**Itemize to explain computation.** Itemize this line to explain any special computations, including an explanation for your entries for lines 34 and 35 with the kind of information reported on the worksheet for line 4. We do not provide a worksheet for this section like we do for lines 4 and 5 because the IRS does not allow such a worksheet here for e-file. You must therefore give the details in your own words in a supporting statement for this line. **CAUTION for e-file:** For e-file, the IRS ignores the amount column in your support, so you must restrict your explanation to the text column of the support.

**Carryover of general business credit.** *(auto-calc)* Computed as the sum of credits before limitation less line 32, this is the amount of credit disallowed because of the limitations applied in Part II of the form. This carryover is generally allowed to be carried back one year (5 years for ESBCs) then carried forward 20 years. (Limitations applied to research credits in Part I of the form are stated separately, below.)

**Research Sec. 41(g) carryover.** *(auto-calc)* Computed as the amount of research credit disallowed at line 1c due to the special limitation to tax liability applicable to taxable income from the business to which the credit applies.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return, but is provided for private notes or reminders.

**PART III, GENERAL BUSINESS CREDITS or ELIGIBLE SMALL BUSINESS CREDITS.** All credits that must flow through Form 3800 are shown in this part. For 2014, seven copies of Form 3800, Part III, are included in the software (one for each of the five categories available for 2014), one for the consolidated form, and one unattached). Copy 2 of Form 3800, Part III (reserved for category A) is special because amounts shown on screens 3 and 4 of Form 3800 flow to this copy automatically. Copies 5, 6, and 8 are not available for 2014 because the credits in the corresponding categories E, F, and H have expired. For all other copies, you must enter the amounts manually, even for forms built into the software.

**THIS copy is copy number.** *(auto-calc)* Determined by the menu choice you make when you enter Form 3800, Part III, nine of the 10 copies of Part III are reserved for a single category each. The category reserved for the copy number shown here is identified by a Yes on one of the following lines.

**General Business Credits:**

- A – GBC from a non-passive activity.** *(auto-calc)* Answered Yes for copy 2 of Part III and No for all other copies (except copy 10, for which you can choose the category). *This is the category initially assumed for forms built into the Premium Level and shown on screens 3 and 4 of Form 3800.*
- B – GBC from a passive activity.** *(auto-calc)* Answered Yes for copy 3 of Part III and No for all other copies (except copy 10, for which you can choose the category).
- C – GBC credit carryforwards.** *(auto-calc)* Answered Yes for copy 4 of Part III and No for all other copies (except copy 10, for which you can choose the category).
- D – GBC credit carrybacks.** *(auto-calc)* Answered Yes for copy 5 of Part III and No for all other copies (except copy 10, for which you can choose the category).

**Eligible Small Business Credits:**

- E – Reserved.** *(auto-calc)* Always No because the ESBC has expired.
- F – Reserved.** *(auto-calc)* Always No because the ESBC has expired.
- G – ESBC credit carryforwards.** *(auto-calc)* Answered Yes for copy 8 of Part III and No for all other copies (except copy 10, for which you can choose the category).
- H – Reserved.** *(auto-calc)* Always No because the ESBC has expired.

**Summary of A, B, E, and F:**

- I – This is consolidated form.** *(auto-calc)* Answered Yes for copy 1 of Part III and No for all other copies. This category applies only when you are filing more than one Part III that uses the category A, B, E, or F.

**Limited to tax liability.** Credits in line 1 are not allowed against Tentative Minimum Tax.

- 1a Investment (Form 3468, Part II only).** Taken from screen 3 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 1a if originated from a pass-through entity.** If the amount on line 1a stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1b Reserved.** No entry can be made here because it does not apply for tax year 2014.

**1c Increasing research activities.** Taken from screen 3 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 1c if originated from a pass-through entity.** If the amount on line 1c stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1d Low-income housing credit (Form 8586, Part I only).** Taken from screen 3 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 1d if originated from a pass-through entity.** If the amount on line 1d stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1e Disabled access credit (Form 8826).** Enter here the result from line 8 of Form 8826. Your entry is limited to \$5,000 or less, as it should be on Form 8826 as well.

**EIN for line 1e if originated from a pass-through entity.** If the amount on line 1e stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1f Renewable electricity production credit (Form 8835).** Enter the result on line 10 of Form 8835 plus the applicable part of line 30 of Form 8835 here. *The remaining part of line 36 is reported on line 4e, not here, because it is allowed to offset both regular tax and AMT.*

**EIN for line 1f if originated from a pass-through entity.** If the amount on line 1f stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1g Indian employment credit (Form 8845).** Enter here the result on 8 of Form 8845.

**EIN for line 1g if originated from a pass-through entity.** If the amount on line 1g stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1h Orphan drug credit (Form 8820).** Enter the result on line 4 of Form 8820.

**EIN for line 1h if originated from a pass-through entity.** If the amount on line 1h stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**li New markets credit (Form 8874).** Enter here the result on line 3 of Form 8874.

**EIN for line li if originated from a pass-through entity.** If the amount on line 1i stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**lj Small employer pension plan startup costs (Form 8881).** Enter here the result on line 5 of Form 8881. Your entry is limited to \$500 or less, as it should be on Form 8881 as well.

**EIN for line lj if originated from a pass-through entity.** If the amount on line 1j stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**lk Employer-provided child care facilities and services (Form 8882).** Enter here the result on line 7 of Form 8882.

**EIN for line lk if originated from a pass-through entity.** If the amount on line 1k stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**ll Biodiesel and renewable diesel fuels credit (Form 8864).** Enter here the result on line 10 of Form 8864.

**EIN for line ll if originated from a pass-through entity.** If the amount on line 1l stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1m Low sulfur diesel fuel production credit (Form 8896).** Enter here the result on line 8 of Form 8896.

**EIN for line 1m if originated from a pass-through entity.** If the amount on line 1m stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1n Distilled spirits credit (Form 8906).** Enter here the result on line 5 of Form 8906.

**EIN for line 1n if originated from a pass-through entity.** If the amount on line 1n stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1o Nonconventional source fuel credit (Form 8907).** Enter here the result on line 13 of Form 8907.

**EIN for line 1o if originated from a pass-through entity.** If the amount on line 1o stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1p Energy efficient home credit (Form 8908).** Enter here the result on line 4 of Form 8908.

**EIN for line 1p if originated from a pass-through entity.** If the amount on line 1p stems from a pass-through entity (such as a partnership of

which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1q Energy efficient appliance credit (Form 8909).** Enter here the result on line 26 of Form 8909.

**EIN for line 1q if originated from a pass-through entity.** If the amount on line 1q stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1r Alternative motor vehicle credit (Form 8910).** Taken from screen 3 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 1r if originated from a pass-through entity.** If the amount on line 1r stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1s Alternative fuel vehicle refueling property credit (Form 8911).** Enter here only the amount on line 9 of Form 8911, which is the business credit part of the form. (The personal part of the credit, on line 19 of Form 8911, is reported at line 54c of Form 1040.)

**EIN for line 1s if originated from a pass-through entity.** If the amount on line 1s stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1t Reserved.** No entry can be made here because it does not apply for tax year 2014.

**1u Mine rescue team training credit (Form 8923).** Enter here the result on line 4 of Form 8923.

**EIN for line 1u if originated from a pass-through entity.** If the amount on line 1u stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1v Agricultural chemicals security credit (Form 8931).** Enter here the result on line 8 of Form 8931. Your entry is limited to \$2 million or less, as it should be on Form 8831 as well.

**EIN for line 1v if originated from a pass-through entity.** If the amount on line 1v stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1w Credit for employer differential wage payments (Form 8932).** Enter here the result on line 4 of Form 8932.

**EIN for line 1w if originated from a pass-through entity.** If the amount on line 1w stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1x Carbon dioxide sequestration credit (Form 8933).** Enter here the result on line 4 of Form 8933.

**EIN for line 1x if originated from a pass-through entity.** If the amount on line 1x stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1y Qualified plug-in electric drive motor vehicle credit (Form 8936).** Taken from screen 3 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 1y if originated from a pass-through entity.** If the amount on line 1y stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1z Qualified plug-in electric vehicle credit (carryforward only).** The business use part of this credit has expired, so only carryforwards are now allowed.

**EIN for line 1z if originated from a pass-through entity.** If the amount on line 1z stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1aa New hire retention credit (carryforward only).** This credit has expired, so only carryforwards from prior years are allowed. (It was created by the *HIRE Act of 2010* for employers who hire new employees after February 3, 2010 and before 2011, and retain them for at least 52 weeks.)

**EIN for line 1aa if originated from a pass-through entity.** If the amount on line 1aa stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1bb General credits from an electing large partnership (Schedule K-1 (Form 1065-B)).** If you are a limited partner in the partnership, enter the amount shown in box 7 of a Schedule K-1 (Form 1065-B) you receive from an electing large partnership. If a general partner, enter the amounts shown in box 9 with code A2, B4, or C4. (Form 1065-B is used in place of Form 1065 when a partnership elects it because of the simplified reporting allowed.)

**EIN for line 1bb if originated from a pass-through entity.** If the amount on line 1bb stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**1zz Other.** The IRS has defined no credit for this line, but it is available for use when another credit applies due to any potential new legislation.

**EIN for line 4zz if originated from a pass-through entity.** If the amount on line 4zz stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**2 Add lines 1a through 1zz.** *(auto-calc)* Computed as indicated, this total is used in lines 1 through 5 of Form 3800, Part I.

**3 Amount from Form 8844.** Enter the empowerment zone and renewal community employment credit from line 4 of Form 8844.

**EIN for line 3 if from a pass-through entity.** If the amount on line 3 stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**Not limited to tax liability.** Credits reported in line 4 are allowed against Tentative Minimum Tax.

**4a Investment (Form 3468, Part III).** Taken from screen 4 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 4a if originated from a pass-through entity.** If the amount on line 4a stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**4b Work opportunity (Form 5884).** Taken from screen 4 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 4b if originated from a pass-through entity.** If the amount on line 4b stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**4c Alcohol and cellulosic biofuels (Form 6478).** Taken from screen 4 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 4c if originated from a pass-through entity.** If the amount on line 4c stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**4d Low-income housing (Form 8586, Part II).** Taken from screen 4 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 4d if originated from a pass-through entity.** If the amount on line 4d stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**4e Renewable electricity, refined coal, and Indian coal production (Form 8835).** Enter here the part of line 30 of Form 8835 that applies to renewable electricity, refined coal, and indian coal production credit for the first 4 years in service. The remainder of line 30 is reported on line 1f of Form 3800, Part III, not here, along with the credit on line 10 of Form 8835.

**EIN for line 4e if originated from a pass-through entity.** If the amount on line 4e stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**4f Employer social security and Medicare taxes paid on certain employee tips (Form 8846).** Taken from screen 4 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 4f if originated from a pass-through entity.** If the amount on line 4f stems from a pass-through entity (such as a partnership of

which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**4g Qualified railroad track maintenance premiums (Form 8900).** Enter here the qualified railroad track maintenance credit from line 7 of Form 8900.

**EIN for line 4g if originated from a pass-through entity.** If the amount on line 4g stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**4h Small employer health insurance premiums (Form 8941).** Taken from screen 4 of Form 3800 for copy 2, but subject to your entry for all other copies.

**EIN for line 4h if originated from a pass-through entity.** If the amount on line 4h stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**4i Reserved.** This line does not apply for tax year 2014.

**4j Reserved.** This line does not apply for tax year 2014.

**4z Other.** The IRS has defined no credit for this line, but it is available for use when another credit applies due to any potential new legislation.

**EIN for line 4z if originated from a pass-through entity.** If the amount on line 4z stems from a pass-through entity (such as a partnership of which you are a partner), enter the employer identification number in the standard 10-character format xx-xxxxxxx.

**5 Add lines 4a through 4z.** *(auto-calc)* Computed as indicated, this total is used in lines 30 through 35 of Form 3800, Part II.

**6 Add lines 2, 3, and 5.** *(auto-calc)* Computed as indicated, this total is also used in lines 30 through 35 of Form 3800, Part II.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return, but is provided for private notes or reminders.

## Form 3903 / Moving Expenses

**Who is it for?** If you moved your residence because of a change in the location of your job, you may be able to deduct the cost of the move. The move can be to a location in the United States or, if a U.S. citizen or resident alien, a location outside the United States. You must generally meet two tests to qualify for a deduction -- a Distance Test and a Time Test -- as detailed later. See IRS Pub. 521 (*Moving Expenses*) for more information.

**Use separate form for separate moves.** Three copies of Form 3903 are built into the software, for 3 separate moves you make during the tax year. Form 3903 is accessible through the Road Map at line 26 of Form 1040.

**QUALIFICATION.** The first part of the form is used to determine whether you qualify to deduct moving expenses.

**Copy number (1 through 3).** *(auto-calc)* Automatically the number you selected from the menu when you accessed the form.

**Distance Test Worksheet.** The distance from your old residence to your new work place must be at least 50 miles more than the distance from your old residence to your old work place.

**1 Miles from your OLD HOME to your NEW WORKplace.**

**2 Miles from your OLD HOME to your OLD WORKplace.**

**3 Subtract line 2 from line 1.** *(auto-calc)* Computed as indicated.

**Will you satisfy the DISTANCE TEST?** *(auto-calc)* Answered Yes if the result on line 3 is 50 or more.

**Time test.** As an employee you must work full-time for at least 39 weeks of the 12 months following your move. If self-employed you must *also* work full-time for at least 78 weeks during the 24 months following your move.

**Will you satisfy the TIME TEST?** You can answer Yes even if you have not yet met the time test, but you have not yet failed the test and still expect to meet it. If you answer No, you must satisfy one of the following exceptions in order to claim a credit.

**Exceptions to the Time Test.** You do not have to satisfy the time test if you can answer Yes to one of the following questions.

**Job ends because of your disability?**

**Transferred for your employer's benefit?**

**Laid off?**

**Discharged (for reasons other than willful misconduct)?**

**Meet requirements for retirees or survivors living outside the U.S.?**

**Filing this form for a decedent?**

If you answer Yes to any of the above, the Time Test is waived.

**Permanent military change of station?** If you are a member of the armed forces and the move was due to a permanent change of station, answer Yes so that BOTH the Time Test and the Distance Test are waived. If you answer Yes, the phrase MILITARY MOVE will be printed above line 1 and in the Distance Test Worksheet at the bottom of the form to indicate the waiver to the IRS.

**QUALIFY FOR MOVING EXPENSE DEDUCTION?** *(auto-calc)* Answered Yes if you qualify based on your above entries.

**EXPENSES INCURRED IN 2014.** The remainder of the form is used to report the qualified expenses, all of which are deductible as an adjustment to income on Form 1040.

**1 Transportation and storage for household goods and personal effects.** Enter your transportation expenses in moving household goods and personal effects. Include the cost of packing, crating, moving, storing in transit, and insuring your household goods for up to a 30-day period before delivery to your new home. *Enter here and on line 2 only amounts you actually paid, including amounts reimbursed by your employer.*

**2 Travel and lodging (NOT meals).** This line is for the cost of moving people. *Enter only amounts you actually paid, including amounts reimbursed by your employer.*

**Transportation (excluding use of your own car).** Enter the cost of transportation from your old home to your new home, *excluding car expenses*, which are entered below. Enter only amounts you *actually* paid, including amounts reimbursed by your employer.

**Actual expense for your own car.** You can deduct the actual gas and oil costs of using your car for the transportation, or an amount based on a standard mileage rate (below), whichever is greater. Enter the actual costs here and the mileage in the next line, and the software will determine the more favorable deduction.

**Miles traveled with your own car.** Enter total miles traveled from your old home to your new home. Mileage is used to figure the deduction allowable using a standard mileage rate.

**Allowed car deduction.** *(auto-calc)* Computed as the greater of your entry for "actual expenses for your own car" or the standard mileage amount computed at the rate of 23.5 cents per mile for 2014. (The rate for 2015 will be 23 cents per mile.)

**Parking fees and tolls.** Whichever method of car expense deduction you use, you can additionally deduct parking fees and tolls here.

**Lodging.** Enter the cost of lodging required while traveling from your old home to your new home. You can include only one trip per family member, but you may include the costs for the day you arrive.

**Other travel expenses.** Enter all other travel expenses here, except for meal expenses, which are subject to special limitations. **CAUTION:** *Expenses for meals are NOT allowable expenses for this form.*

**2 Travel and lodging (NOT including meals).** *(auto-calc)* Computed as the sum of transportation expenses, allowed car expenses, parking fees and tolls, lodging, and other travel expenses above.

**3 Add lines 1 and 2.** *(auto-calc)* Computed as indicated.

**For payments NOT in Form W-2 box 1:** These lines are for amounts paid by your employer but not included in W-2 box 1 and therefore not included in taxable income at line 7 of Form 1040.

**Amount paid by YOUR employer.** Enter the amount your employer paid for the expenses included in lines 1 and 2 but not included as income in box 1 of Form W-2. The amount should be identified in box 12 of your 2014 Form W-2 as code P.

**Amount paid by SPOUSE employer.** Enter the amount spouse's employer paid for the expenses included in lines 1 and 2 but not included as income in box 1 of Form W-2. The amount should be identified in box 12 of spouse's 2014 Form W-2 as code P.

**4 Employer-paid amounts NOT in box 1 of W-2.** *(auto-calc)* Taken as your entry for amount paid by YOUR employer plus, if married filing jointly, the amount paid by spouse's employer.

**5 Is line 3 more than line 4?** *(auto-calc)* If Yes, the allowed moving expense deduction is computed on the next line. Otherwise, no deduction is allowed.

**MOVING EXPENSE DEDUCTION.** *(auto-calc)* If the answer to line 5 is Yes, computed as line 3 less line 4, but no less than zero; otherwise, zero. This result is posted to line 26 of Form 1040.

**Excess payment for Form 1040, line 7.** *(auto-calc)* Computed as the amount, if any, by which line 4 exceeds line 3. This amount is reflected in line 7 of Form 1040 as wage income and flagged to the IRS at that line on the official printout with the number "3903."

**Spouse part of above excess.** *(auto-calc)* If married filing jointly, the preceding excess is prorated in proportion to the spouse's contribution to line 4 in order to determine the part of the excess that is considered as wage income for spouse. This result is important in properly computing earned income for forms that need earned income computed separately for you and spouse, such as Form 2441.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return, but is provided for private notes or reminders.

### Form 4136\* / Credit for Federal Tax Paid on Fuels

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is traditionally used to claim a refundable credit for taxes paid on fuel used for nontaxable purposes, or fuel sold tax-free to a buyer who uses the fuel for nontaxable purposes. Nontaxable uses include use on a farm (for farming purposes), off-highway business use, export, for a boat used for commercial fishing, etc. This form is also used to claim credit for the production, sale, or use of certain favored fuels. *The IRS instructions for Form 4136 are brief and provide little help in defining the various categories. You should therefore consult IRS Pub. 510, Excise Taxes (Including Fuel Tax Credits and Refunds), if you need more information on nontaxable uses and definition of terms.* Also see IRS Pub. 225 (Farmer's Tax Guide) for information on fuels applicable to farmers. Form 4136 is accessible through the Road Map at line 72 of Form 1040.

**An alternative to Form 4136.** Instead of waiting to file Form 4136 when you file your annual tax return, you can get payment for the credits on this form earlier if you use Form 8849 (*Claim for Refund of Excise Tax*) or Form 720 (*Quarterly Federal Excise Tax Return*). Form 8849 lets you claim a periodic refund, and Form 720 lets you claim a credit against the fuel taxes you owe. **CAUTION: you must not claim credit on Form 4136 for any amounts you already claimed on Schedule 3 of Form 8849 or Schedule C of Form 720.**

**All lines have similar format.** All lines of this form use a multi-column format that shows the creditable tax rate, the gallons used, the amount of credit, and the CRN. For most lines you need only enter the total gallons used for the IRS-defined category for that line; for these lines, no type of use need be specified because only one type of use is allowed for each of these lines, and the IRS has shaded column (a) for these lines so that no type will be printed there. But some lines require additional information, as indicated by worksheets that support those lines as flagged by a "w" or "i" beside the line:

**Fuel Use Worksheet (Figure 2-34).** This worksheet must be used for all lines that require you to provide an IRS-defined code for the type of use for the fuel. It therefore supports lines 1c, 2b, 3a, 4a, 4e, 4f, 5c, 5d, 8d, 8e, 11a through 11h, and 14a. You must enter the applicable Type of Use code and annual total gallons for that type on each worksheet you complete. The software will recognize your entry for gallons only if you enter a Type of Use code that is allowed by the IRS for that line. (Type of use codes are shown in Table 2-13, later in this section.)

**Fuel Sale Worksheet (Figure 2-35).** This worksheet must be used for lines that require you to identify the buyer by name and taxpayer identification number (TIN), as identified in the IRS Instructions for Form 4136. It therefore supports lines 6a and 7a.

We provide details for these worksheets later in this section. **CAUTION: When a worksheet is provided for a line (indicated by a "w" or an "i"), you MUST**

*use the worksheet to claim ANY credit on that line* because the worksheet collects additional information required by the IRS for those lines.

**A word about nomenclature: a vs. (a).** Throughout these details, letters that represent columns of the IRS Form 4136 are enclosed by parentheses, whereas letters that represent rows have no parentheses.

**CAUTION:** If you are claiming credit *for fuel you purchased, you must have the name and address of the person who sold you the fuel.* Furthermore, *for claims on lines 3d, 4c, and 5,* you must not have waived the right to make the claim. *For claims for Type of Use 13 or 14 on lines 1c and 2b,* you must not have waived the right to make the claim and must certify that a certificate has not been provided to the credit card issuer.

**1 Nontaxable Use of Gasoline.** The ultimate purchaser of the gasoline is the only person eligible to claim the credit on this line.

**a Off-highway business use.**

(c) **Gallons.** Enter the total number of gallons used for the year. Only *Type of Use 2* is allowed for this line, so no itemizing is required.

**b Use on a farm for farming purposes.**

(c) **Gallons.** Enter the total number of gallons used for the year. Only *Type of Use 1* is allowed for this line, so no itemizing is required.

**c Other nontaxable use.**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You must use the supporting worksheets for other nontaxable uses of gasoline, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 4, 5, 7, 11, 13, 14, or 15. (See the CAUTION above for Type of Use 13 or 14.)*

**1a-1c:**

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered for lines 1a(c), 1b(c), and 1c(c) times 18.3 cents per gallon.

**d Exported.**

(c) **Gallons.** Enter the total number of gallons exported for the year. Only *Type of Use 3* is allowed for this line, so no itemizing is required. *You must have proof of exportation in your records.*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 18.4 cents per gallon.

**2 Nontaxable Use of Aviation Gasoline.** The ultimate purchaser of the aviation gasoline is the only person eligible to claim the credit on this line.

**a Use in commercial aviation (other than foreign trade).**

(c) **Gallons.** Enter the total number of gallons used for the year.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 15 cents per gallon.

**b Other nontaxable use.**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You must use the supporting worksheets for other nontaxable uses of aviation gasoline, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 9, 10, 11, 13, 14, or 15. (For Type of Use 13 or 14, see the CAUTION on the previous page.)*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 19.3 cents per gallon.

**c Exported.**

(c) **Gallons.** Enter the total number of gallons exported for the year. Only *Type of Use 3* is allowed for this line, so no itemizing is required. *You must have proof of exportation in your records.*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 19.4 cents per gallon.

**d LUST tax on aviation fuels used in foreign trade.** The LUST tax is a tax on a Leaking Underground Storage Tank.

(c) **Gallons.** Enter the total number of gallons used. Only *Type of Use 9* is allowed for this line, so no itemizing is required.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 0.1 cents per gallon.

**3 Nontaxable Use of Undyed Diesel Fuel.** The ultimate purchaser of the diesel fuel is the only person eligible to claim the credit on this line.

**Did any of the diesel fuel included in this claim contain visible evidence of dye?** If Yes, you must provide a detailed explanation in a supporting statement for this line (using only the text column of the support for an e-file return). If No, you are certifying that none of the diesel fuel contained any visible evidence of dye.

**a Nontaxable use.**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You must use the supporting worksheets for nontaxable uses of undyed diesel fuel, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 2, 6, 7, 8, 11, 13, 14, or 15.*

**b Use on a farm for farming purposes.**

(c) **Gallons.** Enter the total number of gallons used for the year. Only *Type of Use 1* is allowed for this line, so no itemizing is required.

**3a-3b:**

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered for lines 3a(c) and 3b(c) times 24.3 cents per gallon.

**c Use in trains.**

(c) **Gallons.** Enter the total number of gallons used for the year.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 24.3 cents per gallon.

**d Use in certain intercity and local buses.**

(c) **Gallons.** Enter the total number of gallons used for the year. Only *Type of Use 5* is allowed for this line, so no itemizing is required.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 17 cents per gallon.

**e Exported.**

(c) **Gallons.** Enter the total number of gallons exported for the year. Only *Type of Use 3* is allowed for this line, so no itemizing is required. *You must have proof of exportation in your records.*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 24.4 cents per gallon.

**4 Nontaxable Use of Undyed Kerosene (Other Than Kerosene Used in Aviation)**

. The ultimate purchaser of the kerosene is the only person eligible to claim the credit on this line.

**Did any of the kerosene included in this claim contain visible evidence of dye?** If you answer Yes, *you must provide a detailed explanation in a supporting statement for this line (using only the text column of the support for an e-file return).* If No, you are certifying that none of the kerosene contained any visible evidence of dye.

**a Nontaxable use.**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You *must* use the supporting worksheets for nontaxable uses of undyed diesel fuel, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 2, 6, 7, 8, 11, 13, 14, or 15.*

**b Use on a farm for farming purposes.**

(c) **Gallons.** Enter the total number of gallons used for the year. Only *Type of Use 1* is allowed for this line, so no itemizing is required. *(CAUTION: Use line 5 for kerosene used in aviation for farming purposes, not this line.)*

**4a-4b:**

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered for lines 4a(c) and 4b(c) times 24.3 cents per gallon.

**c Use in certain intercity and local buses.**

(c) **Gallons.** Enter the total number of gallons used for the year. Only *Type of Use 5* is allowed for this line, so no itemizing is required.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 17 cents per gallon.

**d Exported.**

(c) **Gallons.** Enter the total number of gallons exported for the year. Only *Type of Use 3* is allowed for this line, so no itemizing is required. *You must have proof of exportation in your records.*

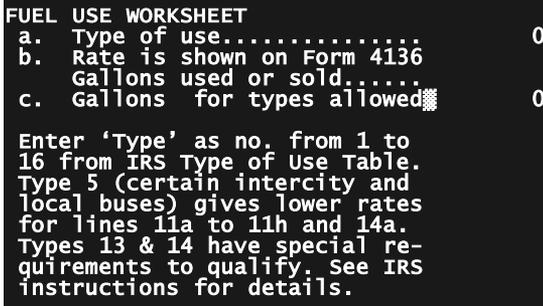
(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 24.4 cents per gallon.

**e Nontaxable use taxed at \$.044.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You *must* use the supporting worksheets for other nontaxable uses of aviation gasoline, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 2 and 8.*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 4.3 cents per gallon.

**f Nontaxable use taxed at \$.219.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You *must* use the supporting worksheets for other nontaxable uses of aviation gasoline, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 2 and 8.*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 21.8 cents per gallon.



**Fuel Use Worksheet.** *(Figure 2-34)* This worksheet **must** be used for any claims on lines 1c, 2b, 3a, 4a, 4e, 4f, 5c, 5d, 8d, 8e, 11a through 11h, and 14a, all of which require you to identify a particular type of use. Use a separate worksheet for each separate type of use.

Figure 2-34. Fuel Use Worksheet

**a. Type of use.**

Enter the IRS code for the Type of Use as shown in *Table 2-13*, below. Refer to the details for each supported line to see if there are any restrictions on the Type of Use that can be claimed on that line.

**b. Rate is shown on Form 4136.** No rates are shown on the worksheets. All appropriate rates are reflected in the credit computations and appear in column (b) of the official printed Form 4136.

**Gallons used or sold.** For the use you entered in line a, enter the total number of gallons used for the year.

**c. Gallons.** *(auto-calc)* Taken as the preceding entry if a type allowed for the line itemized is entered in line a. Otherwise, zero.

**5 Kerosene Used in Aviation.** For lines 5a and 5b, the ultimate purchaser of the kerosene is the only person eligible to claim the credit on this line.

**a Kerosene used in commercial aviation (other than foreign trade) taxed at \$.244.**

(c) **Gallons.** Enter the total number of gallons used for the year.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 20 cents per gallon.

**b Kerosene used in commercial aviation (other than foreign trade) taxed at \$.219.**

(c) **Gallons.** Enter the total number of gallons used for the year.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 17.5 cents per gallon.

**c Nontaxable use (other than state) taxed at \$.244.**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You **must** use the supporting worksheets for other nontaxable uses of aviation gasoline, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 9, 10, 11, 13, 15, or 16.*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 24.3 cents per gallon.

**Table 2-13. Type of Use for Nontaxable Uses of Fuel**

<b>CODE</b>	<b>TYPE OF USE*</b>
1	On a farm for farming purposes
2	Off-highway business use (for business use other than a highway vehicle registered or required to be registered for highway use)
3	Export
4	In a boat engaged in commercial fishing
5	In certain intercity and local buses
6	In a qualified local bus
7	In a bus transporting students and employees of schools (school buses)
8	For diesel fuel and kerosene (other than kerosene used in aviation) used other than as a fuel in the propulsion engine of a train or diesel-powered highway vehicle (but not off-highway business use)
9	In foreign trade
10	Certain helicopter and fixed-wing aircraft uses
11	Exclusive use by a qualified blood collector organization
12	In a highway vehicle owned by the United States that is not used on a highway
13	Exclusive use by a nonprofit educational organization
14	Exclusive use by a state, a political subdivision of a state, or the District of Columbia
15	In an aircraft or vehicle owned by an aircraft museum
16	In military aircraft

*\*See line details for restrictions on Type of Use for each line.*

**d Nontaxable use (other than state) taxed at \$.219.**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)*

You must use the supporting worksheets for other nontaxable uses of aviation gasoline, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 9, 10, 11, 13, 15, or 16.*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 21.8 cents per gallon.

**e LUST tax on aviation fuels used in foreign trade.** The LUST tax is a tax on a Leaking Underground Storage Tank.

(c) **Gallons.** Enter the total number of gallons used. Only *Type of Use 9* is allowed for this line, so no itemizing is required.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 0.1 cents per gallon.

**6 Sales by Registered Ultimate Vendors of Undyed Diesel Fuel.** For a claim in this section you must have sold the diesel fuel at a tax-excluded price, repaid the tax to the buyer, or obtained written consent from the buyer to take this claim. You must also have obtained the required certificate from the buyer and have no reason to believe it contains any false information.

**Registration Number: (MANDATORY).** For a claim on line 6a or 6b, enter your UV registration number here (UV followed by up to 9 digits). *If you make no entry here, no credit will be computed for line 6a or 6b.*

**Did any of the diesel fuel included in this claim contain visible evidence of dye?** If you answer Yes, you must provide a detailed explanation in a supporting statement for this line (using only the text column of the

support for an e-file return). If No, you are certifying that none of the diesel fuel contained any visible evidence of dye.

**α Use by a state or local government.**

(c) **Gallons (itemize).** *(Supported by the Fuel Sale Worksheet, Figure 2-35.)* You must use the supporting worksheets to identify the buyer for each annual total entered.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 24.3 cents per gallon.

**b Use in certain intercity and local buses.**

(c) **Gallons.** Enter the total number of gallons used for the year. Only *Type of Use 5* is allowed for this line, so no itemizing is required.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 17 cents per gallon.

**7 Sales by Registered Ultimate Vendors of Undyed Kerosene (Other Than Kerosene Used in Aviation).** For a claim in this section you must have sold the kerosene at a tax-excluded price, repaid the tax to the buyer, or obtained written consent from the buyer to take this claim.

**Registration Number: (MANDATORY).** For a claim on line 7a, 7b, or 7c, enter your UV registration number (UV followed by up to 9 digits) or your UP registration number (UP followed by up to 9 digits). *If you make no entry here, no credit will be computed for line 7a, 7b, or 7c.*

**Did any of the kerosene included in this claim contain visible evidence of dye?** If you answer Yes, you must provide a detailed explanation in a supporting statement for this line. If No, you are certifying that none of the kerosene contained any visible evidence of dye.

**α Use by a state or local government.**

(c) **Gallons (itemize).** *(Supported by the Fuel Sale Worksheet, Figure 2-35.)* You must use the supporting worksheets to identify the buyer for each annual total entered.

**b Sales from a blocked pump.**

(c) **Gallons.** Enter the total number of gallons used for the year. No itemizing is required. *For a claim on this line you must have the Regulations section 48.6427-10(e)(4) statement in your records, if required, which shows the date of sale, buyer's name and address, and number of gallons sold.*

**7a-7b:**

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered for lines 7a(c) and 7b(c) times 24.3 cents per gallon.

**c Use in certain intercity and local buses.**

(c) **Gallons.** Enter the total number of gallons used for the year. Only *Type of Use 5* is allowed for this line, so no itemizing is required.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 17 cents per gallon.

<b>FUEL SALE WORKSHEET</b>	
Identify buyer and amt. bought	
a.	Name of buyer.....:
b.	Buyer's tax ID(enter one):
	SSN.....
	EIN.....
c.	Gallons sold ..... 0

**Fuel Sale Worksheet.** *(Figure 2-35)* Use a separate worksheet for each separate buyer.

Figure 2-35. Fuel Sale Worksheet

This worksheet must be used for any claims on lines 6a and 7a, both of which require you to identify the buyer.

**Identify buyer and amount bought.**

- a. Name of buyer.** Enter the name in 30 characters or less. *The buyer must have purchased the fuel for use by a state or local government (including essential government use by an Indian tribal government).*
- b. Buyer's tax ID (enter one).** You must supply a tax identification number for the buyer as either a social security number (SSN) or an employer identification number (EIN):
  - SSN.** Enter the buyer's SSN in the standard xxx-xx-xxxx format.
  - EIN.** If SSN is not entered above, enter here the buyer's EIN in the standard xx-xxxxxxx format.
- c. Gallons sold.** Enter total gallons sold to this buyer for the year, for the type of fuel corresponding to the line itemized.

**8 Sales by Registered Ultimate Vendors of Kerosene For Use in Aviation.** For a claim in this section you must have sold the kerosene at a tax-excluded price, repaid the tax to the buyer, or obtained written consent from the buyer to take this claim.

**Registration Number: (MANDATORY).** For a claim on line 8a or 8b, enter your UA registration number here (UA followed by up to 9 digits). For a claim on line 8c, 8d, or 8e, enter your UA registration number or, if type of use 14, your UV registration number (UV followed by up to 9 digits). *If you make no entry here, no credit will be computed for line 8a, 8b, 8c, 8d, or 8e.*

**a Use in commercial aviation (other than foreign trade) taxed at \$.219.**

- (c) **Gallons.** Enter the total number of gallons used for the year.
- (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 17.5 cents per gallon.

**b Use in commercial aviation (other than foreign trade) taxed at \$.244.**

- (c) **Gallons.** Enter the total number of gallons used for the year.
- (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 20 cents per gallon.

**c Nonexempt use in noncommercial aviation.**

- (c) **Gallons.** Enter the total number of gallons used for the year.
- (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 2.5 cents per gallon.

**d Other nontaxable uses taxed at \$.244.**

- (c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You **must** use the supporting worksheets for other nontaxable uses of aviation gasoline, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 9, 10, 11, 13, 14, 15, or 16.*

- (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 24.3 cents per gallon.

**e Other nontaxable uses taxed at \$.219.**

- (c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You **must** use the supporting worksheets for other nontaxable uses of aviation gasoline, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 9, 10, 11, 13, 14, 15, or 16.*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 21.8 cents per gallon.

**f LUST tax on aviation fuels used in foreign trade.** The LUST tax is a tax on a Leaking Underground Storage Tank.

(c) **Gallons.** Enter the total number of gallons used. Only *Type of Use 9* is allowed for this line, so no itemizing is required.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 0.1 cents per gallon.

**9 Reserved.** The "alcohol fuel mixture credit" formerly claimed on this line expired at the end of 2011 and has not been reinstated since. Nevertheless, the IRS has retained the line but labeled it and all its parts as "Reserved."

**10 Biodiesel or Renewable Diesel Mixture Credit.** For a claim in this section you must have produced a fuel mixture by mixing diesel fuel with biodiesel or renewable diesel fuel. The result must have either been used by the claimant as a fuel or sold for use as a fuel.

**REQUIRED certificate and statement.** The first claim you make for the biodiesel credit must be accompanied by the associated *Certificate for Biodiesel* (and *Certificate of Biodiesel Reseller*, if applicable). If that first claim is made through this e-file return, you must indicate this fact on screen 6 of our e-file form (form 90 on the Forms Menu). You must then attach the certificate and statement to a paper Form 8453 and mail them to the IRS once the return is e-filed. However, if that first claim was made on a previously filed Form 720 (Quarterly Federal Excise Tax Return) or Form 8849 (Claim for Refund of Excise Tax), you must indicate this fact by itemizing at least one of the two lines below that are supported by our *Biodiesel Certificate Worksheet*, which is detailed on the next page:

**Worksheet in lieu of Certificate for Biodiesel:** Itemize the line "Itemize statement in lieu of certificate" above line a(c).

**Worksheet in lieu of Statement of Biodiesel Reseller:** Itemize the line "a(d) Amount of credit."

**CAUTION:** Do not use either worksheet if this is the first claim for credit. Paper attachments are required instead, as explained above.

**Registration Number.** Enter your registration number here if any amount claimed below was for a mixture sold for use as a fuel.

**Itemize statement in lieu of certificate.** *(Supported by the Biodiesel Certificate Worksheet, Figure 2-36.)* See the above shaded box to determine whether or not it is appropriate to use the worksheet that supports this line.

**α Biodiesel (other than agri-biodiesel) mixtures.**

(c) **Gallons.** Enter the total number of *gallons of biodiesel in the mixture* used for the year.

(d) **Amount of credit.** *(auto-calc and Supported by the Biodiesel Certificate Worksheet, Figure 2-36.)* Computed as the total number of gallons entered on the preceding line times \$1.00 per gallon. See the previous shaded box to determine whether or not it is appropriate to use the worksheet that supports this line. *The supporting worksheet*

does not affect the calculation, but is used for reporting requirements described in the above shaded box above.

**b Agri-biodiesel mixtures.**

(c) **Gallons.** Enter the total number of gallons of biodiesel in the mixture used for the year.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times \$1.00 per gallon.

**c Renewable diesel mixtures.**

(c) **Gallons.** Enter the total number of gallons of renewable diesel in the mixture used for the year.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times \$1.00 per gallon.

**Biodiesel Certificate Worksheet.** *(Figure 2-36)* Use this worksheet only if the *Certificate for Biodiesel* (and, if applicable, the *Statement of Biodiesel Reseller*) was previously attached to a Form 8849 or a Form 720 where the credit was first claimed. See the shaded box on the previous page for details.

**BIODOESEL CERTIFICATE W/S**  
 Use this worksheet ONLY when Certificate or stmt. has been previously filed. Otherwise, you must submit with Form 8453  
 \* Wrksht. For line 10 is for Certificate for Biodiesel  
 \* Wrksht. For ln 10a(d) is for Stmt. of Biodiesel Reseller.

a. Certificate IDN	
b. Total biodiesel gallons...	0
c. Gals.claimed on 8849 Sch.3	0
c. Gals.claimed on 720 Sch. C	0

Figure 2-36. Biodiesel Certificate Worksheet

- a. **Certificate IDN.** Enter the identification number on the Certificate of Biodiesel in 25 characters or less.
- b. **Total biodiesel gallons.** Enter the number of gallons of fuel specified on the previously-filed certificate or statement.
- c. **Gallons claimed on Form 8849 Schedule 3.** Enter total gallons claimed on a previously filed Form 8849 (*Claim for Refund of Excise Tax*).
- c. **Gallons claimed on Form 720 Schedule C.** Enter total gallons claimed on a previously filed Form 720 (*Quarterly Federal Excise Tax Return*).

**11 Nontaxable Use of Alternative Fuel.** The ultimate purchaser of the taxed alternative fuel is the only person eligible to claim the credit on this line. All entries for line 11 are supported by the *Fuel Use Worksheet*. The alternative fuel must have been used for Type of Use 1, 2, 4, 5, 6, 7, 11, 13, 14, or 15.

**Special handling for BUSES (Type of Use 5). (for paper returns only)** If you identify the fuel for a worksheet for line 11a, 11b, 11c, 11d, 11e, 11f, 11g, 11h, or 14a as Type of Use 5 (certain intercity and local buses), a lower rate than appears on the preprinted IRS form is computed for the gallons entered for that worksheet (in accordance with IRS instructions). This special handling is indicated on the official printout of Form 4136 by the printing of the word "BUS" on the line to which the worksheet applies, and the preprinted rate is crossed out with the applicable lower rate printed next to it. (The lower rates are specified in the IRS 2014 Instructions for Form 4136.) **Exception for e-file:** *If this choice applies, you must file a paper return because the software does not support the e-file format for this choice.*

**a Liquefied petroleum gas (LPG).**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You must use the supporting worksheets for this entry, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 4, 5, 6, 7, 11, 13, 14, or 15.*

**Part for city BUS.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* This line is supported by the same set of worksheets as the preceding line. The total gallons for *Type of Use 5* that you entered on the worksheets appears here, which leads to the "Special handling for BUSES" described previously.

(d) **Amount of credit. (auto-calc)** Computed as "Part for city BUS" times 10.9 cents per gallon plus the remainder (line (c) less "Part for city BUS") times 18.3 cents per gallon.

**b "P series" fuels.**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You must use the supporting worksheets for this entry, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 4, 5, 6, 7, 11, 13, 14, or 15.*

**Part for city BUS.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* This line is supported by the same set of worksheets as the preceding line. The total gallons for *Type of Use 5* that you entered on the worksheets appears here, which leads to the "Special handling for BUSES" described previously.

(d) **Amount of credit. (auto-calc)** Computed as "Part for city BUS" times 11 cents per gallon plus the remainder (line (c) less "Part for city BUS") times 18.3 cents per gallon.

**c Compressed natural gas (CNG).**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You must use the supporting worksheets for this entry, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 4, 5, 6, 7, 11, 13, 14, or 15. For this line you*

*must use the gasoline gallon equivalent (GGE) in your entry for gallons. (The GGE for this line is 126.67 cu. ft.)*

**Part for city BUS.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* This line is supported by the same set of worksheets as the preceding line. The total gallons for *Type of Use 5* that you entered on the worksheets appears here, which leads to the “Special handling for BUSES” described previously.

- (d) **Amount of credit.** *(auto-calc)* Computed as “Part for city BUS” times 10.9 cents per GGE *plus* the remainder (line (c) less “Part for city BUS”) times 18.3 cents per gallon.

**d Liquefied hydrogen.**

- (c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You *must* use the supporting worksheets for this entry, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 4, 5, 6, 7, 11, 13, 14, or 15.*

**Part for city BUS.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* This line is supported by the same set of worksheets as the preceding line. The total gallons for *Type of Use 5* that you entered on the worksheets appears here, which leads to the “Special handling for BUSES” described previously.

- (d) **Amount of credit.** *(auto-calc)* Computed as “Part for city BUS” times 11 cents per gallon *plus* the remainder (line (c) less “Part for city BUS”) times 18.3 cents per gallon.

**e Fischer-Tropsch process liquid fuel from coal (including peat).**

- (c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You *must* use the supporting worksheets for this entry, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 4, 5, 6, 7, 11, 13, 14, or 15.*

**Part for city BUS.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* This line is supported by the same set of worksheets as the preceding line. The total gallons for *Type of Use 5* that you entered on the worksheets appears here, which leads to the “Special handling for BUSES” described previously.

- (d) **Amount of credit.** *(auto-calc)* Computed as “Part for city BUS” times 17 cents per gallon *plus* the remainder (line (c) less “Part for city BUS”) times 24.3 cents per gallon.

**f Liquid fuel derived from biomass.**

- (c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You *must* use the supporting worksheets for this entry, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 4, 5, 6, 7, 11, 13, 14, or 15.*

**Part for city BUS.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* This line is supported by the same set of worksheets as the preceding line. The total gallons for *Type of Use 5* that you entered on the worksheets appears here, which leads to the “Special handling for BUSES” described previously.

(d) **Amount of credit.** *(auto-calc)* Computed as "Part for city BUS" times 17 cents per gallon *plus* the remainder (line (c) less "Part for city BUS") times 24.3 cents per gallon.

**g Liquefied natural gas (LNG).**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You *must* use the supporting worksheets for this entry, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 4, 5, 6, 7, 11, 13, 14, or 15.*

**Part for city BUS.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* This line is supported by the same set of worksheets as the preceding line. The total gallons for *Type of Use 5* that you entered on the worksheets appears here, which leads to the "Special handling for BUSES" described previously.

(d) **Amount of credit.** *(auto-calc)* Computed as "Part for city BUS" times 16.9 cents per gallon *plus* the remainder (line (c) less "Part for city BUS") times 24.3 cents per gallon.

**h Liquefied hydrogen.**

(c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You *must* use the supporting worksheets for this entry, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 4, 5, 6, 7, 11, 13, 14, or 15.*

**Part for city BUS.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* This line is supported by the same set of worksheets as the preceding line. The total gallons for *Type of Use 5* that you entered on the worksheets appears here, which leads to the "Special handling for BUSES" described previously.

(d) **Amount of credit.** *(auto-calc)* Computed as "Part for city BUS" times 11 cents per gallon *plus* the remainder (line (c) less "Part for city BUS") times 18.3 cents per gallon.

**12 Alternative Fuel Credit.** The "alternative fuel credit" requires that you used the fuel, or sold it for use, in a motor vehicle or motorboat.

**Registration Number.** Enter your registration number here (including prefix).

**a Liquefied petroleum gas (LPG).**

(c) **Gallons.** Enter the total number of gallons used or sold.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 50 cents per gallon.

**b "P series" fuels.**

(c) **Gallons.** Enter the total number of gallons used or sold.

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 50 cents per gallon.

**c Compressed natural gas (CNG)).**

(c) **Gallons.** Enter the total number of gallons used or sold. *For this line you must use the gasoline gallon equivalent (GGE) in your entry for gallons. (The GGE for this line is 121 cu. ft.)*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 50 cents per gallon.

**d Liquefied hydrogen.**

(c) **Gallons.** Enter the total number of gallons used or sold.

- (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 50 cents per gallon.
- e Fischer-Tropsch process liquid fuel from coal (including peat).**
  - (c) **Gallons.** Enter the total number of gallons used or sold.
  - (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 50 cents per gallon.
- f Liquid fuel derived from biomass.**
  - (c) **Gallons.** Enter the total number of gallons used or sold.
  - (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 50 cents per gallon.
- g Liquefied natural gas (LNG).**
  - (c) **Gallons.** Enter the total number of gallons used or sold.
  - (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 50 cents per gallon.
- h Liquefied gas derived from biomass.**
  - (c) **Gallons.** Enter the total number of gallons used or sold.
  - (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 50 cents per gallon.
- i Compressed gas derived from biomass.**
  - (c) **Gallons.** Enter the total number of gallons used or sold. *For this line you must use the gasoline gallon equivalent (GGE) in your entry for gallons. (The GGE for this line is 121 cu. ft.)*
  - (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 50 cents per gallon.

**13 Registered Credit Card Issuers.** The registered credit card issuer must meet specific requirements listed in the IRS Instructions for Form 4136 in order to make this claim. Otherwise, the purchaser must make the claim based on tax paid to the credit card issuer. See IRS instructions for detailed requirements. *The fuel must be sold for the exclusive use of a state or local government to qualify for this credit.*

- Registration Number.** Enter your registration number, including the CC prefix.
- a Diesel fuel sold for the exclusive use of a state or local government.**
  - (c) **Gallons.** Enter the total number of gallons used or sold.
  - (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 24.3 cents per gallon.
- b Kerosene sold for the exclusive use of a state or local government.**
  - (c) **Gallons.** Enter the total number of gallons used or sold.
  - (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 24.3 cents per gallon.
- c Kerosene for use in aviation sold for the exclusive use of a state or local government.**
  - (c) **Gallons.** Enter the total number of gallons used or sold.

**Part TAXED AT \$.244.** Enter the amount included in the preceding entry that was taxed at \$.244. This amount qualifies for a credit rate of \$.243 instead of \$.218. This special handling is indicated on the official printout of Form 4136 by the printing of the phrase "Part TAXED AT .244" on line 13c, and the preprinted rate (\$.218) is crossed out with the higher rate (\$.243) printed next to it.

- (d) **Amount of credit.** *(auto-calc)* Computed as "Part TAXED AT \$.244" times 24.3 cents per gallon *plus* the remainder (line (c) less "Part taxed at \$.244") times 21.8 cents per gallon.

**14 Nontaxable Use of a Diesel-Water Fuel Emulsion.** The ultimate purchaser of the diesel-water fuel emulsion is the only person eligible to claim the credit on this line.

**a Nontaxable use.**

- (c) **Gallons (itemize).** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* You *must* use the supporting worksheets for this line, using a separate worksheet for each type of use. *Allowed Types of Use for this line are 1, 2, 5, 6, 7, 8, 11, 13, 14, or 15.*

**Part for city BUS.** *(Supported by the Fuel Use Worksheet, Figure 2-34.)* This line is supported by the same set of worksheets as the preceding line. The total gallons for *Type of Use 5* that you entered on the worksheets appears here, which leads to the "Special handling for BUSES" described in our details for line 14.

- (d) **Amount of credit.** *(auto-calc)* Computed as "Part for city BUS" times 12.4 cents per gallon *plus* the remainder (line (c) less "Part for city BUS") times 19.7 cents per gallon.

**b Exported.**

- (c) **Gallons.** Enter the total number of gallons used for the year. Only *Type of Use 3* is allowed for this line, so no itemizing is required. *You must have proof of exportation in your records.*

- (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 19.8 cents per gallon.

**15 Diesel-Water Fuel Emulsion Blending.** The person who produced and sold or used the diesel-water fuel emulsion is the only person eligible to claim the credit on this line.

**Registration Number.** Enter your registration number (including the M prefix).

**Itemize required statement.** *You must itemize this line and provide a supporting statement that confirms the mixture, registration, tax rate, and use (using only the text column of the support for an e-file return).* See IRS instructions for line 15 for details.

**Blender credit.**

- (c) **Gallons.** Enter the total number of gallons used or sold.

- (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 4.6 cents per gallon.

**16 Exported Dyed Fuels and Exported Gasoline Blendstocks.** The person who exported the fuel during the period of claim is the only person eligible to claim the credit on this line.

**a Exported dyed diesel fuel and exported gasoline blendstocks taxed at \$.001.**

- (c) **Gallons.** Enter the total number of gallons exported for the year. Only *Type of Use 3* is allowed for this line, so no itemizing is required. *You must have proof of exportation in your records.*

- (d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 0.1 cents per gallon.

**b Exported dyed kerosene.**

(c) **Gallons.** Enter the total number of gallons exported for the year. Only *Type of Use 3* is allowed for this line, so no itemizing is required. *You must have proof of exportation in your records.*

(d) **Amount of credit.** *(auto-calc)* Computed as the total number of gallons entered on the preceding line times 0.1 cents per gallon.

**17 Total Tax Credit Claimed:**

**Add lines 1 through 16, column (d).** *(auto-calc)* Computed as the sum of amounts in column (d) of this form for all lines combined, this is the total credit posted to line 72 of Form 1040.

**Other information for the IRS (itemize).** *(for paper returns only)* Use this line to supply any additional information to the IRS. Use this support *only* to supply information not available from the *Fuel Use Worksheets* and *Fuel Sale Worksheets* that we provide. **Exception for e-file:** *The IRS does not provide for this extra statement for an e-file return. Therefore, if you must provide additional information, you must file a paper return.*

### Form 4137\* / Social Security & Medicare Tax on Unreported Tip Income

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to figure the social security and Medicare tax you owe on tips not reported to your employer, and therefore not already taxed, including any allocated tips shown on any Form W-2 you receive. You are required to file Form 4137 if you received tips of \$20 or more in any month in the tax year and did not report all of those tips to your employer. Form 4137 is accessible through the Road Map at line 58a of Form 1040, and two copies are available, one for each spouse.

**Form 4137 mandatory for some people.** You are required to file Form 4137 if either of the following is true:

- (1) You received tips of \$20 or more in any month in the tax year and did *not* report all of those tips to your employer, or
- (2) A Form W-2 you received for the tax year shows an amount in box 8 (allocated tips).

However, Form 4137 is not applicable for work covered by the Railroad Retirement Tax Act instead of social security. Tips for that work must always be reported to the employer.

**CAUTION: You must also include any tip income you report here on your W-2 Worksheets for line 7a or 7b.** This form is used ONLY to figure the social security and Medicare tax on the tip income, not income tax. Therefore, you must include the tip income in your totals for line 7 of Form 1040. Our W-2 Worksheets for lines 7a and 7b provide for this at line 8 of the worksheets. The total tip income that will be reflected in the total for line 7 of Form 1040 is the amount on W-2 Worksheet line 8 (Allocated tips) plus the adjustment that follows it. This total must match the amount on line 4 of Form 4137 for the corresponding spouse. In other words, if the allocated tips in box 8 of the W-2 do not accurately reflect the unreported tips as reported here, you must enter a negative or positive amount in the adjustment line that, when added to the amount in box 8, will properly reflect the taxable tip income that is not included in box 1. If you enter a negative adjustment you must be able to prove through detailed records that the amount in box 8 exceeds your actual tip income.

#### **Employee to whom applies:**

**Social security number for this copy.** (auto-calc) One copy of Form 4137 is available for each spouse. The social security number entered on Form 1040 for the spouse whose copy you chose when you entered Form 4137 appears here.

**Is this spouse's copy (vs. you)?** (auto-calc) This answer is also based on the copy you chose.

**Employers to whom applies:**

- 1 **Itemized tips and employers.** *(Supported by the Unreported Tips Worksheet, Figure 2-37.)* When you return from the worksheets that support this line, the amounts on the next three lines are taken from the worksheets.
- Total tips received.** *(auto-calc)* Computed as the sum of line c of all worksheets combined.
- Tips reported to employer.** *(auto-calc)* Computed as the sum of line d of all worksheets combined.
- Tips NOT required to be reported to employer.** *(auto-calc)* Computed as the sum of "Part not required to report" of all worksheets combined.

**Unreported Tips Worksheet.** *(Figure 2-37)* You must complete a separate worksheet for each employer.

**a Name of employer.** Enter the name of the employer on the two 24-character

entry lines provided. If you enter 5 or less employers, they will all be printed directly on the official Form 4137. Otherwise, a supporting statement cross-reference will be printed on the form and all names will be printed in the cross-referenced supporting statement instead.

**b Employer ID number.** Enter the employer's EIN in the standard xx-xxxxxxx format. *CAUTION for e-file: The employer's EIN is required here whether or not the employer is an individual. Do not enter the employer's SSN.*

**c Cash and charge tips received.** You must report *both cash and charge tips*. Include *both tips reported after* the 10<sup>th</sup> of the following month *and tips not reported* to your employer at all. *You may be charged a penalty on these tips by the IRS (up to 50% of the tax you owe) unless you can show reasonable cause.* Also include tips you are not required to report to your employer (which includes tips for any month that you received a total of less than \$20 in tips) and allocated tips shown in box 8 of the Form W-2 from this employer. *CAUTION: If your entry for this line is greater than the amount in box 8 of the Form W-2 from this employer, you must enter the difference on the line "Adjust to 8 for 1040" on the W-2 Worksheet for this employer (supporting line 7a or 7b of Form 1040) to ensure that it is included in line 7 of Form 1040, as required by the IRS.*

**d Tips reported to your employer.** Enter only the tips reported to your employer *on time* (that is, by the 10<sup>th</sup> of the month after the month

UNREPORTED TIPS WORKSHEET

a	Name of employer	
	name line 2:	
b	Employer ID number	.....
c	Cash & charge tips rcvd.	0
d	Tips reported to employer.	0
	Tips NOT reported.....	0
	Part not req'd to report	0
	(Reporting not req'd if total tips under \$20 that month.)	

Figure 2-37. Unreported Tips Worksheet

you received the tips). This amount is *already included in box 1 of the Form W-2 you receive* from the employer.

**Tips NOT reported to your employer.** *(auto-calc)* Computed as line c less line d, but no less than zero.

**Tips received but NOT required to be reported to your employer.** Enter only the tips included above that you were not required to report because you received them in a month when the total of all your tips was less than \$20.

**COMPUTATION OF TAX.** The tax is computed based on the income you report here and the income you reported on the W-2 Worksheets for Form 1040 line 7 for the appropriate spouse.

**2 Total cash and charge tips you RECEIVED in 2014.** *(auto-calc)* Taken from "Total tips received" on screen 1, which is the sum of line c of all worksheets combined.

**3 Total cash and charge tips you REPORTED to your employer in 2014.** *(auto-calc)* Taken from "Tips reported to employer" on screen 1, which is the sum of line d of all worksheets combined.

**4 Subtract line 3 from line 2.** *(auto-calc)* Computed as indicated, this is the net amount of unreported tips. **CAUTION:** *This amount must be reflected in your W-2 Worksheets for Form 1040, line 7, through the amount on line 8 of the worksheet plus the adjustment that follows. For more information, see the shaded box on the first page of these details for Form 4137.*

**5 Cash and charge tips you received but did not report to your employer because the total was less than \$20 in a calendar month.** *(auto-calc)* Taken from "Tips NOT required to be reported to your employer" on screen 1, which is the sum of "Part not required to report" of all worksheets combined. You owe income tax but not social security and Medicare tax on this amount.

**6 Unreported tips subject to Medicare tax.** *(auto-calc)* Computed as line 4 less line 5, this is the amount that will be subject to the 1.45% Medicare tax on this form.

**Part of line 6 for tips received as a government employee.** Enter an amount here *only* for work you performed as a Federal, state, or local government employee and your pay was subject only to the 1.45% Medicare tax as a result. This amount will not be subject to the social security tax on this form. This adjustment will be flagged to the IRS at line 10 on the official printout with the phrase "1.45% tips" and the amount printed on the dotted line for line 10.

**7 Maximum amount of wages (including tips) subject to social security tax.** *(auto-calc)* This threshold is \$117,000 for tax year 2014.

**8 Total social security wages and social security tips or railroad retirement (tier 1) compensation.** *(auto-calc)* Taken from the W-2 Worksheets you completed for Form 1040 line 7a or 7b, this is the sum of lines 3 and 7 of all the W-2 Worksheets for the appropriate spouse combined. It is the amount already taxed for social security by your employer.

- 9 Subtract line 8 from line 7.** *(auto-calc)* Computed as indicated, but no less than zero.
- 10 Unreported tips subject to social security tax.** *(auto-calc)* Computed as the smaller of line 6 (as adjusted for government employees) or line 9, this is the amount that will be subject to social security tax on this form.
- 11 Multiply line 10 by .062.** *(auto-calc)* Computed as indicated, this is the social security tax imposed by this Form 4137 for 2014.
- 12 Multiply line 6 by .0145.** *(auto-calc)* Computed as indicated, this is the Medicare tax imposed by this Form 4137.
- 13 Add lines 11 and 12.** *(auto-calc)* Computed as indicated, this is the total tax to be posted to line 58a of Form 1040.
- If you did not report tips to employe as required, ITEMIZE here to explain why.** You are subject to a penalty of 50% of the social security and Medicare tax due on your unreported tips unless you can show that you had reasonable cause not to report them and did not exhibit willful neglect. You should explain in a supporting statement for this line so that the explanation appears with the return, as required.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 4255\* / Recapture of Investment Credit

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition. (See the separate Partnership Edition manual for details on the version of Form 4255 that is built into the Partnership Edition software.)

**Purpose.** This form is used to figure the additional tax due to (a) the recapture of a previously claimed Investment Tax Credit (ITC) (originally claimed via Form 3468) and, since 2010, (b) the recapture of a qualifying therapeutic discovery project grant. Recapture of the ITC generally arises if you, within 5 years of the date placed in service, you dispose of the property, change its use to a nonqualified use, returned leased property, reduce ownership or business use below acceptable limits, etc. See the IRS Form 4255 Instructions for a complete list of actions that require recapture and exceptions that forgive you from it. Recapture of the therapeutic grant generally arises when the grant you received exceeds the amount to which you are qualified based on actual qualified expenses, usually 50% of expenses. Form 4255 is accessible through the Road Map at the ICR line above line 62 Form 1040.

**Recapture of ITC: Itemize line 3 to support lines 1 through 8.** The details and computation for the recapture of ITC is reported on lines 1 through 8 of Form 4255 on a property-by-property basis. Therefore, you must use the *ITC Recapture Worksheet* (accessible from line 3) for this recapture. The total recapture from all properties combined then appears on line 9 of Form 4255 when you return from the worksheet. *TIP: Recapture of a grant for a qualified therapeutic discovery project is not reported on our ITC Recapture Worksheets, but is separately reported on line 14 of Form 4255. This should not be confused with the recapture of a credit for a qualified therapeutic discovery project, which is reported on our ITC Recapture Worksheets and reflected in lines 1 through 13 of Form 4255.*

**ORIGINAL INVESTMENT CREDIT.** All information for this section (lines 1 through 6) plus lines 7 and 8 of the next section is entered on the supporting worksheets accessed from line 3, below.

- 1 Original rate credit.** See supporting worksheet.
- 2 Cost or other basis.** See supporting worksheet.
- 3 Original credit.** (Supported by the *ITC Recapture Worksheet, Figure 2-38.*) All information for this form must be entered on the supporting worksheets. Although the sum of original credits on the worksheets appears here, only information on the individual worksheets is printed on the official Form 4255, in accordance with the IRS design of the form.
- 4 Date property was placed in service.** See supporting worksheet.
- 5 Date ceased to be qualified investment credit property.** See supporting worksheet.
- 6 Number of full years between the date on line 4 and the date on line 5.** See supporting worksheet.

**ITC Recapture Worksheet.** (Figure 2-38)

You must identify each property and the details of the previously claimed credit for each.

**Type of property** (rehab, energy, etc.) Describe the property in the two 30 character entry lines provided,

ITC RECAPTURE WORKSHEET		
	Type of property.....:	
	(rehab, energy, etc.).....:	
1	Original rate of credit(%)	0
2	Cost or other basis.....	0
3	Original credit.....	0
4	Date placed in service... (first of month, per IRS)	
5	Date ceased to be qualif'd	
6	No. full yrs. between 4 & 5.	0
7	Recapture percentage.....	100.
8	Tentative recapture tax...	0

**Figure 2-38. ITC Recapture Worksheet**

and identify whether the property is rehabilitation, energy, reforestation, or transition property.

- 1 Original rate of credit (%).** Enter the credit percentage from the original Form 3468 used to claim the credit, whether or not all the credit has been claimed.
- 2 Cost or other basis.** Enter the basis used to figure the credit from the original Form 3468 used to claim the credit.
- 3 Original credit.** Enter the credit actually taken on the original Form 3468. The amount should usually be line 1 times line 2, but *may be less if a special limitation applied*. Your entry is automatically limited to no more than line 1 times line 2.
- 4 Date property was placed in service.** Enter the date in the standard mm/dd/yyyy format. *The IRS instructs you to enter the date for the first of the month in which the property was placed in service, irrespective of the actual day placed in service. Therefore, the software automatically changes your entry to be of the form mm/01/yyyy.*
- 5 Date property ceased to be qualified investment credit property.** Enter the date in the standard mm/dd/yyyy format. This date is typically the date you disposed of the property.
- 6 Number of full years between dates on lines 4 and 5. (auto-calc)** Computed as indicated. *If 5 or more, you are not liable for recapture and should remove the worksheet for such property.*
- 7 Recapture percentage. (auto-calc)** The recapture percentage is 100% if the line 5 is less than a year from line 4, and drops by 20% for every full year thereafter.
- 8 Tentative recapture tax. (auto-calc)** Computed as line 3 times the percentage on line 7, this is the recapture tax for this property.

**RECAPTURE TAX.** The additional tax due to ITC recapture (including the recapture of a qualifying therapeutic discovery project credit) is figured here based on totals from the worksheets and any adjustments you may have to enter on line 10 or line 12. The additional tax due to recapture of a qualifying therapeutic discovery project grant is entered on line 14.

**7 Recapture percentage.** See supporting worksheet.

**8 Tentative recapture tax.** See supporting worksheet.

**9 Add all amounts on line 8.** *(auto-calc)* Computed as the sum of line 8 of all supporting worksheets combined, this is generally the ITC recapture tax due, but special circumstances can alter the tax, as follows. *TIP: If you report recapture on more than 4 properties (that is, you use more than 4 worksheets so that not all information can appear on the preprinted IRS form), the phrase "Tax from attached" and the part of line 9 stemming from the additional worksheets after the first four are printed on the dotted line for line 9. This unique requirement appears in both the IRS instructions and the IRS e-file specifications, even though the usual cross-referenced statement is still required.*

**10 Recapture tax from property with an increase in nonqualified nonrecourse financing.** The basis of the property is limited to the amount at risk if you use "nonqualified nonrecourse financing." Therefore, if there is an increase in nonqualified nonrecourse financing, you must report here an amount that is equal to the increase times the original rate of credit for the property. This is the additional recapture tax due to the increase. *You must report this amount in a supporting statement for this line, explaining your computation of this amount in the text column of the support.* See IRS section 49(b) for details.

**11 Add lines 9 and 10.** *(auto-calc)* Computed as indicated.

**12 Unused credits.** If, usually due to a tax liability limit, you could not claim the entire original credit in the tax year when the property was first placed in service or any subsequent year, you can reduce the recapture tax by the amount of credit on line 3 not claimed. See IRS Form 4255 instructions for details on this and the carryforwards and carrybacks that apply. Your entry here is limited to no more than line 11.

**13 Subtract line 12 from line 11.** *(auto-calc)* Computed as indicated.

**14 Recapture of qualifying therapeutic discovery project grant (itemize).** If you received a grant for investment in a qualifying therapeutic discovery project prior to 2014, but spent less than the amount of the grant or ceased qualified use of the property, you are subject to recapture for the excess amount. You must report this recapture tax in a supporting statement for this line, showing your computation for the tax. For details on qualifying therapeutic discovery project grants, credits, and recapture, see *IRS Notice 2010-45*, which is contained in *Internal Revenue Bulletin 2010-23*, available on the web at [http://www.irs.gov/irb/2010-23\\_IRB/ar08.html](http://www.irs.gov/irb/2010-23_IRB/ar08.html). **CAUTION:** *The grant should not be confused with the credit for a qualifying therapeutic discovery project. The grant is paid to you in lieu of a credit,*

*so you would not have claimed it on a Form 3468. The credit, however, is claimed on Form 3468 and recaptured like any other Investment Tax Credit in lines 1 through 13. (Certification is required before you can receive a grant or claim a credit.)*

**15 Total increase in tax.** *(auto-calc)* Computed as the sum of lines 13 and 14, this is the total recapture tax on Form 4255.

The recapture tax on line 15 is posted to the ICR line above line 62 of Form 1040 and is reflected in the total for line 62.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 4562 / Depreciation and Amortization

**How to use it.** Form 4562 is used to report depreciation and amortization deductions in support of expenses on several IRS forms. Twenty copies of Form 4562 are provided: one for each separate copy of each supported form, as required by the IRS, plus two extras copies. They are accessible through the Road Map at the lines they support, as follows:

- **Copy 1 supports Schedule A** through line 22 for both depreciation and amortization.
- **Copies 2-6 support copies 1-5 of Schedule C** through line 13 for depreciation and line 46 for amortization.
- **Copy 7 supports Part I of Schedule E (Rental Real Estate ONLY)** through line 20a for depreciation only. (Amortization is not relevant here.)
- **Copies 8-12 support copies 1-5 of Schedule F** through line 16 for depreciation and line 34b for amortization.
- **Copies 13-17 support copies 1-5 of Form 2106** through line 4 for both depreciation and amortization (excluding car depreciation, which is reported on a separate worksheet on Form 2106).
- **Copy 18 supports Form 4835** through line 12 for depreciation and line 30b for amortization.
- **Copy 19-20** are unattached copies not accessible through the Road Map. They are provided for forms not built into the software or for special summarizing purposes, and are accessible only when you access Form 4562 from the Forms Menu.:

<p>The laws for depreciation are complex, and have changed several times over the last two decades. If you have questions about the computations performed by the software, we recommend you read the IRS <i>2014 Instructions for Form 4562</i>, Pub. 534 (<i>Depreciating Property Placed in Service Before 1987</i>), and Pub. 946 (<i>How to Depreciate Property</i>).</p>
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**TAX PLANNING HINT:** The IRS design for this form is strongly tied to the tax year. The labels that appear on the printed form and screen refer to specific years, such as 2014 for lines 17, 19, 20, and 42. But when you enter a later tax year on the Control Form (for tax planning), the predefined labels no longer apply, and lines 17, 19, 20, and 42 now apply to the new tax year rather than 2014. *CAUTION: When you use our "translate" feature, all amounts and worksheets are shifted to the proper lines automatically as long as the tax year entry on the prior return is the prior year (2013). But if the entry were the current tax year (2014), the software would assume that you had already reentered the data on the proper lines with the later year in mind, so no shifts would be performed.*

**IDENTITY.** The copy of Form 4562 is identified here:

**This copy supports:** (*auto-calc*) The form or schedule supported by this copy appears here. (The Form 4562 copy number appears beside the first item on the menu for this form.)

**Business or activity.** Describe the activity to which this copy relates in 25 characters or less, using a description consistent with the one used on the supported schedule.

**PART I, ELECTION TO EXPENSE CERTAIN TANGIBLE PROPERTY (SECTION 179).** IRS Code Section 179 provides for a full deduction of the cost of some property (in place of normal depreciation) for property that meets *ALL* of the following requirements:

**Acquired by purchase.** Must have been purchased for use in a trade or business.

**Current.** Must be placed in service during the current tax year.

**Active business.** Must be used at least 50% of the time in the active conduct of a trade or business (but *no section 179 deduction is allowed for investment property*, so you should claim none for the copy of Form 4562 that supports Part I of Schedule E).

**Tangible.** Must be tangible depreciable property.

**Section 38.** Must qualify as Section 38 property (that is, it would have met the requirements for the investment tax credit had the credit not been repealed.)

Three important limitations apply to these deductions. The ceiling for 2014 remains high, thanks to the year-end tax bill:

**A** For 2014, the aggregate of all section 179 deductions on the return, including those from any Schedule K-1 you receive, normally cannot exceed \$500,000. However, this limitation is raised by as much as \$35,000 for qualified empowerment zone property. But for real property that qualifies, the limit is \$250,000. (Disaster assistance property and real property no longer qualify for a section 179 deduction.)

**B** When the total cost for all section 179 property together exceeds \$2,000,000, the \$500,000 limit is reduced dollar-for-dollar, so that *NO* deduction is allowed when total cost exceeds \$2,500,000. Only half the cost of the property is used in the computation for qualified empowerment zone property (which the IRS acknowledges in their instructions for line 2 of Form 4562 but ignores in their *Worksheet for Lines 1, 2, and 3*).

**C** Section 179 deductions cannot exceed the aggregate taxable income from all trades or businesses that the taxpayer and/or spouse actively conducts, *including wages*. Therefore, if you have no wages and only one business and it operates at a loss, you are not allowed *ANY* section 179 deduction. Any amount not deducted this year because of this rule can be carried over to 2015 returns. (Note that income that qualifies for this limitation includes section 1231 gains or losses and interest from working capital of a trade or business. See IRS Pub. 946 for details.)

Notice in the above paragraphs that there are now three kinds of property subject to special treatment in applying the limitations:

**Qualified section 179 real property.** Breaking with the traditional requirements for section 179 property, which generally exclude real property, certain specialized real property qualifies for tax years 2010

through 2014. This is real property that is (a) qualified leasehold improvement property, (b) qualified restaurant property, or (c) qualified retail improvement property, as defined in the tax code in sections 168(e)(6), 168(e)(7), and 168(e)(8), respectively. For this property, *Limitation A is lowered to \$250,000*. All other thresholds are the same as other section 179 property.

**Qualified empowerment zone property.** This is property of an enterprise zone business, which is designated by the government for special treatment. For this property, *Limitation A is raised by the lesser of \$35,000 or the cost of the qualified property, and only half of the cost of such property is used when applying Limitation B*. For the IRS definitions of qualified empowerment zone property and the enterprise zone business that can own this property, see IRS Pub. 954 (*Tax Incentives for Distressed Communities*). (This special treatment for empowerment zone property had expired at the end of 2013, but was extended to the end of 2014 by the year-end tax bill.)

The limitations are applied in the following lines for deductions on *this* copy of Form 4562 *ONLY*, but you may be subject to further limitations if there are section 179 deductions elsewhere on the return. *The limitations technically apply to the aggregate of all property throughout the return. You may therefore need to summarize all section 179 deductions for the entire return on an unattached copy of Form 4562 (copy 19 or 20), in order to determine the appropriate limitations,* then reduce the deductions accordingly on the individual Forms 4562 on a *pro rata* basis.

The first three on-screen lines for Part I are relevant only for those who are *married filing separately*. Even though you are filing separately, you must include the cost of section 179 property deducted by the other spouse when applying the limitations on section 179 deductions.

**MFS: Spouse's cost of qualified section 179 real property.** If the filing status is married filing separately you must enter the total cost of qualified real property expensed on the spouse's Form 4562. This amount is reflected in line 1, 2, and 3, below.

**MFS: Spouse's cost of qualified empowerment zone property.** If the filing status is married filing separately you must enter the total cost of qualified empowerment zone property expensed on the spouse's Form 4562. This amount is reflected in line 1, below, and half of it is reflected in line 2.

**MFS: Spouse's cost of other Section 179 property.** If the filing status is married filing separately you must enter the total cost of all section 179 property expensed on the spouse's Form 4562 *excluding* amounts for qualified property entered in the preceding lines. This amount is reflected in line 2, below.

The next two on-screen lines for Part I apply to section 179 property claimed in the worksheets for line 6, described later.

**Qualified section 179 real property cost on line 6 worksheets.** (*auto-calc; supported by the Section 179 Worksheet, Figure 2-39.*) The cost of property identified on the worksheets as "Qualified section 179 real

property" is shown here for use in the limitations at lines 1 and 3, and the cost at line 2.

**Qualified empowerment zone property cost on line 6 worksheets.** (*auto-calc; supported by the Section 179 Worksheet, Figure 2-39.*) The cost of property identified on the worksheets as "Qualified empowerment zone property" is shown here for use in the limitation at line 1 and the cost at line 2.

The remaining on-screen lines for Part I parallel the IRS Form 4562.

**1 Maximum dollar limitation.** (*auto-calc*) Nominally \$500,000 for 2014 (and scheduled to drop to \$25,000 for 2015!), this limitation will be higher if any claimed property is empowerment zone property (whether claimed on the worksheet for line 6, as shown above, or the worksheets for line 26, as shown below line 26). As shown on the IRS *Worksheet for Lines 1, 2, and 3* in the IRS 2014 *Instructions for Form 4562*, the amount is *not* lowered to \$250,000 for real property here; instead, the limitation is applied for real property on the individual worksheets. (*In order to accommodate an e-file specification, the amount that appears here will be zero until you claim a section 179 deduction at line 6, 12, or 26(i).*)

**2 Total cost of sec 179 property placed during the tax year.** (*auto-calc*) Computed as the total cost of assets for which you claim section 179 deductions at lines 6 (taken from your entries on the Section 179 Worksheets accessed at line 6) and 7 (taken from your entries on the *Listed Property Worksheets* accessed at line 26), less half the cost of qualified empowerment zone property included in these totals, plus, if married filing separately, half the spouse's qualified zone property plus all of the spouse's other Section 179 property.

**3 Threshold cost before reduction in limitation.** (*auto-calc*) Normally \$2,000,000 for 2014 (and scheduled to drop to \$200,000 for 2015) (*In order to accommodate an e-file specification, the amount that appears here will be zero until you claim a section 179 deduction at line 6, 12, or 26(i).*)

**4 Reduction in limitation.** (*auto-calc*) The excess cost for Limitation B is computed here as the total cost in line 2 less the threshold in line 3, but no less than zero. *TIP: If an entry appears here, reconsider your section 179 claims, because you can avoid Limitation B by claiming the deduction only for less costly items.*

**MFS: \$ deviation from 50/50 rule.** (*For MFS filing status ONLY.*) The dollar limitation is line 1 less line 4, which includes amounts claimed by the other spouse, but married taxpayers filing separately must split this amount between each other. A 50/50 split that the software provides is normal, but the IRS allows you to make a different split as long as the two of you deduct no more than the dollar limitation on both of your returns combined. This line is therefore provided to alter the split by allowing you to enter a dollar adjustment to the 50/50 split ranging from line 1 less line 4 to line 4 less line 1.

**5 Dollar limitation for the tax year.** (*auto-calc*) Computed as line 1 less line 4, plus the preceding deviation if married filing separately, but no

less than zero. *(In order to accommodate an e-file specification, the amount that appears here will be zero until you claim a section 179 deduction at line 6, 12, or 26(i).)*

- 6 Other than listed property.** *(Supported by the Section 179 Worksheet, Figure 2-39.)* The claim for property placed in service in the current tax year is detailed here for all except listed property. Worksheet details follow the details for line 13, below. **REMINDER: Listed property MUST be detailed in Part V using the Listed Property Worksheet, not here.** Listed property includes cars, computers, and other property that could be partially used for entertainment, recreation, or amusement.
- 7 Listed property - amount from line 29.** *(auto-calc)* Taken as the total section 179 expense deduction in Part V, and therefore not complete until you complete Part V.
- 8 Total elected section 179 cost.** *(auto-calc)* Computed as line 6 plus line 7.
- 9 Tentative deduction.** *(auto-calc)* Computed as the lesser of line 5 or line 8. Limitations A and B, described previously, are enforced here.
- 10 Carryover of disallowed deduction from 2013.** Enter here any amount of section 179 deduction disallowed in 2013 because of the limitation of the deduction to taxable 2013 business income. This amount is shown on line 13 of the prior-year return, and does not include limitations caused by the \$125,000 limitation that year or the limitation resulting when total costs exceeded \$500,000.
- Adjustment to taxable income limitation.** In applying Limitation C, described previously, *the software takes into account all wages and self-employment income throughout the return, but does NOT prorate it among separate Forms 4562.* As a result, if you have more than one Form 4562 with Sec. 179 deductions, you will have to make a negative entry here to reduce the limitation on line 11 by the amount allocated to other Forms 4562. You will also have to make an adjustment here if you have any section 1231 gains or losses from any trade or business (reported in Part I or III of Form 4797).
- 11 Taxable income limitation.** *(auto-calc)* Limitation C is applied here. *(In order to accommodate an e-file specification, the amount that appears here will be zero until you claim a section 179 deduction at line 6, 12, or 26(i).)*
- 12 Section 179 expense deduction.** *(auto-calc)* Computed as the lesser of line 11 or the sum of lines 9 and 10. Limitation C is enforced here.
- 13 Carryover of disallowed deduction to 2015.** *(auto-calc)* Computed as line 9 plus line 10 less line 12, this is the amount disallowed due to the taxable income limitation on line 11, and will be used for line 10 on next year's Form 4562.

SECTION 179 WORKSHEET		2014	Section 179 Work- sheet, Figure 2-39.
Tax year on Form 1040		2014	Use this worksheet
a.	Description of property :		for all but listed prop- erty. The special al- lowance ("bonus de- preciation") is <i>NOT</i>
	Date placed in service..		claimed on this work- sheet but rather on
b.	Cost.....	0	the MACRS/ACRS
	Expense deduc'n from K-1	0	Worksheets for lines
	Qlfd. sec 179 real property? No		19 and 20, and the
	Qlfd. empowerment zone prop.? No		Listed Property Work-
	Amt. 179 elect NOT to claim	0	sheets for line 26.
c.	Elected cost.....	0	
	Balance for deprn & spec allow	0	
CAUTION: Use above bal. as cost in w/s's in II & III.			

Figure 2-39. Section 179 Worksheet

**CAUTION:** Use the *Listed Property Worksheet in Part V, not this worksheet, for automobiles and other listed property.*

**Tax year on Form 1040.** (*auto-calc*) Taken from your entry on the Control Form for tax year. A deduction is allowed only for property placed in service in the year displayed here.

**a. Description of property.** Enter the class and brief description of the property (such as 7-year/desk) in 30 characters or less. **CAUTION:** *Investment property does NOT qualify*, including rental real estate, nor does most other real property.

**Date placed in service.** Enter the date in the standard mm/dd/yy format. **CAUTION:** *The date must be in the current tax year, above, for a deduction to be allowed.*

**b. Cost.** Enter the TOTAL cost of the item for property you own, but leave this line blank for property reported to you on a Schedule K-1 (and therefore owned or leased by a partnership, not you).

**Expense deduction from Schedule K-1.** If the elected section 179 amount is reported to you on a Schedule K-1 (from a partnership), and the cost of the item is not available, enter the elected amount here. A deduction will appear at line c even though line b is zero.

**Qualified section 179 real property?** Answer Yes only if the property is *qualified section 179 real property*, defined previously. A Yes answer leads to a \$250,000 limit on line c of this worksheet, since only the first \$250,000 of the normal \$500,000 limit is allowed for this special property. **CAUTION:** *If you claim section 179 deductions for more than one qualified real property, you must make sure that you claim no more than \$250,000 for all such properties combined, since the IRS form is not designed to do this for you. Use the line "Amt. 179 elect NOT to claim" (below) to reduce your claim, if necessary.*

**Qualified empowerment zone property?** Answer Yes only if the property qualifies as *qualified empowerment zone property*, defined previously. A Yes answer leads to an increase in the limit on line 1 of Form 4562 (by the cost of all qualified empowerment zone properties combined, or \$35,000, whichever is less), and only half of the cost of the property is used in line 2.

**Amount of sec. 179 deduction you elect NOT to claim.** Enter the part of the cost on line b (or expense deduction from Schedule K-1) to be depreciated rather than expensed as section 179 property.

**c. Elected cost.** *(auto-calc)* This line is computed as the cost (or Schedule K-1 amount) less the above amount not to be deducted. However, the result is automatically limited to no more than \$500,000 for 2014 (plus the cost or \$35,000, whichever is less, if qualified empowerment zone property), but further limitations may apply as noted above. **EXCEPTION:** *The line is limited to \$250,000 if real property is claimed on this worksheet.*

**Balance for depreciation and special allowance.** *(auto-calc)* Computed as the cost on line b less the sec. 179 deduction on line c, this is the reduced basis that must be used when computing depreciation and any special allowance.

When you exit the worksheet, lines b and c are separately summed for all worksheets and posted to Form 4562.

## PART II, SPECIAL DEPRECIATION ALLOWANCE AND OTHER DEPRECIATION.

This section is a catchall for depreciation that is neither MACRS depreciation (which is claimed in Part III) nor depreciation for listed property (which is claimed in Part V). It includes the total for the special 50% or 100% depreciation allowance available for certain property reported in Parts II and III of Form 4562 as well as the depreciation of property not eligible for MACRS depreciation, including property placed in service before 1987 and property depreciated under sec. 168(f)(1). **CAUTION:** *If you are electing out of the special allowance for any class of property, be sure to identify the class in the screens that follow line 16.* A 50% special allowance expired for most property on December 31, 2004, but was reinstated for 2008 and 2009, then extended to 2010 and 2011 by the *Small Jobs Act of 2010*. It was then further sweetened by the year-end *Tax Relief Act of 2010* by doubling the allowance to 100% for certain property placed in service after September 8, 2010 and before January 1, 2012. The special allowance was then extended to the end of 2014 at the 50% rate for most property, and extended to the end of 2015 for certain special property by the *American Tax Relief Act of 2012*. Several categories of property now qualify for a special allowance:

**Qualified reuse and recycling property.** This is property that is used exclusively for handling reuse and recycling materials. It must be equipment or machinery (and accessories), and *not* buildings or real estate, acquired after August 31, 2008. It is eligible for the 50% special allowance for 2014 *This allowance does not expire at the end of 2014 or 2015, unlike the allowance for most other property.*

**Qualified second generation biofuel plant property.** This is property used solely in the U.S. to produce second generation biofuel (liquid fuel produced by hydrolysis of any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis) that is *acquired and placed in service after December 20, 2006 and before January 1, 2015*. It is eligible for a 50% special allowance.

**Qualified long production period or aircraft property.** Two special classes of property are eligible for a 50% special allowance if placed in service in 2014. (They qualified for a 100% special allowance after September 8, 2010 and before 2013.) Qualified long production period property is property with a recovery period of at least 10 years (less for transportation property), an estimated production period of more than one year, and an estimated production cost exceeding \$1 million, in addition to the usual minimum requirements for a special allowance. Qualified aircraft property is noncommercial aircraft with an estimated production period of more than 4 months and a cost exceeding \$200,000, in addition to the usual minimum requirements for a special allowance. The property must be *acquired after 2007 and placed in service before 2016*. *TIP: The IRS Form 4562 instructions do not define these properties, so you must refer to Chapter 3 of IRS Pub. 946 (How to Depreciate Property) for more information on what constitutes eligible property.*

**Other qualified for 50% special allowance.** Most other tangible property with a recovery period of 20 years or less is eligible for a 50% special allowance in 2014. Residential rental and nonresidential real property are not allowed. The property must be *acquired after December 31, 2007, and must be placed in service before January 1, 2015*.

See Chapter 3 of IRS Pub. 946 (*How To Depreciate Property*) for detailed definitions and qualifications for property eligible for a special allowance.

**CAUTION:** You **MUST** use built-in worksheets to claim the 50% special allowances. The special first-year depreciation allowance is reported on 2 lines of the IRS Form 4562 (lines 14 and 25), but you should *not* enter amounts on these lines yourself because the software automatically determines the proper amounts based on your entries on applicable worksheets.

• **Line 14 computed from the MACRS/ACRS Worksheets for lines 19 and 20.**

This worksheet includes several lines to support the special allowance and enforce the rules for determining the remaining basis for depreciation. *If you are eligible for the special allowance but choose to elect out of it, you must do so for all other property in the same class as well and attach a statement to your return that identifies that class. The software therefore contains a screen (described later) devoted to identifying the classes for which you make the election and automatically generates a the required supporting statement for the IRS. The worksheets on lines 19 and 20 then use your answers on this screen to determine whether or not to allow the special allowance for the class on each worksheet.*

• **Line 25 supported by the Listed Property Worksheet.** This worksheet includes lines that support the special allowance and enforce the special rules for limitations on cars. Whether you itemize line 25, line 26(h), or line 26(i), you access the same set of worksheets (for more than 50% business use). However, if you itemize line 27(h) you access a different set of worksheets (for business use of 50% or less). For the latter set of worksheets the new lines for the special allowance are still visible on the screen, but are forced to zero because the allowance is not available for property used no more than 50% for business. *Answers you give on the screen described above for electing out of the special allowance are NOT used in this worksheet. You make the election on the worksheet itself. Nevertheless, you must answer the questions on the election screen consistently with this worksheet so that the proper supporting statement is produced for the IRS.*

**Special depreciation allowance in Part II worksheets.** *(auto-calc)* An amount will appear here if you claim the special allowance in one of the worksheets for lines 15 and 16.

**Special depreciation allowance in Part III worksheets.** *(auto-calc)* An amount will appear here if you claim the special allowance in one of the worksheets for lines 19a through 19i or 20a through 20c.

**14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year.** *(auto-calc)* Computed as the sum of the preceding two lines, this is the total special allowance claimed for 2014 for all property other than Listed Property.

**15 Property Subject to Section 168(f)(1) election.** *(Supported by Sec. 168(f)(1) Election Worksheet, Figure 2-40.)* Use the worksheets for this line for property you elect to depreciate by the units-of-production method or any other method not based on a term of years.

**ACRS depreciation (1981-1986).** (*Supported by the MACRS/ACRS Worksheet, Figure 2-41.*) Use this line for property, other than listed property, previously depreciated by the regular or optional ACRS methods. The date placed in service must be from 1981 through 1986, with only rare exceptions, and the worksheets prevent its normal use for other dates. Note that the former ACRS classes are not the same as the current MACRS classes. For any given property, you must use the same class you used on your prior tax return, not the ones noted at line 19a through 19i. See details for line a of the MACRS/ACRS Worksheet for instructions on entering the proper classification. (The IRS does not require that the supporting detail for this line be filed with the return, but rather that you keep the details in your own records. You can therefore invoke the Detach Support key described in Chapter 7 of the separate *User's Guide* to suppress the printing of the worksheets for this line.)

**Other depreciation.** (*Supported by Depreciation Worksheet, Figure 2-42.*) Use this line for property placed in service BEFORE January 1, 1981, and certain other property that cannot be depreciated by ACRS methods. (The IRS does not require that the supporting detail for this line be filed with the return, but rather that you keep the details in your own records. You can therefore invoke the Detach Support key described in Chapter 7 of the separate *User's Guide* to suppress the printing of the worksheets for this line.)

**16 Other depreciation (including ACRS).** (*auto-calc*) Computed as the sum of the above two lines.

Note that "transitional property," which is depreciated by ACRS rules even though placed in service in 1987, must be reported on the MACRS/ACRS Worksheet using the Manual Method, because the built-in date checking blocks the use of the automatic methods for this special case.

Details for worksheets that support Parts II, III, and IV. Line-by-line details for the worksheets that support lines 14 through 22 are provided in the next few pages. These include the Section 168 Worksheet for line 15, the MACRS/ACRS Worksheets for lines 16, 17, 19, and 20, and the Depreciation Worksheet for line 16, detailed here in that order.

Sec. 168(f)(1) Election Worksheet, Figure 2-40. This worksheet applies only to line 15 of Form 4562. For this worksheet you must determine the percentage for the deduction yourself based on the method you use.

a. Description. Enter the description in 25 characters or less.

SEC 168(f)(1) WORKSHEET	
a. Description.....	
b. Date in service.....	
Date acquired (for next four)	
Qlfd.reuse & recycling prop'y?	No
Qlfd. 2nd gen. biofuel plant.?	No
Qlfd.long prod'n or aircraft.?	No
Other qlfd. for 50% allowance?	No
Cost (business/invest) AFTER	
reducing by sec 179,ITC,spec	
creds & PRIOR spec allowance	
Eligible for spec'l allowance?	No
Select OUT of spec'l allowance?	No
Special allowance for line 14	0
c. Deprec'n basis.....	0
f. Method used	
Percentage this year.....	0
g. Deduction this yr. ....	0

Figure 2-40. Sec. 168(f)(1) Worksheet

b. Date placed in service. Enter the date first placed in service in the standard mm/dd/yy format.

Date acquired (for next four). This entry is used only for checking qualification for to claim the special "bonus" depreciation allowance for the following three special types of property.

Qualified reuse and recycling property? This is property that is used exclusively for handling reuse and recycling materials. It must be equipment or machinery (and accessories), and not buildings or real estate, acquired after August 31, 2008 and first placed in service in the tax year of the return; these requirements are enforced by the software. This property is eligible for a 50% special allowance, and carries no expiration date.

Qualified second generation biofuel plant property? This is property used solely in the U.S. to produce second generation biofuel, defined in IRC section 40(b)(6)(E). A 50% special allowance will be provided by the software if the property was acquired after December 20, 2006 and before 2015. Otherwise, no special allowance is allowed.

Qualified long production period property or certain aircraft? To qualify, long production period property must either have a recovery period of at least 10 years or be commercial transportation property, must have an estimated production period of more than one year, and must have an estimated production cost of more than \$1 million. Qualifying aircraft must be noncommercial aircraft, must have an estimated production period of more than four months, and must have a cost of more than \$200,000. A 50% special allowance will be pro-

vided by the software if the property was acquired after 2007 and placed in service before 2016.

**Other qualified for 50% allowance?** This category covers all other property still eligible for a 50% special allowance. All such property must have been acquired no earlier than January 1, 2008 and first placed in service in the tax year of the return but before January 1, 2015. See the IRS 2014 Instructions for Form 4562 for additional requirements.

**Cost (business/investment part) AFTER reducing it by any sec. 179, ITC, special credits, and PRIOR special allowance claimed for the property.** Note that the reduction for credits is not always the full amount of the credit, as in the case for the investment tax credit (ITC). However, deductions for sec. 179 and prior special allowance are used at full value. If this is the first year the property was placed in service, the cost after reduction for sec. 179 deduction will be shown at the bottom of any Sec. 179 Worksheet completed for the property in Part I, line 6.

**Eligible for special allowance? (auto-calc)** Answered Yes if one of the questions for qualified property is answered Yes, above, and eligible dates are entered for both date placed in service and date acquired.

**Elected out of special allowance?** Answer Yes only if you elect out of the special allowance for all property in this class. Your answers on the Election Screen do *not* control this entry but should be consistent with it.

**Special allowance for line 14. (auto-calc)** Computed as 0%, 50%, or 100% of the adjusted cost entered above depending on the preceding answers and dates.

**c. Basis for depreciation. (auto-calc)** Computed as the adjusted cost entered above less the preceding special allowance for line 14. This is the basis to be used for this and all future years.

**f. Method used.** Describe method in 25 characters or less.

**Percentage this year.** Enter percent of line c to be deducted as depreciation for this year.

**g. Deduction this year. (auto-calc)** Computed as line c times the above percentage.

**MACRS/ACRS Worksheets, Figure 2-41.** Lines 16, 17, 19a through 19l, 20a through 20c, and 22

```

MACRS/ACRS WORKSHEET
a. Classification & description
Indian Reservation property..? No
b. Date placed mm/dd/yy.....
Date acquired (for next four)
Qlfd.reuse & recycling prop'y? No
Qlfd. 2nd gen. biofuel plant.? No
Qlfd.long prod'n or aircraft.? No
Other qlfd. for 50% allowance? No
Cost less 179,ITC,prior allow
Eligible for special allowance No
Elected OUT for THIS class... No
Special allowance for line 14 0
c. Deprec'n basis..... 0
d. Recov.Period..... 0
Farm or elect 150% DB.? No
MUST use mid-qtr convn? No
e. Convention used.....
f. Method (DB,SL,etc).....
Month sold(if this yr) 0
Percentage this year.. 0
g. Deprec'n deduction..... 0
    
```

Figure 2-41. MACRS/ACRS Worksheet

are each supported by separate MACRS/ACRS Worksheets of the type detailed here.

- a. Classification and description.** Enter the classification and a brief description in this 15-character space. As required by the IRS, *the first two characters you enter MUST reflect the classification: by number, such as 3-, 5-, 7-, 10, 15, and 20, or by letter, such as LI, PU, RR, or NR*, as detailed here. For post-1986 real property you should use 27.5 for residential rental, and 31.5 or 39 for nonresidential real. For most pre-1987 real property, use 15 if placed in service before March 16, 1984, 18 if placed in service after March 15, 1984 but before May 9, 1985, and 19 if placed in service after May 8, 1985 but before January 1, 1987, but use LI for low-income housing and PU for public utilities. If placed in service after 1987, use RR for residential rental, use NR for nonresidential real, and CL for class life type property (for which you enter the class life as the recovery period entry). Even though the software ensures the proper calculation for lines 15 and 16 in spite of your entry here, you MUST follow these rules so that the translated return for NEXT year has all the information required after the worksheet gets shifted by translation to line 17.

**Indian Reservation Property?** If the property qualifies, you may answer Yes here and the allowed recovery periods used in computing line g are shortened for most classifications, resulting in a higher deduction over a shorter period of time for 2014. (This accelerated depreciation benefit had expired on December 31, 2009, but the *Tax Relief Act of 2010* reinstated it retroactively and extended it through 2011, then the *American Taxpayer Relief Act of 2012* reinstated it retroactively again and extended it through the end of 2013. The year-end tax bill in 2014 reinstated it retroactively again and extended it through the end of 2014.)

- b. Date placed in service (month, day, and year).** This entry is very important because many of the built-in schedules change on very specific dates. In spite of the IRS label for this line as requiring only the month and year, you should enter the date using the mm/dd/yy format so that the changes in IRS rules over the years are all properly handled. There are several instances over the last two decades where allowed depreciation methods, conventions, and limitations have changed in the middle of a month, so your entry for day (in addition to month and year) is often important. Note that the software will reformat your entry in the mm/dd/yy format if you enter a date using more than 8 characters (such as mm/dd/yyyy) in order to ensure that the dates print within the narrow space provided on the IRS form. (**CAUTION: A date that is inconsistent with the line from which you itemized to access the worksheet results in a zero deduction.** For example, if you accessed the worksheet at line 19 or 20, the date must be in the same tax year as entered on the Control Form, displayed above. If you accessed the worksheet at line 16 or 17, the

date must precede the tax year entered on the Control Form. Illegal dates are often indicated by the word INVALID at the method line).

**Date acquired (for next four).** This entry is used only for checking qualification for to claim the special "bonus" depreciation allowance for the following three special types of property.

**Qualified reuse and recycling property?** This is property that is used exclusively for handling reuse and recycling materials. It must be equipment or machinery (and accessories), and *not* buildings or real estate, acquired after August 31, 2008 and first placed in service in the tax year of the return; these requirements are enforced by the software. This property is eligible for a 50% special allowance, and carries *no expiration date*.

**Qualified second generation biofuel plant property?** This is property used solely in the U.S. to produce second generation biofuel, defined in IRC section 40(b)(6)(E). A 50% special allowance will be provided by the software if the property was acquired after December 20, 2006 and before 2015. Otherwise, no special allowance is allowed.

**Qualified long production period property or certain aircraft?** To qualify, long production period property must either have a recovery period of at least 10 years or be commercial transportation property, must have an estimated production period of more than one year, and must have an estimated production cost of more than \$1 million. Qualifying aircraft must be noncommercial aircraft, must have an estimated production period of more than four months, and must have a cost of more than \$200,000. A 50% special allowance will be provided by the software if the property was acquired after 2007 and placed in service before 2016.

**Other qualified for 50% allowance?** This category covers all other property still eligible for a 50% special allowance. All such property must have been acquired no earlier than January 1, 2008 and first placed in service in the tax year of the return but before January 1, 2015. See the IRS *2014 Instructions for Form 4562* for additional requirements.

**Cost (business/investment part) AFTER reducing it by any sec. 179, ITC, special credits, and PRIOR special allowance claimed for the property.** Note that the reduction for credits is not always the full amount of the credit, as in the case for the investment tax credit (ITC). (The required reduction for ITC is half of any pre-1986 credit unless you chose to take the reduced credit at that time.) However, deductions for sec. 179 and prior special allowance are used at full value. If this is the first year the property was placed in service, the cost after reduction for sec. 179 deduction will be shown at the bottom of any Sec. 179 Worksheet completed for the property in Part I, line 6.

**Eligible for special allowance? (*auto-calc*)** Answered Yes if one of the questions for qualified property is answered Yes, above, and eligible dates are entered for both date placed in service and date acquired.

**Elected OUT for THIS class?** *(auto-calc)* The answer will be Yes only if you identified this class for election out of the special allowance on the *Election Screen*, as described earlier.

**Special allowance for line 14.** *(auto-calc)* Computed as 0%, 50%, or 100% of the adjusted cost entered above depending on the preceding answers and the two date entries.

**c. Basis for depreciation.** *(auto-calc)* Computed as the adjusted cost entered above less the preceding special allowance for line 14. This is the basis to be used for this and all future years.

**d. Recovery period.** Enter the period if it is not the same as the classification you entered on line a. The software restricts this entry to legal periods. For regular MACRS and ACRS methods the class and recovery period are the same. For straight-line methods see Table 2-14 for the allowed periods.

**Farm or elect 150% DB method?** Since 1990, property used in a farming business cannot be depreciated at the 200% declining balance rate that is normally available for 3-year, 5-year, 7-year, and 10-year property. If the declining balance method is chosen, property used in a farming business MUST be depreciated at a 150% rate instead. In addition, nonfarm property can be depreciated at 150% by election (in order to avoid the complications of the alternate minimum tax). In either case, answer Yes here to force 150% DB for classes where 200% DB would be used otherwise.

**MUST use mid-quarter convention?** *(For post-1986 property only.)* If more than 40% of your new property for a class was placed in service in the last quarter of a tax year, you normally must answer Yes for all property of the same class for that tax year. A Yes answer causes the software to use the mid-quarter convention rather than the half-year convention when figuring MACRS depreciation. (Under the normal rule you must answer this question the same way for all property of the same class placed in service in the same year.)

**e. Convention used.** *(auto-calc line when you enter DB, MA, PRE, AC, or SL as the method.)* This line shows the convention used in the calculations, using IRS-defined abbreviations: HY (for half-year), MQ (for mid-quarter), FM (for full month), and MM (for mid-month).

**f. Method (DB, SL, etc.).** Three basic methods are built-in: MACRS (DB or MA), the regular prescribed ACRS (PRE or AC), and the straight-line election (SL or S/L). The software recognizes these methods from the first two characters of your entry: DB, MA, PRE, or AC for MACRS or ACRS (depending on the date), and SL or S/L for straight-line election, ADS, or optional straight-line depending on the recovery period and date. Any other entry, including any entry with a leading space, permits you to manually enter ANY percentage for "Percentage this year," below. **CAUTION: When you elect SL for new property in a particular class you must use that same method for ALL new property in that same class.**

**Month sold (if this year).** If sold or retired during the tax year, enter the month sold or retired from 1 to 12. The deduction is determined

automatically based on the law. *REMINDER: A zero deduction will result for pre-1987 property other than real property under the ACRS rules that no deduction is allowed in the year of sale.*

**Percentage this year.** *(auto-calc line when you enter DB, MA, PRE, AC, or SL as the method.)* If you don't enter a bona fide method, the Manual Method is assumed and you can enter the percentage here yourself. Otherwise the IRS percentage is displayed here to two decimal places, even though it is retained to three decimal places in the calculations when so required by the IRS. *CAUTION: Do not use the Manual Method unless you have an unusual exception, such as transition property, because the software has numerous lesser-known subtleties of the law built in, handling all the changes of the past decade.*

- g. Depreciation deduction.** *(auto-calc)* Computed as the basis on line c times the above percentage. Note that the special 30% depreciation allowance is *NOT* included in this total. The special allowance is separately handled, and the total from all worksheets is included in line 14 of Form 4562 instead.

We cannot overly stress the fact that the regulations are complex and constantly changing. We have built into the software much more tax law information than can be detailed here. We therefore suggest you consult the latest version of IRS Pub. 946 if you have questions.

Table 2-14. Straight-Line Recovery Periods

CLASS	LINE 19	LINE 20	LINE 17	LINE 16
3-year	3	2.5 or more	3 or more	3, 5, or 12
5-year	5	5 or more	5 or more	5, 12, or 25
7-year	7	7 or more	7 or more	n.a.
10-year	10	10 or more	10 or more	10, 25, or 35
12-year	n.a.	12	12 or more	n.a.
15-year	15	15 or more	15 or more	15, 35, or 45
PU, LI	n.a.	n.a.	n.a.	15, 35, or 45
20-year	20	20 or more	20 or more	n.a.
25-year	25	25 or more	25 or more	n.a.
RR, NR	27.5,31.5*	40	27.5,31.5*,40	15,18,19,35,45
50-year **	50	n.a.	50 or more	n.a.

NOTES: For lines 19a through 19i, and 20a through 20c, classes are restricted to the class label for the line. Shorter recovery periods are used for Qualified Indian Reservation Property, as noted in the instructions for lines 19a through 19i.

\* Nonresidential real property uses 39 rather than 31.5 if placed in service after May 12, 1993.

\*\* 50-year property that is reported above line 22 has 50 automatically entered as the class.

**Depreciation Worksheet, Figure 2-42.** This worksheet applies only to line 16 of Form 4562. You normally use this worksheet to claim depreciation on all older (pre-1981) property, but *for automobiles and other listed property you must use the Listed Property Worksheet accessed in Part V of Form 4562, not this worksheet.* Rules are built-in for all the methods popularly used before 1981, including all declining balance methods, sum-of-the-years'-digits, and straight line.

**DEPRECIATION WORKSHEET**

a. Description

b. Date acquired(mm/dd/yy)

Qlfd.reuse & recycling prop'y? No

Qlfd. 2nd gen. biofuel plant.? No

Qlfd.long prod'n or aircraft.? No

Other qlfd. for 50% allowance? No

Deprec'n starting date..

Cost (less adj & prior allow) 0

Elect out of spec'l allowance? No

Special allowance for line 14 0

c. Deprec'n basis..... 0

d. Deprn in past yrs allowable 0

e. Method of depr'n(SL/DB/SY)

f. Life of property (yrs.) 0

If SL, rmng bal method? No

If DB, DB percentage.. 0

If DB,auto-swch to SL? No

If manual,enter amount 0

If sold, % of full yr. 0

% of full year calc'd. 0

g. Deprec'n this yr. .... 0

Figure 2-42. Depreciation Worksheet

- a. **Description.** Describe the property in 25 characters or less.
- b. **Date acquired.** Enter date in the standard mm/dd/yy format.
- Depreciation starting date.** If the date in line b is not the proper starting date for the depreciation convention you use, enter the proper date here in the standard mm/dd/yy format. Remaining life is computed from this entry so that you can implement any convention, includ-

ing mid-month and mid-quarter conventions. **CAUTION:** Only dates before 1981 are normally valid here, by IRS rules.

**Cost (business/investment part) AFTER reducing it by any sec. 179, ITC, special credits, and PRIOR special allowance claimed for the property.** Enter the cost or other allowable basis after reduction for certain credits or past special allowance. You may have to reduce the entry by the salvage value for some types of property.

**Elected out of special allowance?** Answer Yes only if you elect out of the special allowance for all property in this class. Your answers on the Election Screen do *not* control this entry but should be consistent with it.

**Special allowance for line 14. (auto-calc)** Computed as 0%, 50%, or 100% of the adjusted cost entered above depending on the preceding answers and dates.

**c. Cost or other basis. (auto-calc)** Computed as the adjusted cost entered above less the preceding special allowance for line 14. This is the basis to be used for this and all future years.

**d. Depreciation in past years allowable.** Enter here the depreciation allowable in past years, *whether taken or not*. If you did not take enough deduction in a prior year you will have to file an amended return for that year to recover the amount; you cannot claim the extra amount here.

**e. Method of depreciation (SL/DB/SY).** The software chooses the method based on the first two letters in this entry: *SL* or *S/L* for the straight-line method, *DB* for declining balance method, and *SY* for sum-of-the-years' digits method. Any other entry allows you to enter the deduction yourself on the line labeled "If manual, enter amount to use," below.

**f. Life of property (in years).** Enter the TOTAL depreciable life of the property in years, from the date acquired to the end of its life.

**If SL, use remaining balance method?** The remaining balance method must be used for SL if the property was not previously depreciated by the straight-line method, such as after a switchover from the declining balance method. With this method the deduction for the year is the remaining balance divided by the remaining life, rather than line c divided by line f.

**If DB, enter DB percentage.** Enter the declining balance percentage to be used, such as 125, 150, or 200.

**If DB, auto-switch to SL?** If you answer Yes, the DB method is automatically changed to the SL remaining balance method when the latter results in a more favorable deduction, as allowed by the IRS. If the property has a salvage value, however, you may have to reduce the basis when you use this method.

**If manual, enter amount to use.** The Manual Method uses this entry as the deduction to appear at line g.

**If sold, % of full year.** Make an entry here ONLY if the property was sold during the tax year. Enter the percent (from 0 to 100) of a full year's depreciation to be used this year. *Make sure that this entry re-*

*flects the convention you used when you started depreciating this item.* For example, if you sold the property on March 1st you would use 16.67% by the actual date, but 12.5% by the mid-quarter convention and 20.83% by the mid-month convention.

**% of full year calculated.** (*auto-calc*) A number less than 100% may appear here if the tax year is the first year of depreciation or the year of sale. (Note that the percentages used in the calculations are more precise than the numbers that can be shown on the screen.)

**g. Depreciation this year.** (*auto-calc*) Computed according to the method selected.

**ELECTIONS FOR PART III.** In recent years, a special first-year depreciation allowance has been provided for most tangible property, usually amounting to 50% or 100% of the basis depending on the type of property. Moreover, the allowance has been mandatory for eligible property unless you made certain allowed elections. In the earliest versions of this allowance, the IRS provided some flexibility in your elections in that you could elect a lower allowance percentage rather than electing completely out of the special allowance. However, the current form of the law provides only two options: the full allowance or no allowance. Under current law, the allowance is always either 50% or 100%, depending on the property type and dates involved, unless you elect out of it for all property in the same class. In order to enforce the IRS requirement that all property of the same class must use the same election, we provide an Election Screen. When you identify, through your answers to the questions on the Election Screen, the classes for which you want to make an election, two things will happen in the software:

- (1) Your election will control the allowances claimed on worksheets for lines 19a through 20c for the identified classes, forcing the allowance to be 0% or its allowed percentage (50% or 100% depending on the type of property and dates) depending on your answers and the specific lines you itemize.
- (2) The official printout of Form 4562 will cross-reference a supporting statement (even though you didn't create one), and that automatically-generated supporting statement will identify the classes for which you made an election.

It is therefore important that you answer the questions on our special Election Screen in order to fully automate the election process. **CAUTION: In order to fully comply with the law, be sure to make the SAME elections on ALL Forms 4562 you prepare.**

**CAUTION: Elected property requires a depreciation adjustment on Form 6251.** Another incentive for *NOT* electing out of the special allowance is a provision of the law that involves the alternative minimum tax (AMT). The law provides that you do *NOT* have to make a depreciation adjustment on Form 6251 for qualifying property for which you claim the special allowance. The special allowance is deductible for the AMT. However, regular accelerated depreciation is not allowed for the AMT, so you must make an adjustment (relative to straight-line depreciation) on Form 6251 for regular depreciation. As a result, *if you are subject to the AMT you may want to think twice about electing out* of the special allowance when you are qualified for it.

**Election OUT of 50% and 100% Depreciation Allowance.** The special first-year depreciation allowance is automatically claimed for new *eligible* property placed in service in 2014 unless you specifically elect out of it, as follows:

**ELECT OUT for 3-year class?** A Yes answer will prevent the special allowance from being computed for qualifying property on worksheets that support line 19a.

**ELECT OUT for 5-year class?** A Yes answer will prevent the special allowance from being computed for qualifying property on worksheets that support line 19b.

**ELECT OUT for 7-year class?** A Yes answer will prevent the special allowance from being computed for qualifying property on worksheets that support line 19c.

**ELECT OUT for 10-year class?** A Yes answer will prevent the special allowance from being computed for qualifying property on worksheets that support line 19d.

**ELECT OUT for 15-year class?** A Yes answer will prevent the special allowance from being computed for qualifying property on worksheets that support line 19e.

**ELECT OUT for 20-year class?** A Yes answer will prevent the special allowance from being computed for qualifying property on worksheets that support line 19f.

**ELECT OUT for 25-year class?** A Yes answer will prevent the special allowance from being computed for qualifying property on worksheets that support line 19g.

**ELECT OUT for Class Life ADS?** A Yes answer will prevent the special allowance from being computed for qualifying property on worksheets that support line 20a.

**ELECT OUT for 12-year ADS?** A Yes answer will prevent the special allowance from being computed for qualifying property on worksheets that support line 20b.

**ELECT OUT for other (itemize)?** Answer Yes here to identify any class not listed above, and describe the class in a supporting statement for this line. A Yes answer for this line does NOT affect the special allowance on any worksheets automatically, but your support will be printed with the return for the IRS.

Note that there are no election questions for certain classes of property: residential rental property (line 19h), nonresidential real property (line 19l), 40-year property (line 20c), and 50-year property (above line 22). Therefore, the software will not compute a special allowance for these classes of property even though you make no election for them.

**PART III, MACRS DEPRECIATION.** Depreciation deductions for most property placed in service since 1987 are claimed here, but NOT deductions for listed property. (Listed property is reported in Part V, and includes cars, computers, and other property that could be partially used for entertainment, recreation, or amusement.) Line 17 is used for property placed in service *before* the current tax year, and lines 19 and 20 are used for property placed in service *during* the current tax year. The IRS always requires the supporting details for newly acquired property, so the details for lines 19 and 20 must always be printed, but you can omit the printing of details for line 17 (by using the Detach Support key described in Chapter 7 of the separate *User's Guide*).

**Section A.** The IRS has no title for this section because it now contains two totally unrelated items! The first line is used for reporting MACRS depreciation for property placed in service *before* the tax year of the return, and was formerly grouped with other old property (lines 19 and 20). The second line is used to make the General Asset Account Election.

**17 MACRS deductions for assets placed in service before 2014.** (*Supported by the MACRS/ACRS Worksheet, Figure 2-41.*) The worksheets that support this line are the same type as those that support lines 19 and 20. However, the date placed in service must be *BEFORE* the current tax year (but not before 1987, since MACRS was introduced in 1987). When you complete worksheets for this line, you **MUST** enter the class on line a, using the abbreviations given in the instructions for the worksheet, below, in order to effect the proper automatic calculations. For the worksheets that support this line the date placed in service must precede the current tax year (as entered on the Control Form) but be no earlier than 1987 or else no deduction will result.

**18 Making the election under section 168(i)(4) to group any assets placed in service during the tax year into one or more general asset accounts?** If so, you must answer Yes here, and an X will appear in the box provided on the official Form 4562.

**Section B – Assets Placed in Service During 2014 Using the General Depreciation System.** (*Supported by the MACRS/ACRS Worksheet, Figure 2-41.*) This line is separated by class into nine separate lines, each of which is supported by an independent set of MACRS/ACRS Worksheets, detailed later. Each set provides automatic calculations for the class identified by the line. Deductions for both regular MACRS and the straight-line election under the General Depreciation System (GDS) are provided. The regular MACRS deduction is based on the traditional declining balance (DB) method with automatic switchover to straight-line when the latter results in a bigger deduction, using a half-year convention. For this line, the recovery period is always the same as the class label, even for the straight-line election. (This GDS straight-line election is cov-

ered by IRS sec. 168(b)(5), and differs from the ADS method described for line 20 in which the recovery period is generally NOT the same as the class label. If you elect the straight-line method, you must use that method for ALL worksheets that support the same line.) For worksheets that support these lines the date placed in service must be within the tax year entered on the Control Form; otherwise no deduction will result. Furthermore, the class is forced to correspond to the label for the line being supported.

**Special rules for property acquired in a like-kind exchange or involuntary conversion.** Special rules must be followed for all property acquired after February 27, 2004 by like-kind exchange or involuntary conversion, unless you elected out of these rules in writing. Under these rules you must depreciate the carryover basis of the property over the remaining recovery period of the property. Under the prior rules you could use any reasonable consistent method of figuring depreciation. See IRS Instructions for Form 4562 for details.

- 19a 3-year property.** Includes race horses more than 2 years old, other horses more than 12 years old, and qualified rent-to-own property under sec. 168(i)(14). (ADR class life of 4 years or less. DB method based on 200% DB over 3 years, or 2 years for Qualified Indian Reservation Property for 2014.)
- 19b 5-year property.** Includes other horses, qualified technological equipment (such as computers), certain office equipment (typewriters, calculators, copiers, and duplicating equipment), research and experimentation property, and semi-conductor manufacturing equipment. It also includes carpeting, furniture, appliances, and other property that is associated with rental real estate. CAUTION: All cars and most personal computers fall into this class life, but are generally depreciated in Part V, not here, as listed property. (ADR class life more than 4 but less than 10 years. DB method based on 200% DB over 5 years, or 3 years for Qualified Indian Reservation Property for 2014.)
- 19c 7-year property.** Includes office furniture and fixtures, office equipment not classified as 5-year property, railroad track, and other property with no assigned ADR class life. *The class now also includes a motorsports entertainment complex.* (ADR class life 10 or more but less the 16 years. DB method based on 200% DB over 7 years, or 4 years for Qualified Indian Reservation Property for 2014.) TIP: Use this line for property that has no IRS-designated class life.
- 19d 10-year property.** Includes water transportation equipment, single-purpose agricultural/horticultural structures, trees and vines bearing fruit or nuts. (ADR class life 16 or more but less the 20 years. DB method based on 200% DB over 10 years, or 6 years for Qualified Indian Reservation Property for 2014.)
- 19e 15-year property.** Includes municipal wastewater treatment plants, and telephone distribution plants. *The class now also includes qualified leasehold improvement property, qualified restaurant property, and initial land clearing and grading for gas utility property.* (ADR class life 20 or more but less the 25 years. DB method based on

150% DB over 15 years, or 9 years for Qualified Indian Reservation Property for 2014.)

**19f 20-year property.** Includes multi-purpose farm buildings and municipal sewers that are not 25-year property. *The class now also includes initial land clearing and grading for electric utility transmission and distribution plants.* (ADR class life 25 or more years, except for most real property. DB method based on 150% DB over 20 years, or 12 years for Qualified Indian Reservation Property for 2014.)

**19g 25-year property.** For water utility property, this class was created for qualifying property placed in service after June 12, 1996. (Based on straight-line depreciation over 25 years.)

**19h Residential rental property (27.5-year, mid-month, S/L only).** Includes buildings in which at least 80% of the rent is from dwelling units, but excludes most hotels and motels. Also includes escalators and elevators. (Based on straight-line depreciation over 27.5 years using a mid-month convention.)

**19i Nonresidential real property (mid-month, S/L only).** Real property, other than residential rental property, with ADR class life of at least 27.5 years. (Based on straight-line depreciation using a mid-month convention over a 39-year period, or 22 years for Qualified Indian Reservation Property for 2014.)

**Special allowance in section B for line 14.** *(auto-calc)* Computed as the sum of all the current-year special allowance amounts figured on the worksheets for line 19a through 19i. (Property reported at line 19h or 19i is not eligible for the special allowance.) This result is included in the total at line 14 for all special allowance claims in Parts II and III of Form 4562.

**Worksheet ERROR – View worksheets if Yes.** *(auto-calc)* An error will be indicated here if there is a special allowance in the preceding total for a class of property for which you elected out of the special allowance (on the previously-described Election Screen). This error can arise only if you changed an answer on the Election Screen *after* you prepared the worksheets for that class. To correct the error, merely view all worksheets for elected classes and the worksheets will be automatically recomputed using your new election answers.

**50-year property.** Although the IRS Form 4562 still does not provide a separate line for it, there is a special class for improvements related to railroad tracks. Contrary to all other new property, the IRS instructs you to note any deduction for this property at line 22, not here, so we provide a line for this property above line 22 rather than here.

**Section C -- Assets Placed in Service During 2014 Tax Year Using the Alternative Depreciation System.** *(Supported by the MACRS/ACRS Worksheet, Figure 2-41.)* A separate kind of straight-line depreciation has been coined by the IRS as the Alternative Depreciation System (ADS), covered by IRS sec. 168(g). For this type of depreciation, you must use an IRS-prescribed period, typically the class life of the property, rather than the life in the class label, as the recovery period. **CAUTION:** *You are REQUIRED to use this method rather than MACRS for some property:* any tangible property used mostly outside the U. S., any tax-exempt use property, any tax-exempt bond financed property, and any imported property covered by an Executive Order of the President of the United States. This line is separated by type into three separate lines, each of which is supported by an independent set of MACRS/ACRS Worksheets, detailed later. Each set provides automatic calculations for the type identified by the line. *For worksheets that support these lines the date placed in service must be within the tax year entered on the Control Form; otherwise no deduction will result. Furthermore, except for line 20a the class is forced to correspond to the label for the line being supported.*

**20a Class life type (S/L only).** Use this line for property that has an IRS-defined class life, except for real property. When you use the worksheet accessed here you must enter as the recovery period the actual class life, such as 16 through 20 for 10-year property.

**20b 12-year (12-year, S/L only).** Use this line *for property that has no class life.* Such property is assumed to be "7-year property" with a class life, and hence recovery period, of 12 years.

**20c 40-year (40-year, mid-month, S/L only).** Use this line only *for residential rental and nonresidential real property* that would be deducted on line 19h or 19i if the alternate system were not used. A 40-year recovery period is assumed in this case, using the mid-month convention when determining the straight-line deduction.

**Special allowance in section C for line 14.** *(auto-calc)* Computed as the sum of all the current-year special allowance amounts figured on the worksheets for line 20a and 20b. (Property reported at line 20c is not eligible for the special allowance.) This result is included in the total at line 14 for all special allowance claims in Parts II and III of Form 4562.

**Worksheet ERROR – View worksheets if Yes.** *(auto-calc)* An error will be indicated here if there is a special allowance in the preceding total for a class of property for which you elected out of the special allowance (on the previously-described Election Screen). This error can arise only if you changed an answer on the Election Screen *after* you prepared the worksheets for that class. To correct the error, merely view all worksheets for elected classes and the worksheets will be automatically recomputed using your new election answers.

Note that you must use the same method for all property in the same class placed in service in 2014.

**PART IV, SUMMARY.** All depreciation deductions are summed here:

**21 Listed property - amount from line 28.** *(auto-calc)* Taken as the total section 179 expense deduction in Part V, and therefore not complete until you complete Part V. ***CAUTION: Depreciation for automobiles and other listed property must ALWAYS be detailed in Part V.***

**50-year property (railroad track).** *(Supported by the MACRS/ACRS Worksheet, Figure 2-41.)* Although the IRS Form 4562 does not provide a line for it, there is a class for improvements related to a roadbed or right-of-way for railroad track that qualifies as a railroad grading or tunnel bore under IRS section 168(e)(4). This class has existed since 1992, yet the IRS does not provide separate lines for it. Since the IRS instructions call for its deduction at line 22, however, worksheet access is provided here for property placed in service in 1992 or later. The worksheet you access at this line is fully automated, just like all other classes of property. Note that this class of property is not eligible for the special 30% allowance.

**22 Total. Add lines 12, 14 through 17, 19 and 20 in column (g), and line 21.** *(auto-calc)* Computed as indicated *plus* the above amount for 50-year property, this is the total posted to the supported form for which you accessed this copy of Form 4562. (Note that this total excludes line 12 for partnership Form 1065 returns because partnerships must pass section 179 deductions on to its partners.)

**23 For assets shown above and placed in service in current year, portion of basis attributable to Section 263A costs.** This line is for IRS auditing only and does not affect any calculations. If you are subject to the uniform capitalization rules of section 263A, you must enter, for all property placed in service in the current tax year, the increase in basis from costs that are required to be capitalized.

**Details for worksheets that support Parts II, III, and IV.** Line-by-line details for the worksheets that support lines 14 through 22 are provided [in the pages that follow our details for Part II](#). The worksheets include the Section 168 Worksheet for line 15, the MACRS/ACRS Worksheets for lines 16, 17, 19, and 20, and the Depreciation Worksheet for line 16.

**PART V, LISTED PROPERTY.** (*Automobiles, certain other vehicles, certain computers, and property used for entertainment, recreation, or amusement.*) This section is used to report depreciation for all "listed property" and to substantiate business use of a vehicle. Listed property includes cars, computers, and other property that could be partially used for entertainment, recreation, or amusement. Listed property no longer includes cellular telephones. Except for cars, however, property used EXCLUSIVELY in a taxpayer's trade or business at taxpayer's regular business establishment is EXEMPT from listed property status. When business use is 50% or less, the section 179 expense deduction is NOT available and the deduction must be determined using the straight-line method over an extended life. **CAUTION: The IRS also requires you to complete Part V even for vehicles for which you use the standard mileage rate or deduct lease expenses,** completing lines a through c of the Listed Property Worksheet, all of Section B, and Section C if applicable.

**RULES for SUVs.** The "SUV loophole" was tightened for certain sport utility vehicles (SUVs) acquired after October 22, 2004. Under the former law, you were not subject to the usual restrictions on annual deductions for vehicles if the SUV was rated at 6,000 pounds gross vehicle weight or more. As a result, because of the increase in the section 179 ceiling to \$100,000 for 2003, you could generally deduct the entire cost of a heavy SUV in the first year if used mostly for business! The *American Jobs Creation Act of 2004* took a first step at closing the loophole. For heavy SUVs placed in service after October 22, 2004 but rated at no more than 14,000 pounds gross weight, the maximum section 179 deduction is now \$25,000. (You should identify these vehicles as Auto Type 4 on our Listed Property Worksheet so that the proper limitations are applied.)

**Section A, Depreciation and Other Information.** The section 179 expense deduction, special 30% or 50% depreciation allowance, and regular depreciation deduction are all claimed here for Listed Property. Note that *two separate sets of Listed Property Worksheets* support this section. The set accessed at lines 25 and 26 supports only property with more than 50% business use, and the set accessed at line 27 supports only property with 50% or less business use:

**24a Do you have evidence to support the business/investment use claimed?** You must answer for all listed property taken as a whole.

**24b If "Yes", is the evidence written?** Again, answer for all property taken as a whole.

**25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use.** (*Supported by Listed Property Worksheet, Figure 2-43.*) This line is used to claim the special 50% or 100% depreciation allowance for certain property. The worksheets you access here serve three purposes: to support the special allowance here, to support the regular depreciation deductions at column (h) of line 26, and to support the section 179 deductions at column (i) of line 26. The computation of these three deductions on the same worksheet is important because (1) they all relate to listed property used more than 50% for business, (2) the computation of

the special allowance depends on the sec. 179 deduction claimed for the same property, and (3) the computation of the regular depreciation depends on both the sec. 179 deduction and special allowance claimed for the same property. **CAUTION: You should NOT make an entry here yourself but rather complete the supporting worksheets. The proper deduction will then appear here when you return from the worksheets. Furthermore, if you make an entry here manually yourself it will be overwritten by information on the supporting worksheets once you itemize any of the lines supported by this worksheet.** (Note that the worksheets that support this and the next two lines are intended *ONLY* for property used in the business more than 50% of the time. The software therefore computes zero depreciation on any worksheets attached to these lines that do not have an entry for business use percentage that exceeds 50%.)

**26 Property used over 50% in a qualified business use (h) depreciation.** *(Supported by Listed Property Worksheet, Figure 2-43.)* The depreciation deduction is posted here from the same set of worksheets as support the preceding line. This amount is also reflected in the total at line 28(h), below, and line 21 in Part IV.

**26 Property used over 50% in a qualified business use (i) Section 179.** *(Supported by Listed Property Worksheet, Figure 2-43.)* The current-year expense deduction is posted here from the same set of worksheets as support the preceding two lines. This amount is also used for line 29(i), below, and line 7 in Part I.

**Qualified empowerment zone property cost on line 26 worksheets.** *(auto-calc; supported by the Listed Property Worksheet, Figure 2-43.)* The cost of property identified on the worksheets as "Qualified empowerment zone property" is shown here for use in the limitation at line 1 and the cost at line 2 of Form 4562.

**27 Property used 50% or less in a qualified business use (h) depreciation.** *(Supported by Listed Property Worksheet, Figure 2-43.)* The worksheets that support this line are intended *ONLY* for property used in the business *no more than 50%* of the time. The software therefore computes zero depreciation for any worksheets attached to this line that do not have an entry for business use percentage of 50% or less. The depreciation deduction from all appropriate worksheets combined appears here. This total is also reflected in the total at line 28(h), below, and line 21 in Part IV.

**28 Total amounts in column (h) for line 21, page 1.** *(auto-calc)* Computed as the sum of lines 25, 26(h) and 27(h), this is the total depreciation for listed property including the new bonus depreciation.

**29 Total amounts in column (i) for line 7, page 1.** *(auto-calc)* Taken as the amount on line 26(i), and posted to line 7 of Part I, this is the total sec. 179 expense for listed property.

**Pre-1987 part of depreciation in line 29(h) (for California).** *(auto-calc, supported by Listed Property Worksheet, Figure 2-43.)* This line is provided to simplify preparation of a state return by our California Supplement.

If you claim any deductions for vehicles, also see Sections B and C, later.

**Listed Property Worksheet, Figure 2-43.** For most entries you can *refer to the details for MACRS/ACRS Worksheets (Figure 2-41) for more information*. However, additional restrictions apply to this worksheet as noted below. (Note that the IRS prefers that the worksheets appear in the order of vehicles first, then 5-year property, 10-year property, etc., so you may need to change the order of the worksheets after you add a new one. See Chapter 7 of the separate *User's Guide* for information on reordering worksheets.)

**a. Type of property.** Describe property in 10 characters or less.

**If a vehicle, enter 1=regular, 2=electric, 3=truck or van, 4=SUV, 5=exempt.**

If the property is a passenger vehicle, it is generally subject to annual limitations on depreciation deductions -- the so-called "luxury car limitations." *See Table 2-15 (following the details for Section C) for a complete list of the limitations, which are applied when you enter 1, 2, or 3 here.* For most vehicles, 1 is the appropriate entry. Enter 2 if the vehicle was produced by an original equipment manufacturer and designed to run primarily on electricity. The ceiling on depreciation for electric vehicles that were placed in service after August 5, 1997 but before January 1, 2007 is approximately triple that for regular cars. Enter 3 if the vehicle is a passenger truck or van (including minivans and SUVs built on a truck chassis) rated at 6,000 pounds gross vehicle weight or less. The ceiling on first-year depreciation is \$200 to \$500 higher for trucks and vans than it is for regular cars. Enter 4 if the vehicle is an SUV (or other passenger vehicle) rated at more than 6,000 pounds gross vehicle but no more than 14,000 pounds. This class of vehicle is not subject to the limitations in Table 2-15, but is subject to a reduced maximum for sec. 179 deduction of \$25,000 if placed in service after October 22, 2004. Enter 5 for vehicles that are exempt from all ceilings, including ambulances, hearses, taxicabs, and certain vehicles rated at more than 6,000 pounds with large cargo areas or high passenger capacity.

**b. Date placed in service.** Enter full date in the mm/dd/yy format. This entry critically affects all computations.

**Date acquired (for next four).** This entry is used only for checking qualification for to claim the special "bonus" depreciation allowance for the following four special types of property. The rules for dates as they apply to the special allowance are quite involved, so you should refer to the IRS instructions for line 14 of Form 4562, which apply to line 25 as well, for details.

**Qualified empowerment zone property?** Answer Yes only if the property qualifies as qualified empowerment zone property, defined previously. A Yes answer leads to an increase in the limit on line 1 of Form 4562 (by the cost of all qualified zone properties combined, or \$35,000, whichever is less), and only half of the cost of the property is used in line 2.

**Qualified reuse and recycling property?** This is property that is used exclusively for handling reuse and recycling materials. It must be equipment or machinery (and accessories), and *not* buildings or real estate, acquired after August 31, 2008 and first placed in service in the tax year of the return; these requirements are enforced by the software. This property is eligible for a 50% special allowance, and carries *no expiration date*.

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LISTED PROPERTY(Scr1 1of2)
a. Type of property..... 0
   If a vehicle,enter 1=regular,
   2=elec,3=truck,4=SUV,5=exempt
b. Date placed in service....
   Date acquired (for next 4)
   Qlfd.empowerment zone property? No
   Qlfd.reuse & recycling prop'y? No
   Qlfd.long prod'n or aircraft.? No
   Other qlfd. for 50% allowance? No
   Class (3,5,7,10, etc.)
   % of qlfd business use 0
c. % bus+investment use..... 0
d. Cost or other basis..... 0
   Sec.179exp & PRIOR spec allow 0
   Eligible for spec'l allowance? No
   Elect out of spec'l allowance? 0
   Special allowance for ln 25 0
e. Deprec'n basis..... 0
   Deprec'n in past years 0
[Press PgDn or > for f thru i]

LISTED PROPERTY(Scr1 2of2)
f. Period of recovery (years) 0
   Farm or elect 150% DB.? No
   MUST use mid-qtr convn? No
g. Method used.....
   Method (DB,SL,etc.)
   Month sold(if this yr) 0
   Percentage this year.. 0
h. Deprec'n deduction..... 0
i. Sec179 cost elected..... 0
    
```

Figure 2-43. Listed Property Worksheet

**Qualified long production period property or certain aircraft?** To qualify, long production period property must either have a recovery period of at least 10 years or be commercial transportation property, must have an estimated production period of more than one year, and must have an estimated production cost of more than \$1 million. Qualifying aircraft must be noncommercial aircraft, must have an estimated production period of more than four months, and must have a cost of more than \$200,000. A 50% special allowance will be provided by the software if the property was acquired after 2007 and placed in service before 2016.

**Other qualified for 50% allowance?** This category covers all other property still eligible for a 50% special allowance. All such property must have been acquired no earlier than January 1, 2008 and first placed in service in the tax year of the return but before January 1, 2015. See the IRS 2014 *Instructions for Form 4562* for additional requirements.

**Class (3, 5, 7, 10, etc.).** This 2-digit entry determines the restrictions to apply and the calculations to use. (See our details for lines 19a through 20c of Form 4562 for examples of classes to use.)

**Business use percentage.** Enter percentage, from 0 to 100, that defines the amount the item was used for business during the tax year. When the business percentage is 50% or less, straight-line depreciation must be used, which the software ensures. *CAUTION: If you accessed this worksheet from line 25 or line 26, you will not be allowed to enter any amounts below if your entry here for business use percentage is 50% or less. Conversely, if you accessed this worksheet from line 27, you will not be allowed to enter any amounts below if your entry here for business use percentage is more than 50%.*

- c. **Business/investment use percentage.** This entry will automatically match the above business use percentage unless you increase it to reflect investment use of the property in addition to business use. Through this entry you increase the basis for depreciation without increasing the business use for purposes of the above 50% rule.
- d. **Cost or other basis.** Enter actual cost or gross basis, not adjusted basis, here. The basis for depreciation is computed at line e.

**Section 179 expense deduction and PRIOR special allowance.** Enter the section 179 deduction *taken in the past or to be taken this year (if placed in service in the current tax year)*, *plus* any special allowance claimed in a *prior* year for this property and the amount of reduction required for certain prior credits, such as the Investment Tax Credit (ITC) taken in the past. (The required reduction for ITC is half of any pre-1986 credit unless you chose to take the reduced credit at that time.) See our instructions for Part I of this form for detailed requirements for claiming a section 179 deduction. *Do not enter here any special allowance for the CURRENT year; the special allowance for the current year is automatically computed later.* No section 179 deduction is allowed in the current year if the business use percentage is 50% or less. This rule is imposed in determining the amount for line h when the date on line b lies in the current tax year. See limitations described in Part I of Form 4562. If acquired in the current year, your entry will appear at line i, below, subject to the limitations for cars if you identified the property as a regular vehicle, electric vehicle, truck or van, or SUV.

**Eligible for special allowance? (auto-calc)** Answered Yes if you answered Yes to one of the qualified property questions and eligible dates are entered for both date placed in service and date acquired.

**Elect out of special allowance.** If you answer Yes, no special allowance will be computed, even if eligible. If you answer No and are eligible, a 50% or 100% depreciation allowance will be computed, subject to limitations if a vehicle. If you identified the property as a vehicle type 1, 2, or 3, the allowance is subject to the limitations shown in Table 2-15, just as it is for other forms of depreciation. Also note that the special allowance is computed at the next line *ONLY if the following two conditions are met:*

\* percent of business use is more than 50%,

\* business use start date is within the tax year of the return.

*CAUTION: If you choose to elect out when eligible, you must treat all property in the same class in the same way and identify the class in our Election Screens in Part II so that the required statement will be printed with the official return..*

**Special allowance for line 25.** *(auto-calc)* If "Date placed in service" (line b) lies in the current tax year and the "% of qualified business use" exceeds 50%, a special allowance will appear here, when applicable, unless you elected out of it. The special allowance is figured on a reduced basis computed as line c times line d less the sec. 179 deduction taken. The allowance is then the applicable percentage of that reduced basis, subject to the limitations in Table 2-15 when applicable. This result will be reflected in line 25 of Form 4562.

- e. **Basis for depreciation.** *(auto-calc)* Computed as line d times the percentage on line c, less the section 179 deduction and the preceding special allowance.

**Depreciation in past years.** Enter total depreciation allowable in the past, *whether taken or not*. This entry determines the amount you can deduct after the end of the recovery period for cars previously subjected to luxury car maximums.

- f. **Recovery period (years).** This entry is restricted by the software to allowed values. For example, when the SL method is required because of the 50% rule, your entry may be raised to a recovery period higher than the class label may imply.

**Farm or elect 150% DB method?** As detailed for the MACRS/ACRS Worksheet, property used in a farming business cannot use the 200% DB method, and others may use 150% DB by election.

**MUST use mid-quarter convention?** *(For post-1986 property only.)* If more than 40% of your new property for a class was placed in service in the last quarter of a tax year, you normally must answer Yes for all property of the same class for that tax year.

**Convention used.** *(auto-calc line when you enter DB, MA, PRE, AC, or SL as the method.)* This line shows the convention used in the automatic calculations, using IRS-defined abbreviations: HY (for half-year), MQ (for mid-quarter), FM (for full month), and MM (for mid-month).

- g. **Method (DB, SL, etc.).** Three basic methods are built-in: MACRS (DB or MA), the regular prescribed ACRS (PRE or AC), and the straight-line election (SL and S/L). The software recognizes these methods from the first two characters of your entry. All other entries, including any entry with a leading space, permit you to manually enter ANY percentage for "Percentage this year," below. *REMINDER: The software changes your DB, MA, PRE, and AC entry into SL when the business use percentage is 50% or less, to conform with IRS rules.*

**Month sold (if this year).** If sold or retired during the tax year, enter the month sold or retired from 1 to 12. The deduction is determined automatically based on the law. (A zero deduction will result for pre-1987 property other than real property under the ACRS rules that no deduction is allowed in the year of sale.)

**Percentage this year.** *(auto-calc line when you enter DB, MA, PRE, AC, or SL as the method.)* If you don't enter a bona fide method, the Manual Method is assumed and you can enter the percentage here yourself. Otherwise the IRS percentage is displayed here to two decimal places, even though it is retained to three decimal places in the calculations when so required by the IRS. **CAUTION: Do not use the Manual Method unless you have an unusual exception, such as transition property, because the software has numerous lesser-known subtleties of the law built in, handling all the changes of the past decade.**

**h. Depreciation deduction.** *(auto-calc)* Computed as the basis on line e times the above percentage, then *limited to the amounts in Table 2-15 (following the details for Section C) multiplied by business use percentage if you entered 1, 2, or 3 as the type of automobile.*

**i. Section 179 cost elected.** *(auto-calc)* Taken as your entry for section 179 expense deduction taken (as previously limited for cars when applicable), when the date on line b lies within the tax year and business use percentage exceeds 50%.

When you exit the worksheets, the amounts on all lines d, h, and i are separately summed and posted to the corresponding lines on Form 4562.

**Section B, Information Regarding Use of Vehicles.** *(Supported by Vehicle Info Worksheet for Form 4562, Figure 2-44.)* You **MUST** complete this section for **ANY** vehicles used by sole proprietors, partners, more than 5% owners, and related persons. You also **MUST** complete it for employer-provided vehicles if you cannot answer Yes to any of the questions in Section C, below. This entire section, is supported by Vehicle Info Worksheets. **CAUTION: While you can make entries directly on Form 4562 for tax planning, you MUST complete these worksheets to satisfy the IRS reporting requirements for a return you plan to file.** The worksheets are accessible at any of the lines in this section.

**Vehicle Info Worksheet for Form 4562, Figure 2-44.** See Sec. C, below, to determine whether you need to complete this part:

<p><b>Vehicle identification.</b> Describe each vehicle in 10 characters or less, so as to uniquely associate it with the proper <i>Listed Property Worksheet</i> completed in Section A.</p>	<table border="0" style="width: 100%;"> <tr> <td colspan="2" style="text-align: center;"><b>VEHICLE INFO WORKSHEET</b></td> </tr> <tr> <td style="padding-left: 20px;">Vehicle identification....</td> <td style="text-align: right;">0</td> </tr> <tr> <td style="padding-left: 20px;">30 Tot business miles durng yr</td> <td style="text-align: right;">0</td> </tr> <tr> <td style="padding-left: 20px;">31 Tot commuting miles durg yr</td> <td style="text-align: right;">0</td> </tr> <tr> <td style="padding-left: 20px;">32 Tot other personal miles...</td> <td style="text-align: right;">0</td> </tr> <tr> <td style="padding-left: 20px;">33 Tot miles driven during yr</td> <td style="text-align: right;">0</td> </tr> <tr> <td style="padding-left: 20px;">34 Available for personal use in off-duty hours.....? No</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">35 Used mainly by over 5% owner or related person...? No</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">36 Another vehicle available for personal use.....? No</td> <td></td> </tr> </table>	<b>VEHICLE INFO WORKSHEET</b>		Vehicle identification....	0	30 Tot business miles durng yr	0	31 Tot commuting miles durg yr	0	32 Tot other personal miles...	0	33 Tot miles driven during yr	0	34 Available for personal use in off-duty hours.....? No		35 Used mainly by over 5% owner or related person...? No		36 Another vehicle available for personal use.....? No	
<b>VEHICLE INFO WORKSHEET</b>																			
Vehicle identification....	0																		
30 Tot business miles durng yr	0																		
31 Tot commuting miles durg yr	0																		
32 Tot other personal miles...	0																		
33 Tot miles driven during yr	0																		
34 Available for personal use in off-duty hours.....? No																			
35 Used mainly by over 5% owner or related person...? No																			
36 Another vehicle available for personal use.....? No																			

**Figure 2-44. Vehicle Info Worksheet for Form 4562**

- 30 Total business miles driven during the year.** Enter the number of miles attributable to business purposes.
- 31 Total commuting miles driven during the year.** Enter the number of miles attributable to commuting to and from work.
- 32 Total other personal (noncommuting) miles driven.** Enter all miles not included in line 30 or line 31 for the vehicle.
- 33 Total miles driven during the year.** *(auto-calc)* Computed as the sum of lines 30 through 32.
- 34 Was the vehicle available for personal use during off-duty hours?** Answer Yes or No.
- 35 Was the vehicle used mainly by a more than 5% owner or related person?** Answer Yes or No.
- 36 Is another vehicle available for personal use?** Answer Yes or No.

When you return from the worksheets, the totals for lines 30, 31, and 32, and any Yes response to Question 34, 35, or 36, are posted to Form 4562.

**Section C, Questions for Employers Who Provide Vehicles for Use by Their Employees.** Your answers indicate whether you have to complete Section B:

- Do you provide vehicles for your employees?** If No, do not complete the rest of this section because it does not apply.
- 37** Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?
- 38** Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees?
- 39** Do you treat all use of vehicles by employees as personal use?
- 40** Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?
- 41** Do you meet the requirements concerning qualified automobile demonstration use?

You do not have to complete Section B if you provide no vehicles to employees or you can answer Yes to any question on lines 37 through 41.

Table 2-15. Limitations on Passenger Vehicles

<u>DATE PLACED IN SERVICE</u>	<u>TAX YEAR</u>	<u>MAXIMUM</u>
6/19/84 through 12/31/84	all	\$6,000
1/1/85 through 4/2/85	all	\$6,200
4/3/85 through 12/31/86	all	\$4,800
1/1/87 through 12/31/90	after 3rd	\$1,475
1/1/91 through 12/31/92	after 3rd	\$1,575
1/1/93 through 12/31/94	after 3rd	\$1,675
1/1/95 through 12/31/96	after 3rd	\$1,775
1/1/97 through 12/31/03	after 3rd	\$1,775 (*)
1/1/04 through 12/31/05	after 3rd	\$1,675 (*)
1/1/06 through 12/31/09	after 3rd	\$1,775 (*)
1/1/10 through 12/31/10	3rd	\$2,950
" " "	4rd	\$1,775
1/1/11 through 12/31/11	2nd	\$4,900
" " "	3rd	\$2,950
1/1/12 through 12/31/12	2nd	\$5,100
" " "	3rd	\$3,050
1/1/13 through 12/31/13	1st	\$3,160 (**)
" " "	2nd	\$5,100

(\*) Increases to these limits apply to electric passenger automobiles and trucks and vans as follows:

***For electric passenger automobiles after 8/5/1997 but before 1/1/2007:***  
 All limits are approximately triple (within plus or minus \$200) for OEM electric vehicles. See IRS tables for limits.

***For trucks and vans after 12/31/02 (under 6,000 lb. gross):***  
 For 2013, add \$200 to 1st-year and \$300 to 2nd-year limits.  
 For 2012, add \$200 to 1st-year and 2nd-year limits.  
 For 2011, add \$200 to 1st-year and \$300 to 2nd-year limits.  
 For 2010, add \$200 to 2nd-year and \$100 to 3rd-year limits.  
 For 2009, add \$100 to 3rd-year limit only.  
 For 2006 through 2008, add \$100 to limits after 3rd year.  
 For 2003 through 2005, add \$200 to limits after 3rd year.

(\*\*) Raised by \$8,000 if special allowance elected for this property.

NOTE: Actual limitation is THE ABOVE AMOUNT MULTIPLIED BY THE BUSINESS USE PERCENTAGE. (After the recovery period has expired, the remaining depreciation not taken because of the above limitations can be deducted subject to these limitations each year until fully depreciated.)

**PART VI, AMORTIZATION.** Certain costs such as starting a business, goodwill, and other intangibles are not subject to depreciation rules and can be amortized instead. Amortization deductions are separated by date placed in service into two lines:

**42 Amortization of costs that begins in 2014.** (*Supported by Amortization Worksheet, Figure 2-45.*) Report amortization here ONLY for property placed in service during the current tax year. You MUST use the supporting worksheet for this line and file them with the return to satisfy IRS reporting requirements.

**43 Amortization of costs that began before 2014.** (*Supported by Amortization Worksheet, Figure 2-45.*) Report all other amortization here. Use of the supporting worksheets is optional here.

**44 Total.** (*auto-calc*) Computed as the sum of lines 42 and 43.

The result on line 44 is automatically posted to the amortization line on the form supported by this copy of Form 4562. (Note that Schedule E has no such line because none of the allowed cases apply to it.)

**RULES for the amortization of certain costs.** The *American Jobs Creation Act of 2004* changed the rules for a broad range of special costs paid or incurred after October 22, 2004. It eliminated the credit for forestation and reforestation costs (Form 3468), but provided for the amortization of up to \$10,000 of the cost (\$5,000 if married filing separately) over an 84-month period. It also changed the minimum amortization period for start-up costs from 60 months to 180 months. And it provided that certain creative property costs could be amortized over a 15-year period. See *IRS 2014 Instructions for Form 4562* for details on these and other costs for which the amortization rules were changed.

**Amortization Worksheet, Figure 2-45.** All lines on the worksheet are informational only except for line f:

**Tax year on Form 1040.** (*auto-calc*) Taken from your entry on Form 1040, it is used to check your date entry for line b.

AMORTIZATION WORKSHEET		
	Tax year on Form 1040. ■	2014
a.	Describe costs..	
b.	Date amort'n begins.....	
c.	Amort'bl amount.....	0
d.	Code section .....	
	Amortn period (months)	
	OR Amortn % this yr	0
	Month sold(if this yr)	0
e.	Amortiz'n % or period.....	
f.	Amortiz'n this yr.....	0

Figure 2-45. Amortization Worksheet

- a. Description of costs.** Describe in 25 characters or less.
- b. Date amortization begins.** Enter the acquisition, completion, or expenditure date in the standard mm/dd/yy format. If you accessed the worksheet at line 42, the date must be in the same tax year as entered on Form 1040, displayed above. If you accessed the worksheet at line 43, the date must precede the tax year entered on Form 1040. Illegal dates are indicated by the word INVALID.
- c. Amortizable amount.** Enter total amount to be amortized.

**d. Code section.** Identify the IRS code section under which you are allowed to amortize the property, according to the following list:

- Sec. 169** for pollution control facilities,
- Sec. 171** for certain bond premiums,
- Sec. 174** for research and experimental expenditures,
- Sec. 178** for cost of acquiring a lease,
- Sec. 194** for qualified forestation and reforestation costs,
- Sec. 195** for business start-up expenditures,
- Sec. 709** for organizational expenditures for a partnership,
- Sec. 59(e)** for optional write-off of certain tax preferences.

See IRS Pub. 535 (*Business Expenses*) for details.

**Amortization period (months).** If using a simple full-month method of amortization, enter the total number of months over which the item is to be amortized.

**OR Amortization percentage this year.** If using a percentage method instead, enter the percentage (up to 100%) here.

**Month sold (if this year).** If you entered a period, above, and sold or retired the item during the tax year, enter the month sold or retired (1 to 12). The period over which the deduction is computed is then reduced to the number of full months before the item was sold.

**e. Amortization percentage or period.** If you entered an amortization period or percentage above, this line reflects your entry automatically, in a standard format using 2 decimal places for percentages and whole numbers for months. Otherwise, you are free to enter any description text in 10 characters or less.

**f. Amortization for this year.** If you entered an amortization period or percentage above, this line reflects that entry (cost times 12 divided by the amortization period, or the cost times the percentage). Otherwise, you are free to enter any deduction that is appropriate. .

When you exit the worksheet, the total of all lines f for all amortization worksheets is posted to the line supported.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 4684 / Casualties and Thefts

**Who is it for.** This form is for reporting gains and losses from casualties and thefts. (Gains can result when insurance proceeds exceed the cost or other basis of the property lost.) If covered by insurance, you must file a timely claim in order to be eligible to deduct any net loss. Otherwise you must reduce your deduction by the amount that the insurance would have covered. The form is now divided into three parts: Section A for personal property, Section B for business and income-producing property, and Section C (new this year) for Ponzi-type investments. *The form is accessible through the Road Map through forms and schedules where casualty and theft gains and losses are reported: line 20 of Schedule A (where personal property loss is deducted), lines 4 and 11 of Schedule D (where personal property gains and losses are reported), and lines 3 and 14 of Form 4797 (where business or income-producing property gains and losses are reported).*

**Use separate Forms 4684 for separate casualties and losses.** Only one copy of Form 4684 is built into the software, but the IRS requires you to use separate copies of Form 4684 for each separate casualty or loss. Therefore, if you have more than one separate casualty or theft to report, you must complete separate copies of Form 4684 (attached to separate, blank, mock returns) for Section A lines 1 through 12 ONLY, or Section B lines 19 through 28 ONLY, then report the amounts from those other copies on the main copy attached to your return. For Section A, enter the sum of line 12 of all other Forms 4684 above line 13 of the main copy and the sum of line 4 of all other Forms 4684 above line 14 of the main copy. For Section B, include worksheets related to amounts on other Forms 4684 in your worksheets for lines 29 and 34, and (for error checking) enter the short-term net from other Forms 4684 below line 29 of the main copy, and the long-term net below line 34 of the main copy. (Use the main copy provided by the software to report the summary of all casualties and thefts from all separate forms plus the details for the casualty and theft reported on the main copy.)

**Is this SUPPLEMENTARY copy of Form 4684?** You should answer Yes ONLY if you are reporting more than one casualty or theft, and the copy you are currently preparing is NOT the copy that is attached to the return to be filed. The supplementary Forms 4684 that you need to complete separately from the return when reporting more than one casualty or theft must not have lines 13 through 18 nor 29 through 39 completed, and a Yes answer here ensures that those lines are zero.

**SECTION A - PERSONAL USE PROPERTY.** Use this section to figure casualty and theft gains and losses for property that is NOT used in a trade or business and is NOT used for income-producing purposes.

**Details for one casualty or theft event.** This section is supported by Casualty and Theft Worksheets, but you should use them to report only one casualty or theft event on any one copy of Form 4684. Use a separate worksheet for each separate property lost or damaged. A \$100 deductible is applied separately on

each copy of Form 4684 for each separate casualty or theft event. You must *itemize line 4 or 10 to support lines 1 through 9*. If you have more than one casualty or theft event, see the preceding shaded paragraph on using separate Forms 4684. All information for the lines 1 through 12 comes from the Casualty and Theft Worksheets that support these lines, and you must view the worksheets for the details of lines 1 through 12.

**1 through 3.** The entries for these lines are shown only on the supporting worksheets, and are not totaled here nor on the form.

**4 Gain from casualty or theft.** *(Supported by the Personal Casualty and Theft Worksheet, Figure 2-46.)* Taken as the sum of all gains on line 4 for all worksheets attached to this copy of Form 4684.

**5 through 9.** The entries for these lines are shown only on the supporting worksheets, and are not totaled here nor on the form:

**5 Fair market value before casualty or theft.**

**6 Fair market value after casualty or theft.**

**7 Subtract line 6 from line 5.**

**8 Smaller of line 2 or line 7.**

**9 Subtract line 3 from line 8.**

**10 Casualty or theft loss.** *(Supported by the Personal Casualty and Theft Worksheet, Figure 2-46.)* Taken as the sum of all losses on line 9 for all worksheets attached to this copy of Form 4684.

**11 Smaller of line 10 or \$100.** *(auto-calc)* Computed as indicated. The first \$100 of loss for each event is disallowed. (There is no longer a special treatment for certain disasters.)

**12 Subtract line 11 from line 10.** *(auto-calc)* Computed as indicated, this is the net deductible loss for this event.

**Personal Casualty and Theft Worksheet, Figure 2-46.** Access this worksheet at line 4 (gain) or 10 (loss) of Form 4684, and complete a separate worksheet for each separate property involved in the same casualty or theft.

**1 Description - Enter type.** Enter type of property here in 15 characters or less.

**Location.** Enter location in 30 characters or less.

**Date acquired.** Enter date in the standard mm/dd/yy format or, if inherited, enter INHERITED.

PERSONAL CASUALTY & THEFT	
1	Description - Enter type: and location:
	Date acquired.....
	Held for long-term period? No
2	Cost or other basis.....
3	Insurance/other reimbursmnt
4	Gain fr casualty/theft.....
	Fair market value BEFORE event
5	Fair market val BEFORE.....
	Fair market value AFTER event.
6	Fair market val AFTER.....
7	Subtract line 6 from 5.....
8	Smaller of line 2 or 7.....
9	Subtract line 3 from 8.....
	0
	0
	0
	0
	0
	0
	0
	0
	0

**Figure 2-46. Personal Casualty and Theft Worksheet**

**Held for long-term period?** Answer Yes if the property was held more than one year before the casualty or loss, or the property was inherited from someone who died before or after 2010. *For someone who died in 2010, see IRS Pub. 4895.*

**2 Cost or other basis.** Enter cost plus improvements, but if the property is your main home, subtract any postponed gain from the sale of a previous main home. If property was received in a trade-in, as a gift, or as an inheritance, see IRS Pub. 551 (*Basis of Assets*) for special rules. *For losses of deposits from an insolvent or bankrupt bank, make no entries on this line nor the rest of the worksheet. See the following shaded box instead for details on how to report the loss.*

**3 Insurance or other reimbursement.** Enter the amount you received, expect to receive, or would have received had you filed a claim. If the property is insured, you must enter an appropriate amount here whether or not you decide to file a claim with the insurance company. If payment for loss was other than by insurance, see official IRS instructions for Form 4684 for details.

**4 Gain from casualty or theft.** *(auto-calc)* Computed as line 3 less line 2, but no less than zero. If greater than zero, the remainder of the worksheet will be zero and should not be completed.

**Fair market value BEFORE event.** Enter the price at which the property would change hands between a willing seller and a willing buyer, each having knowledge of the relevant facts before the casualty or theft event.

**5 Fair market value BEFORE casualty or theft.** *(auto-calc)* Taken as the above entry if line 4 is zero, but zero otherwise.

**Fair market value AFTER event.** Enter the price at which the property would change hands between a willing seller and a willing buyer, each having knowledge of the relevant facts after the casualty or theft event.

**6 Fair market value AFTER casualty or theft.** *(auto-calc)* Taken as the above entry if line 4 is zero, but zero otherwise.

**7 Subtract line 6 from line 5.** *(auto-calc)* Computed as indicated.

**8 Smaller of line 2 or line 7.** *(auto-calc)* Computed as indicated.

**9 Subtract line 3 from line 8.** *(auto-calc)* Computed as indicated, but no less than zero.

Lines 4 and 9 are separately summed from all worksheets attached to this copy of Form 4684 and posted to lines 4 and 10 of Form 4684 itself.

**Special procedure for losses of deposits in insolvent or bankrupt banks.** If you incurred a loss of deposits in a financial institution because it became insolvent or bankrupt, you have two choices in how to deduct the loss:

- You can deduct the loss (less any expected proceeds from state insurance) as a miscellaneous deduction at line 23 of Schedule A (Form 1040). The most you can claim here is \$20,000 (\$10,000 if married filing separately), and your deduction is subject to the usual 2% AGI limit for that line of Schedule A.

OR...

- You can deduct the loss in this section of Form 4684 using the following procedure. Complete a worksheet for line 4 with *ONLY* line 1 completed, identifying the institution on the first line and entering "Insolvent financial inst." on the second line. Then, once all worksheets for the line are completed, when you return to Form 4684 increase the total for line 10 by the amount of loss incurred. *WARNING: If you itemize line 4 or 10 after making an entry as instructed here, line 10 reverts back to the sum of line 9 from all the worksheets, and you will have to re-enter the loss on line 10 anew after you return to Form 4684!*

**Summary of all personal casualties and thefts.** This section summarizes the results of lines 1 through 12 for all casualty and theft events reported on separate Forms 4684. *You can complete this section only if your answer to "Is this SUPPLEMENTARY copy of 4684" (at the beginning of this form) was No*, indicating that this is your main copy of Form 4684 -- the one attached by the software to your return.

**Line 12 from this Form 4684.** *(auto-calc)* Taken from line 12 on the prior screen.

**Line 12 from all other Forms 4684.** Enter the sum of line 12 for all Forms 4684 except this one.

**13 Amounts on line 12 of all Forms 4684.** *(auto-calc)* Computed as the sum of line 12 from all copies of Form 4684 combined.

**Line 4 from this Form 4684.** *(auto-calc)* Taken from line 4, as indicated.

**Line 4 from all other Forms 4684.** Enter the sum of line 4 for all Forms 4684 except this one.

**14 Amounts on line 4 of all Forms 4684.** *(auto-calc)* Computed as the sum of the above two amounts.

**15 If line 14 more than line 13, enter difference.** *(auto-calc)* Computed as indicated, an amount appears here only if the aggregate of all personal casualties and thefts for the year results in a net gain. *If a net gain exists, all gains and losses that comprise this net gain are reported on Schedule D.* You must therefore identify below what part of this result stems from short-term gains and losses (that is, gains or losses on property held one year or less).

**Short-term net for this Form 4684.** *(auto-calc)* If an amount appears on line 15, the net short term gain or loss in lines 1 through 9 of this copy of Form 4684 appears here based on the worksheet entries, with the loss reduced by a *pro rata* portion of the deduction at line 11.

**Short-term net for all other Forms 4684.** If an amount appears on line 15, combine the short-term gains and losses reported on all Forms 4684 except this one and enter the result here. Enter net gain as a positive or net loss as a negative number. *Be sure to reduce losses by their pro rata share of the deduction at line 11 of the corresponding copy of Form 4684.*

**Short-term net for Schedule D.** *(auto-calc)* Computed as the sum of the above two amounts, this result is posted to line 4 of Schedule D.

**Long-term net for Schedule D.** *(auto-calc)* Computed as line 15 less the preceding short-term amount, this result is posted to line 11 of Schedule D.

**28% rate part of the above.** This line applies only to collectibles. If any of the long-term gain or loss applies to collectibles (such as art, antiques, gems, stamps, coins, etc.), you must enter the amount here, for less favorable treatment than other capital gains.

**16 If line 14 less than line 13, enter difference.** *(auto-calc)* Computed as indicated, an amount appears here only if the aggregate of gains and losses from all personal casualties and thefts for the year combined is a net loss. If zero, the rest of this section will be zero and no loss will be claimed.

**AGI on Form 1040, line 38.** *(auto-calc)* Taken from Form 1040, as indicated.

**17 10% of AGI from Form 1040, line 38.** *(auto-calc)* Computed as indicated.

**18 Subtract line 17 from line 16.** *(auto-calc)* Computed as indicated. This is the part of the loss on line 16 that exceeds 10% of your adjusted gross income, which is the only tax deductible part of that loss.

**Deduction for Schedule A, line 20.** *(auto-calc)* Always the same as the preceding line, this is the amount taken as an itemized deduction on Schedule A. (This deduction cannot be claimed if the standard deduction is used instead of the itemized deduction at line 40 of Form 1040.)

**SECTION B - BUSINESS AND INCOME-PRODUCING PROPERTY.** Use this section to figure casualty and theft gains and losses for property that is used in a trade or business or is used for income-producing purposes.

**Part I, Casualty or Theft Gain or Loss.** This section is supported by Casualty and Theft Worksheets, but you should use them to report only one casualty or theft event on this copy of Form 4684. Use a separate worksheet for each separate property lost or damaged. You must itemize line 22 or 28 to support lines 19 through 28. If you have more than one casualty or theft event, see the earlier shaded paragraph on handling more than one Form 4684. All information for the lines 19 through 28 comes from the Casualty and Theft Worksheets that support these lines, and you must view the worksheets for the details of lines 19 through 28.

**19 through 21.** The entries for these lines are shown only on the supporting worksheets, and are not totaled here nor on the form.

**22 Gain from casualty or theft.** *(Supported by the Business Casualty and Theft Worksheet, Figure 2-47.)* Taken as the sum of all gains on line 22 for all worksheets attached to this copy of Form 4684.

**23 through 27.** The entries for these lines are shown only on the supporting worksheets, and are not totaled here nor on the form.

**Casualty or theft loss on worksheets.** *(Supported by the Business Casualty and Theft Worksheet, Figure 2-47.)* Taken as the sum of all losses on line 27 for all worksheets attached to this copy of Form 4684.

**Casualty or theft loss on line 51.** Taken from line 51, this is the loss figured in the new Section C of Form 4684, for Ponzi-type investment schemes. **CAUTION:** *Do not include on any Business Casualty and Theft worksheet any investments you report in Section C. Section C takes the place of the worksheet and lines 19 through 27 for qualifying Ponzi-type investments. However, you must still complete a Casualty or Theft Summary Worksheet (for line 29 or 34) for the Ponzi-type investment.*

**28 Casualty or theft loss.** *(auto-calc)* Computed as the sum of the preceding two amounts, this is the sum of all losses on line 27 for all worksheets plus the loss from Section C.

**If override line 27 on a worksheet, itemize here to explain calculation.** If the loss you are reporting on this worksheet is in your home, you must reduce the normal calculation of line 27 to account for the non-business part of the loss. How you do this depends on whether or not you file a Schedule C for the business, so we provide two special override lines on the worksheets: one for those who file a Schedule C for the business, and must therefore file Form 8829 as well, and one for those who do not file a Schedule C for the business. If you use the first line, you will enter line 34 of Form 8829 on that line and the flag "Form 8829" will appear automatically on the printout to explain the reduced amount to the IRS (*but see the exception, below, for e-file*). But if you use the second line, you must determine the allowed business loss in accordance with Internal Revenue code section 280(A)(c)(6) and enter the reduced amount on that line. In that case, you must explain the reduced amount for line 27 in a supporting statement for this line. See the IRS Instructions for Form 4684, Section B, for details. **Exception for e-file:** *The IRS does not accept the "Form 8829" flag for e-file, so you must use the supporting statement to explain all overrides, whether from Form 8829 or not. Also note that the IRS ignores the amount column for this explanation, so you must enter all information you want to provide in the text column alone.*

**Business Casualty and Theft Worksheet, Figure 2-47.** Access this worksheet at line 4 (gain) or 10 (loss) of Form 4684, and complete a separate worksheet for each separate property involved in the same casualty or theft.

BUSINESS CASUALTY & THEFT	
19	Description - Enter type: and location:
	Date acquired.....
	Held for long-term period? No
20	Cost or adjusted basis..... 0
21	Insurance/other reimbursmnt 00
22	Gain fr casualty/theft..... 0
	Fair market value BEFORE event 00
23	Fair market val BEFORE..... 00
	Fair market value AFTER event. 00
24	Fair market val AFTER..... 00
25	Subtract 24 from 23..... 00
26	Smaller of 20 or 25..... 00
	Amt in ln 34 of a Form 8829 00
	Other override to line 27.. 00
	(explain in stmt aftr ln28)
27	Subtract 21 from 26..... 00

Figure 2-47. Business Casualty and Theft Worksheet

**1 Description - Enter type.** Enter type of property here in 15 characters or less.

**Location.** Enter location in 30 characters or less.

**Date acquired.** Enter date in the standard mm/dd/yy format.

**Held for long-term period?** Answer Yes if the property was held more than one year before the casualty or loss.

**20 Cost or other basis.** Enter cost plus improvements, but if the property is your main home, subtract any postponed gain from the sale of a previous main home. If property was received in a trade-in, as a gift, or as an inheritance, see IRS Pub. 551 (*Basis of Assets*) for special rules.

**21 Insurance or other reimbursement.** Enter the amount you received, expect to receive, or would have received had you filed a claim. If the property is insured, you must enter an appropriate amount here whether or not you decide to file a claim with the insurance company. If payment for loss was other than by insurance, see official IRS instructions for Form 4684 for details.

**22 Gain from casualty or theft.** *(auto-calc)* Computed as line 21 less line 20, but no less than zero. If greater than zero, the remainder of the worksheet will be zero and should not be completed.

**Fair market value BEFORE event.** Enter the price at which the property would change hands between a willing seller and a willing buyer, each having knowledge of the relevant facts before the casualty or theft event.

**23 Fair market value BEFORE casualty or theft.** *(auto-calc)* Taken as the above entry if line 22 is zero, but zero otherwise.

**Fair market value AFTER event.** Enter the price at which the property would change hands between a willing seller and a willing buyer, each having knowledge of the relevant facts after the casualty or theft event.

**24 Fair market value AFTER casualty or theft.** *(auto-calc)* Taken as the above entry if line 22 is zero, but zero otherwise.

**25 Subtract line 24 from line 23.** *(auto-calc)* Computed as indicated.

**26 Smaller of line 20 or line 25.** *(auto-calc)* Computed as indicated.

**Amount in line 34 of a Form 8829.** If the loss you are reporting on this worksheet is in your home and you file a Schedule C for the business, you must reduce the business loss you claim in accordance with Form 8829 (*Expenses for Business Use of Your Home*). First, figure the amount for line 9 of Form 8829 in accordance with the IRS instructions for that line, then complete the rest of the form and enter the amount on line 34 of Form 8829 here. Your entry here will supercede the normal computation of line 27. If you make an entry here, the phrase "Form 8829" will appear above line 27 on the official printout to indicate to the IRS why the amount is less than the normal result for line 27.

**Other override to line 27.** If the loss you are reporting on this worksheet is in your home and you do not file a Schedule C for the business, you must reduce the business loss in accordance with Internal Revenue code section 280(A)(c)(6) and enter the reduced amount here. Your entry here will supercede the normal computation of line 27. **CAUTION:** *If you make an entry here, you must explain your computation in a supporting statement for the line we provide below line 28 of Form 4684 itself (which is the line labeled "If overrode line 27 on a worksheet, itemize here to explain calculation").* **Exception for e-file:** *Also include an explanation of any reduction owing to Form 8829 in your support because the IRS does not accept the "Form 8829" flag for e-file..*

**27 Subtract line 21 from line 26.** *(auto-calc)* Computed as indicated, but no less than zero, if the preceding two entries are zero. Otherwise, taken as the second of these two entries is it is nonzero, and the first of these two entries otherwise.

Lines 22 and 27 are separately summed from all worksheets attached to this copy of Form 4684 and posted to lines 22 and 28 of Form 4684 itself.

**Part II, Summary of Gains and Losses.** This section summaries the results of lines 19 through 28 for all casualty and theft events reported on separate Forms 4684, including the part of line 28 stemming from a Ponzi investment in Section C. You can complete this section only if your answer to "Is this SUPPLEMENTARY copy of 4684" (at the beginning of this form) was No, indicating that this is your main copy of Form 4684.

**Property Held One Year or Less.** Use this section to summarize short-term gains and losses from all Forms 4684 combined.

**29 Itemize to detail gain/loss.** *(Supported by Casualty or Theft Summary Worksheets, Figure 2-48.)* The short-term gains and losses from all Forms 4684 must be itemized in these worksheets. The net gain or loss from all worksheets combined appears on this line.

**Short-term net in Part I of this Form 4684.** *(auto-calc)* Computed from the *Casualty and Theft Worksheets* in Part I of this copy of Form 4684.

Short-term net in Part I of all other Forms 4684. Enter the short-term part of the net from Part I for all other copies of Form 4684.

Part I vs. Part II ERROR. (auto-calc) Computed as the net on line 29 less the sum of the above two lines. An error here means that the totals from the worksheets in Part I of all Forms 4684 do not match the totals from the worksheets in Part II of this Form 4684, and must be corrected.

(b)(i) Loss on trade, business, rental or royalty property. (auto-calc) Computed as the sum of amounts on the corresponding line on the Casualty or Theft Summary Worksheets for line 29 of this copy of Form 4684.

Loss on income-producing property. (auto-calc) Computed as the sum of amounts on the corresponding line on the Casualty or Theft Summary Worksheets for line 29 of this copy of Form 4684.

Loss on employee property. (auto-calc) Computed as the sum of amounts on the corresponding line on the Casualty or Theft Summary Worksheets for line 29 of this copy of Form 4684.

(b)(ii) Loss on income-producing and employee property. (auto-calc) Computed as the sum of the preceding two amounts.

(c) Gain from casualties and thefts includible in income. (auto-calc) Computed as the sum of amounts on the line c of the Casualty or Theft Summary Worksheets for line 29 of this copy of Form 4684.

30 Totals. Add amounts on line 29. (auto-calc lines) Computed as the sum of "Net gain or loss" on the Casualty or Theft Summary Worksheets for line 29 of this copy of Form 4684, which corresponds to line (c), above, less lines (b)(i) and (b)(ii).

31 Combine line 30, columns (b)(i) and (c). (auto-calc) Computed as line c, above, less line (b)(i).

32 Amount from line 30, column (b)(ii). (auto-calc) Taken as line b(ii), above.

Casualty or Theft Summary Worksheet, Figure 2-48. Access this worksheet at line 29 (property held 1 year or less) or 34 (property held more than 1 year), and complete a separate worksheet for each separate property involved in the same casualty or theft.

CASUALTY OR THEFT SUMMARY		
a	Identify.....	
	Trade, bus, rental, royalty?	No
	Income-producing property?	No
	Employee property.....	Yes
	Net gain or loss	0
b	(i) Trade, bus, etc. loss....	0
	Loss on income property	0
	Loss on employee prop'y	0
b	(ii) Incm-prd/employee loss	0
c	Gain cas/th includible....	0

Figure 2-48. Casualty or Theft Summary

a. Identify. Identify the casualty or theft in 25 characters or less.

Trade, business, rental or royalty property? Answer Yes if the property was used in your trade or business, but NOT as an employee, or was rental or royalty property.

**Income-producing property?** Answer Yes only if it was property held for investment, such as stocks and vacant land.

**Employee property?** *(auto-calc)* Automatically Yes if the preceding two answers are No, and Yes otherwise. This is property you used in performing services as an employee.

**Net gain or loss.** Enter gain as a positive or loss as a negative.

**b(i). Trade, business, rental or royalty loss.** *(auto-calc)* If "net gain or loss" is a loss and you identified this worksheet as applying to a trade, business, rental or royalty property, the loss appears here as a positive number.

**Loss on income property.** *(auto-calc)* If "net gain or loss" is a loss and you identified this worksheet as applying to income-producing property, the loss appears here as a positive number.

**Loss on employee property.** *(auto-calc)* If "net gain or loss" is a loss and you identified this worksheet as applying to employee property, the loss appears here as a positive number.

**b(ii). Income-producing or employee property loss.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**c. Gain from casualty or thefts includible in income.** *(auto-calc)* If net is a gain, the gain is repeated here.

Lines b(i), b(ii), and c are separately summed and posted to Form 4684 as separate columns of either line 30 or lines 35 and 36, depending on whether you itemized the short-term line (line 29) or the long-term line (line 34).

**Property Held More Than One Year.** Use this section to summarize long-term gains and losses from all Forms 4684 combined.

**33 Casualty or theft gains from Form 4797, line 32.** *(auto-calc)* Posted here from Form 4797, this is *only* the casualty and theft part of Form 4797, line 32. The part for *other than* casualty and theft is used for line 6 of Form 4797.

**34 Itemize to detail gain/loss.** *(Supported by Casualty or Theft Summary Worksheets, Figure 2-48.)* The long-term gains and losses from all Forms 4684 must be itemized in these worksheets. The net gain or loss from all worksheets combined appears on this line.

**Long-term net in Part I of this Form 4684.** *(auto-calc)* Computed from the *Casualty and Theft Worksheets* in Part I of this copy of Form 4684.

**Long-term net in Part I of all other Forms 4684.** Enter the long-term part of the net from Part I for all other copies of Form 4684.

**Part I vs. Part II ERROR.** *(auto-calc)* Computed as the net in line 38 less the sum of the above two lines. An error here means that the totals from the worksheets on Part I of all Forms 4684 do not match the totals from the worksheets on Part II of this Form 4684, and must be corrected.

**(b)(i) Loss on trade, business, rental or royalty property.** *(auto-calc)* Computed as the sum of amounts on the corresponding line on the *Casualty or Theft Summary Worksheets* for line 34 of this copy of Form 4684.

**Loss on income-producing property.** *(auto-calc)* Computed as the sum of amounts on the corresponding line on the *Casualty or Theft Summary Worksheets* for line 34 of this copy of Form 4684.

**Loss on employee property.** *(auto-calc)* Computed as the sum of amounts on the corresponding line on the *Casualty or Theft Summary Worksheets* for line 34 of this copy of Form 4684.

**(b)(ii) Loss on income-producing and employee property.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**(c) Gain from casualties and thefts includible in income.** *(auto-calc)* Computed as the sum of amounts on the line c of the *Casualty or Theft Summary Worksheets* for line 34 of this copy of Form 4684.

**35 Total Losses. 34(b)(i) and 34(b)(ii).** (auto-calc lines) Computed as the sum of lines (b)(i) and (b)(ii), above. This is the total of losses for all types of property combined.

**36 Total gains. Add lines 33 and 34(c).** (auto-calc lines) Computed as line 33 plus line (c), above.

**37 Add amounts on line 35, columns (b)(i) and (b)(ii).** *(auto-calc)* Computed as the result on line 35, above.

**38 If line 37 loss is more than line 36 gain.** The next two lines are completed only if there is a net long-term loss overall.

**38a Combine line 35, column (b)(i) and line 36.** *(auto-calc)* The gains from both business and income-producing properties, and the losses from business property alone, are netted here.

**38b Amount from line 35, column (b)(ii).** *(auto-calc)* The losses from income-producing properties alone is summed here.

**39 If line 37 equal to or less than 36, combine 36 and 37.** *(auto-calc)* Computed as line 36 less line 37, but no less than zero. This result is *posted to line 3 of Form 4797.*

**Ordinary net in lines 31 and 38a for Form 4797.** *(auto-calc)* Computed as indicated and *posted to line 14 of Form 4797.*

**Posting to Schedule A and Form 4797.** Results in Part II of Section B that are not identified in prior line as being posted to Form 4797 are posted to Schedule A instead, sometimes in a circuitous way that uses Form 4797 as a pass-through device:

**When line 37 is more than line 36:**

- The part of lines 32 and 38b attributable to employee property is posted to line 23 of Schedule A, where it is subject to a floor based on 2% of AGI.
- The part of lines 32 and 38b attributable to income-producing property is posted to line 28 of Schedule A, where there is no floor.

**When line 37 is less than or equal to line 36:**

The loss on line 35(b)(ii) is posted to line 18a of Form 4797, where it is limited to the loss on line 11 of Form 4797, then posted to Schedule A as follows:

- The part of the limited amount attributable to employee property is posted to line 23 of Schedule A, where it is subject to a floor based on 2% of AGI.

- The part of the limited amount attributable to income-producing property is posted to line 28 of Schedule A, where there is no floor.

**SECTION C – THEFT LOSS DEDUCTION FOR PONZI-TYPE INVESTMENT SCHEME USING THE PROCEDURES IN REVENUE PROCEDURE 2099-20.** This section is used in lieu of Section B, Part I, lines 19 through 27, to figure losses from a fraudulent Ponzi-type scheme. However, to use this section you must be qualified in accordance with Revenue Procedure 2009-20. If qualified, you can use this form to figure your loss instead of Appendix A of Revenue Procedure 2009-20.

**Part I, Computation of Deduction.** After completing these lines, be sure to complete Part II, which is required to identify the person or business that conducted the scheme.

- 40 Initial investment.** Enter the initial amount of cash or basis of property that you initially invested, subject to the reductions listed in the IRS instructions for this line in the *2014 Instructions for Form 4684*.
  - 41 Subsequent investments.** Enter the cash amount or the basis of property investment after the initial investment.
  - 42 Income reported on your tax returns for tax years prior to the discovery year.** Enter amounts previously reported as taxable income from the investment, including interest and dividends. See the IRS *2014 Instructions for Form 4684* for the definition of “discovery year.”
  - 43 Add lines 40, 41, and 42.** *(auto-calc)* Computed as indicated.
  - 44 Withdrawals for all years.** Enter all withdrawals, whether considered a withdrawal of income or a withdrawal of principal.
  - 45 Subtract line 44 from line 43.** *(auto-calc)* Computed as indicated, this is your total qualified investment.
  - 46 Enter .95 if you have no potential third-party recovery. Enter .75 if you have potential recovery.** *(auto-calc)* Computed as indicated, see the instructions for this line in the IRS *2014 Instructions for Form 4684* for the definition of third-party, insurance, SIPC, and direct recovery.
  - 47 Multiply line 46 by line 45.** *(auto-calc)* Computed as indicated.
  - 48 Actual recovery.** Enter the amount actually received from any source, but do not include any potential recoveries.
  - 49 Potential insurance/Securities Investor Protection Corporation (SIPC) recovery.** Enter the amount indicated. See the IRS *2014 Instructions for Form 4684* for the definitions.
  - 50 Add lines 48 and 49.** *(auto-calc)* Computed as indicated.
  - 51 Subtract line 50 from line 47.** *(auto-calc)* Computed as indicated, this is the deductible theft loss from the Ponzi-type scheme.
- Short-term part of above.** If the investment was held for no more than one year before the date of discovery, enter the entire amount on line 51 here. Otherwise, enter no amount here. This entry is used for reconciling amounts in Part I of Section B (where this loss is included) with amounts in Part II of Section B. If you fail to complete a worksheet in Part II for the loss in line 51, the reconciliation check will result in an amount on the line “Pt.I & C vs. Pt.II ERROR” in the short-term or long-term part of Part II.

The amount on line 51 is posted to the line above line 28, for inclusion in line 28 in addition to amounts figured on lines 19 through 27. **CAUTION:** You must also complete a worksheet in Part II of Section B (accessed at line 29 or line 34) for this loss.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 4797 / Sales of Business Property

**Who is it for?** Form 4797 is used mainly to report the sale or exchange of depreciable property, such as trade or business property and rental property, and includes the recapture of past depreciation allowable. It is also used for involuntary conversions and section 179 and 280F recapture for reduced business use. Most other sales are reported on Schedule D, not here. *Form 4797 is accessible through the Road Map at line 14 of Form 1040 and line 12 of Schedule D.*

**Passive loss limitations.** If you sold an interest in a passive activity, the gain or loss is used in Form 8582 to determine the passive loss limitations for this and other forms. If you sold the entire interest, only the gains are reported on Form 8582, and the losses are fully deductible. If you sold a partial interest, both the gains and losses are reported on Form 8582, and the losses are subject to the passive loss limitations. These rules and the handling of carryovers, significant participation amounts, and pro-rating among different forms and schedules are all built-in and fully automatic without requiring you to complete any passive activity worksheets yourself. However, you should read the section on significant participation under Form 8582 to see if you need to enter any special adjustment to Form 8582, if you have significant participation amounts. In addition, *you must take special care to identify passive amounts for Part III directly on Form 4797 itself, because the worksheets supporting Part III do not contain passive activity questions.*

**Long-term (Part I) vs. Short-term (Part II) capital transactions.** The two parts of the form are similar, but you must take care to enter the proper transactions in the proper parts. *Assets must generally be held more than one year to qualify as long-term holdings* (figured by counting the day AFTER you received the property through the day you disposed of it). *Special rule for farms: Cattle and horses qualify as long-term holdings only if held more than 24 months, whereas other livestock qualify if held more than 12 months.*

**Worksheets for Parts I and II separated by type.** Worksheets that are preformatted like the IRS form support lines 2 and 10 of Form 4797, separated according to type of property under the passive loss rules:

- **Worksheets for Active Rental Real Estate** - for passive activities that require posting to lines 1a, 1b, and 1c of Form 8582, and
- **Worksheets for All Others** - for all other passive activities (which require posting to lines 3a, 3b, and 3c of Form 8582) and nonpassive activities.

You must always use the worksheet designed for the type of property you sold or else the passive loss rules may be misapplied.

**Part III sometimes necessary before Parts I and II can be completed.** Although the net gains and losses for most sales are reflected in Parts I and II of this form, the details for sales with gains and subject to the recapture of depreciation and certain other deductions are reported in Part III instead. The results in Part III are then automatically posted to the appropriate lines in Parts I and II. *Part III must be used to report only sales that result in a gain for*

- depreciable trade or business property held more than one year**, including certain cattle, horses, and livestock (section 1245 property),
- residential rental property held more than one year** (section 1250 property),
- nonresidential rental property held more than one year** (section 1250 property if placed in service after 12/31/86, or if placed in service from 1/1/81 through 12/31/86 and depreciated by straight-line methods; otherwise section 1245 property),
- farmland held more than one year** but less than 10 years and upon which soil, water, or land clearing expenses were deducted (section 1252 property),
- oil, gas, or geothermal property** (section 1254 property),
- disposition of Sec. 126 cost-sharing payments** (section 1255 property).

Any of the above property that was sold at a loss must be detailed directly in Part I or Part II, not Part III.

**Unrecaptured sec. 1250 gain.** Throughout our Form 4797 you will see lines for unrecaptured sec. 1250 gain which do not appear on the official form. These lines show information used in the Schedule D Tax Worksheet, which is used to provide the tax computation for the return when capital gains may reduce the overall tax. In most cases these amounts come automatically from worksheets you complete on Form 4797 and supporting forms. However, you must enter the amounts yourself when they relate to forms that are *not* built into *Tax Preparer*. See the details for Schedule D for more information on these items and the role they play in the capital gains tax.

### **FOR ALL SALES OR EXCHANGES OF REAL ESTATE:**

**1 Sales reported on Form 1099-S or equivalent included on line 2, 10, or 20.** Enter here the gross proceeds from all real estate sales and exchanges reported to you on Forms 1099-S (or a substitute statement) that you will be reporting on Form 4797, whether they are short-term or long-term holdings. These amounts should also be included in your entries for gross sales price on the worksheets that support lines 2, 10, and 25 through 29 of Form 4797.

**PART I, PROPERTY HELD FOR MORE THAN 1 YEAR - Sales or Exchanges of Property Used in a Trade or Business, and Involuntary Conversions From Other Than Casualty and Theft.** Lines 2 through 9 are used for reporting gains and losses for long-term holdings (those held more than one year).

**2 Sales or exchanges of property held more than 1 year.** Long-term sales and exchanges not reported elsewhere in the return are entered here in four separate sets of worksheets. *CAUTION: Only long-term holdings should be reported on any worksheets that support line 2.* But remember that some long-term holdings must be reported in the worksheets in Part III instead, detailed later. (Short-term holdings are reported in worksheets that support line 10.) *CAUTION: Do NOT include sales reported in Part III of Form 4797.*

**Special exclusions allowed at lines 2 and 10.** Exclusions that you can claim on worksheets for lines 2 and 10 include:

- (1) **Exclusion of gain from sale of DC Zone Assets.** If you sold or exchanged assets in a District of Columbia Enterprise Zone that you held more than 5 years, you may be able to exclude qualified capital gain. See IRS Instructions for Form 4797 for details. Report the gain as you normally would in Part III of Form 4797, then claim the exclusion on a *Sec. 1231 Gain/Loss Worksheet for line 2* by entering "DC Zone Excl'n" in column (a), entering Yes for "Bypass date checking," and entering the exclusion as a negative number in "NET (your entry if d = e = f = 0)."
- (2) **Election to defer gain from certain dispositions of electric transmission property.** If sold or exchanged after October 22, 2004, you may elect to defer part of the realized gain on this property. See IRS Instructions for Form 4797 for details. Report the gain as you normally would in Part III of Form 4797, then claim the exclusion in two parts: (a) On a *Sec. 1231 Gain/Loss Worksheet for line 2*, enter "Deferred 451(i)" in column (a), enter Yes for "Bypass date checking," and enter the exclusion to the extent of the gain included in Form 4797, line 6, as a negative number in "NET (your entry if d = e = f = 0)." (b) On a *Sec. 1231 Gain/Loss Worksheet for line 10*, enter "Deferred 451(i)" in column (a), enter Yes for "Bypass date checking," and enter the remaining exclusion not claimed at line 2 as a negative number in "NET (your entry if d = e = f = 0)."

***For sec. 1231 gain or loss NOT reported to you on Sch. K-1:*** Using one worksheet for each transaction, any number of transactions may be entered on the following lines for transactions *NOT* reported to you on a Schedule K-1. (Note that no lines appear for unrecaptured sec. 1250 gain because transactions that would result in those gains are reported in Part III of Form 4797, not here.)

**Active rental real estate:**

(d) **Sales Price.** *(auto-calc)* This is the sum of sales prices entered on all the worksheets that are accessed on the next line.

2(g) **Net for Active Rental Real Estate.** *(Supported by the Sec. 1231 Gain/Loss Worksheet, Figure 2-49a.)* Enter only long-term transactions involving rental real estate in which you actively participated on the worksheets you access at these lines.

**All other transactions:**

(d) **Sales Price.** *(auto-calc)* This is the sum of sales prices entered on all the worksheets that are accessed on the next line.

2(g) **Net for All other transactions.** *(Supported by the Sec. 1231 Gain/Loss Worksheet, Figure 2-49a.)* Enter all other transactions on the worksheets you access at these lines.

***For sec. 1231 gain or loss reported to you on Sch. K-1:*** Using one worksheet for each transaction, any number of transactions may be entered on the following lines from Schedules K-1 received from partnerships, S corporations, estates, and trusts.

**K-1 Sec. 1231 Active rental real estate:**

**2(g) Sch. K-1 net for Active Rental Real Estate.** (*Supported by the Sch. K-1 Sec. 1231 Gain/Loss Worksheet, Figure 2-50a.*) Enter only long-term transactions involving rental real estate in which you actively participated on the worksheets you access at these lines.

**Unrecaptured sec. 1250 gain.** (*auto-calc*) This is the sum of unrecaptured sec. 1250 gain for all K-1 worksheets that are accessed on the preceding line.

**K-1 Sec. 1231 All others:**

**2(g) Sch. K-1 net for All other transactions.** (*Supported by the Sch. K-1 Sec. 1231 Gain/Loss Worksheet, Figure 2-50a.*) Enter all other transactions on the worksheets you access at these lines.

**Unrecaptured sec. 1250 gain.** (*auto-calc*) This is the sum of unrecaptured sec. 1250 gain for all K-1 worksheets that are accessed on the preceding line.

**2 Total gain or loss for entire year.** (*auto-calc*) Computed as the sum of all preceding totals for line 2(g). Note that no totals of unrecaptured sec. 1250 gain are shown here. Instead, they are used in special computations for the amount to be used in Schedule D tax computations. See the last screen of Form 4797 for the result.

**3 Gain from Form 4684 line 39.** (*Road Map line, supported by Form 4684.*) The long-term gain from casualties and thefts is posted here.

**4 Section 1231 gain from Form 6252, line 26 or 37.** (*Road Map lines, supported by Form 6252.*) Five separate copies of Form 6252 are available for five separate installment sales. Long-term gains in lines 26 and 37 of Form(s) 6252 are posted here.

**Unrecaptured sec. 1250 gain in line 4.** (*Road Map line, supported by Form 6252.*) The amount of gain identified on Form 4684 as unrecaptured sec. 1250 gain is posted to this line.

**5 Section 1231 gain or loss from like-kind exchanges from Form 8824.** (*If Premium Level, Road Map line supported by Form 8824.*) Any long-term or other section 1231 gain or loss for the year from like-kind exchanges, as determined by Form 8824, is reported here.

**6 Gain on line 32 from other than casualty and theft.** (*auto-calc*) Taken from "Remainder for 4797 line 6" below line 32 in Part III of this form, this is line 6(g) on the official form.

**Passive loss limitations.** The complex interface with Form 8582 is enforced in this part of the form. You should pay particular attention to the lines labeled "W/S ERROR" because they indicate that you must view the worksheets at line 2 once again in order to update them with changes in Form 8582.

**Total gain to Form 8582 line 1a.** (*auto-calc*) The sum of gains from the preceding worksheets for rental real estate with active participation.

**Total loss to Form 8582 line 1b.** (*auto-calc*) The sum of losses from the preceding worksheets for rental real estate with active participation.

**Active rental real estate loss unallowed in prior year.** This entry is used in line 1c of Form 8582. Enter here any loss carryover from the prior year stemming from passive loss limitations on the long-term sale of active rental real estate reported on last year's Form 4797. This carryover is automatically transferred by the software from the prior-year return when you use the translate feature on a return that has 2013 as the entry for tax year on Form 1040 (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation). Nevertheless, you must appropriately distribute this total among the worksheets for line 2 yourself so that the unallowed amounts calculated on the worksheets reflect the proper prorationing among the worksheets. An amount on the below W/S ERROR line will alert you of the need to do so.

**Active rental real estate unallowed loss for 2014.** *(Road Map line, supported by Form 8582.)* This disallowance comes automatically from Form 8582, but can only be determined upon the final recalculation of the return. You can access Form 8582 with the Itemize Key at this line, but there is no need to do so because the form is automatically generated and completed upon the final recalculation of the return. Once the return is complete, you may have to view each worksheet for lines 2 so that the unallowed losses are reallocated based upon the final return. An amount on the below W/S ERROR line will alert you of the need to do so.

**Total gain to Form 8582 line 3a.** *(auto-calc)* The sum of gains from the preceding worksheets for passive activities.

**Total loss to Form 8582 line 3b.** *(auto-calc)* The sum of losses from the preceding worksheets for passive activities.

**Other passive prior unallowed loss.** This is the loss carryover from the prior year stemming from passive loss limitations on sales reported on the Schedule D for 2013. This carryover is automatically posted here by the software from the prior-year return when you use the translate feature on a return that has 2013 as the entry for tax year on Form 1040 (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation). Nevertheless, you must appropriately distribute this total among the worksheets for line 2 yourself so that the unallowed amounts calculated on the worksheets reflect the proper prorationing among the worksheets. An amount on the below W/S ERROR line will alert you of the need to do so.

**Other passive unallowed loss in 2014.** *(Road Map line, supported by Form 8582.)* This disallowance comes automatically from Form 8582, but can only be determined upon the final recalculation of the return. You can access Form 8582 with the Itemize Key at this line, but there is no need to do so because the form is automatically generated and completed upon the final recalculation of the return. Once the return is complete, you may have to view each worksheet for lines 2 so that the unallowed losses are reallocated based upon the final return. An amount on the below W/S ERROR line will alert you of the need to do so.

**Significant participation part of prior unallowed losses.** When reporting carryovers for activities that are significant participation activities in 2014, the IRS requires that you include those carryovers in the significant participation net to the extent that they are offset by gains for the same activity. This rule materially affects whether significant participation activities will be classified as passive activities. You must enter here the part of the 2013 carryover that is offset by significant participation gains which you have entered on the worksheets for line 2. (See our instructions for Form 8582 for more details on significant participation activities.)

**W/S ERROR in prior unallowed losses.** *(auto-calc)* Computed as the sum of prior unallowed losses you entered on all the worksheets for line 2, less the total prior unallowed losses shown above (which you entered or "translate" posted). *If this result is nonzero, it means that you have not properly allocated the total prior unallowed losses among all the worksheets you have completed.* You must return to the worksheets and revise the entries. Your record of unallowed loss for each item for the previous year should guide your entries on the worksheets.

**W/S ERROR in current unallowed losses.** *(auto-calc)* Computed as the sum of unallowed losses computed the last time you viewed the worksheets for line 2, less the total losses unallowed shown above for 2014 (which comes automatically from Form 8582). *If this result is nonzero, it means that the allocation of unallowed losses on your worksheets is not based on the final return, so you must view each worksheet so that the unallowed losses can be reallocated.*

**7 Combine lines 2 through 6.** *(auto-calc line)* Computed as the sum of all gains and loss in lines 2 through 6 less the appropriate disallowed amounts. If line 7 reflects a disallowance from Form 8582 or an additional loss due to a carryover from 2013, the IRS code "PAL" appears beside the result on the printout of Form 4797. *If line 8 has no entry, line 9 is zeroed and line 7 is posted to Schedule D.*

**8 Nonrecaptured net section 1231 losses from prior years.** See IRS Pub. 544 (*Sales and Other Dispositions of Assets*) for an explanation of these losses.

**Nonrecaptured prior net section 1231 losses.** Enter loss carried over from prior years here. Your entry becomes a positive number in accordance with IRS instructions.

**8 Nonrecaptured prior net section 1231 losses.** *(auto-calc)* Computed as the preceding entry only when line 7 is a gain; otherwise, zero.

**9 Subtract line 8 from line 7.** *(auto-calc)* If line 8 is nonzero, computed as line 7 less line 8, but no less than zero; otherwise, zero.

**Net gain for Schedule D, line 11.** *(auto-calc)* If line 7 is a gain and line 8 is zero, computed as the gain on line 7, if any. If line 7 is a gain and line 8 is nonzero, taken as the gain on line 9, if any. Otherwise, zero. *Any gain that appears here is posted to line 11 of Schedule D as a long-term capital gain.*

**Gain/Loss Worksheet, Sec. 1231 or Ordinary, Figures 2-49a and 2-49b.** (*Sup-ports line 2 for Sec. 1231 and line 10 for Ordinary capital gains and losses.*) The worksheet follows the form of the columns on the Official Form 4797, with several additions that make possible the automation of Form 8582.

**a. Description of property.** Describe property in 15 characters or less.

**Material participant?** Answer Yes here if the property is NOT an interest in a pas-sive activity; otherwise the gain or loss may be used on Form

8582. **CAU-TION:** *You must answer No for rental real estate since it must always be classified as passive whether you materially participate or not.*

**Significant participant?** If you an-swered No

SEC. 1231 GAIN/LOSS		
a.	Description	
	Material participant..?	No
	Significant participant?	No
	Active rental real est	No
	Publicly Traded Prtshp?	No
	Entire interest sold..?	No
	Bypass date checking..?	No
b.	Date acquired(mm/dd/yy)	
c.	Date sold (mm/dd/yy)	
d.	Gross sales price...	0
e.	Depr'n allowed since acq	0
f.	Cost or other basis...	0
	NET (your entry if d=e-f=0)	0
	Sig par net for Form 8582	0
	PRIOR-year unallowed loss	0
	Net elsewhere for same activity	0
	Unallowed THIS yr on 8582	0
g.	GAIN or LOSS	0

**Figure 2-49a. Section 1231 Gain/Loss Worksheet**

ORDINARY GAIN/LOSS		
a.	Description	
	Material participant..?	No
	Significant participant?	No
	Active rental real est	No
	Publicly Traded Prtshp?	No
	Entire interest sold..?	No
	Bypass date checking..?	No
b.	Date acquired(mm/dd/yy)	
c.	Date sold (mm/dd/yy)	
d.	Gross sales price...	0
e.	Depr'n allowed since acq	0
f.	Cost or other basis...	0
	NET (your entry if d=e-f=0)	0
	Sig par net for Form 8582	0
	PRIOR-year unallowed loss	0
	Net elsewhere for same activity	0
	Unallowed THIS yr on 8582	0
g.	GAIN or LOSS	0

**Figure 2-49b. Ordinary Gain/Loss Worksheet**

above, you must also answer this question. *See details for Schedule C for a discussion of material vs. significant participation.*

**Active rental real estate.** (*auto-calc*) Answered Yes if you accessed the line from a section labeled "Active Rental Real," and No otherwise.

**Publicly Traded Partnership?** If this is a Publicly Traded Partnership, amounts should not be posted to Form 8582 and combined with pas-sive activities even though they are subject to the passive loss rules. They must be handled individually and separately from all other in-

vestments. Since passive losses are deductible only to the extent of passive gains, this means that no overall loss can be claimed for a PTP except in the year of its sale. A Yes answer here prevents the amounts on this worksheet from being used on Form 8582, and you must enter only amounts allowed this year yourself.

**Entire interest sold?** If you answer Yes, only passive gains are posted to Form 8582. If you answer No, both passive gains and passive losses are posted to Form 8582.

**Bypass date checking?** Answer Yes only if you want to defeat the built-in protections against reporting a sale in the wrong part. Examples of valid use of this bypass include the reporting of the sale of business stock and certain hedge transactions, or entering INHERITED in line b, or reporting on line 10 the sale of cattle or horses held 24 months or less.

**b. Date acquired.** Enter date acquired in the mm/dd/yy format. This entry is critical to date checking to determine whether or not a transaction qualifies for long-term treatment.

**c. Date sold.** Enter date sold in the mm/dd/yy format. This entry is critical to date checking.

**d. Gross sales price.** Enter total proceeds from the sale here.

**e. Depreciation allowed since acquisition.** Enter depreciation allowed or allowable, including any Section 179 expense deduction taken, whether or not you actually used it.

**f. Cost or other basis.** Enter the net purchase price and any costs of the sale not already reflected in line d, above. If the entire interest is sold, be sure to increase this entry by the amount of unused loss carryovers from Form 8582 for this property.

**INHERITED PROPERTY.** For property inherited from someone who died before or after 2010, the basis is generally the fair market value on the date of death. *For someone who died in 2010, see IRS Pub. 4895.*

**NET (your entry if d=e=f=0).** This line will normally be computed as line d plus line e less line f. However, if lines d, e, and f are zero, you may enter any net here yourself (positive for gain, negative for loss). (This capability is provided for special types of transactions that cannot be reported using sales prices, costs, and dates.)

**Significant participation net for Form 8582. (auto-calc)** Taken as the preceding net if you answered Yes to "Significant participant," above, and zero otherwise.

**PRIOR-year unallowed loss.** Enter the unallowed loss last year for this activity. Although the total prior unallowed losses shown on Form 4797 are determined automatically during the translation of the prior-year return (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation), you must allocate that total among all activities in these worksheets, guided by the disallowances shown on the previous year's worksheets.

**Net elsewhere for the same activity.** If other transactions for the same passive activity appear elsewhere on the return, you must enter the

net gain or loss from all such other transactions here in order for the allocation of unallowed losses among the various worksheets to be performed in strict conformance with the IRS rules. If the sum of the net on this line plus the net shown above for this particular transaction less the prior-year unallowed loss is an overall gain, all losses for this worksheet are allowed in full (and more of the total disallowance on Form 8582 is allocated to other passive activities).

**Unallowed THIS year on Form 8582.** *(auto-calc lines)* Computed using the math on the IRS worksheets without requiring you to complete any IRS worksheets yourself, this result is assured of full accuracy only when you view the worksheet after the final recalculation of the return.

**g. GAIN or LOSS.** *(auto-calc)* Computed as the above NET less prior unallowed loss plus loss unallowed this year.

When you return from the worksheets the separate totals for lines d and g and various amounts for Form 8582 are carried back to Form 4797.

**Schedule K-1 Gain/Loss Worksheets, Sec. 1231 and Ordinary, Figures 2-50a and 2-50b.** Amounts for these worksheets are identified on the Schedules K-1 that you receive as amounts for line 2 or 10 of Form 4797:

**a. Description.** Identify the entity from which you received the Schedule K-1 in 25 characters or less.

**Material participant?** You MUST answer Yes here if the property sold is *not* an interest in a passive activity. Otherwise the income or loss will be used on Form 8582. **CAUTION: You must answer No if the property is rental real estate or you are a limited partner in the partnership, since these cases must be classified as passive whether you materially participate or not.**

**Significant participant?** If you answered No above, you must also answer this question. *See details for Schedule C for a discussion of material vs. significant participation.*

**Active rental real estate.** *(auto-calc)* Answered Yes if you accessed the line from a section labeled "Active Rental Real," and No otherwise. **CAUTION: Limited partners do not qualify, so you must access the worksheet from the "All others" line for limited partnerships.**

**Publicly Traded Partnership?** If this is a Publicly Traded Partnership, amounts should not be posted to Form 8582 and combined with passive activities even though they are subject to the passive loss rules. They must be handled individually and separately from all other investments. Since passive losses are deductible only to the extent of passive gains, this means that *no overall loss can be claimed for a PTP* except in the year of its sale. A Yes answer here prevents the amounts on this worksheet from being used on Form 8582, and you must enter only amounts allowed this year yourself.

**Entire interest sold?** If you answer Yes, only passive gains are posted to Form 8582. If you answer No, both passive gains and passive losses are posted to Form 8582.

**Net income or loss.**

Enter the amount reported on Schedule K-1. Enter a gain as a positive number and a loss as a negative number.

**Significant participation net for Form 8582. (auto-calc)**

The preceding net will appear here if you answered Yes to "Significant participant" above.

**PRIOR-year unallowed loss.**

Enter the unallowed loss last year for this activity. Although the total prior unallowed losses

shown on Form 4797 are determined automatically during the translation of the prior-year return (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation), you must allocate that total among all activities in these worksheets, guided by the disallowances shown on the previous year's worksheets.

**Net elsewhere for the same activity.** If other transactions for the same passive activity appear elsewhere on the return, you must enter the net gain or loss from all such other transactions here in order for the allocation of unallowed losses among the various worksheets to be performed in strict conformance with the IRS rules. If the sum of the net on this line plus the net shown above for this particular transaction is an overall gain, all losses for this worksheet are allowed in full (and more of the total disallowance on Form 8582 is allocated to other passive activities).

**Unallowed THIS year on Form 8582. (auto-calc lines)** Computed using the math on the IRS worksheets without requiring you to complete any IRS worksheets yourself, this result is assured of full accuracy only when you view the worksheet after the final recalculation of the return.

SCH K-1 SEC 1231 GAIN/LOSS	
a. Description	
Material participant..?	No
Significant participant?	No
Active rental real est	No
Publicly Traded Prtshp?	No
Entire interest sold..?	No
Net income or loss....	0
Sig par net for Form 8582	0
PRIOR-year unallowed loss	0
Net elsewhere for same activity	0
Unallowed THIS yr on 8582	0
g. GAIN or LOSS	
Unrecaptured Sec 1250 gain	0

Figure 2-50a. Schedule K-1 Sec. 1231 Gain/Loss Worksheet

SCH K-1 ORDINARY GAIN/LOSS	
a. Description	
Material participant..?	No
Significant participant?	No
Active rental real est	No
Publicly Traded Prtshp?	No
Entire interest sold..?	No
Net income or loss....	0
Sig par net for Form 8582	0
PRIOR-year unallowed loss	0
Net elsewhere for same activity	0
Unallowed THIS yr on 8582	0
g. GAIN or LOSS	
	0

Figure 2-50b. Schedule K-1 Ordinary Gain/Loss Worksheet

**g. GAIN or LOSS.** (*auto-calc*) Computed as your entry for "Net income or loss" modified by prior-year unallowed loss (which reduces the net) and loss unallowed THIS year (which increases the net).

**Unrecaptured sec 1250 gain.** (*appears ONLY on the Sch. K-1 Sec. 1231 Gain/Loss Worksheets for line 2(g), Figure 2-50a*) The entity that issued you the Schedule K-1 should identify for you amounts that are unrecaptured section 1250 gain. Those amounts are subject to a higher tax rate than other long-term capital gains. This amount is used in the tax computations on Schedule D.

When you return from the worksheets the separate totals for lines b and c are carried back to Form 4797. In addition, gains and losses for lines 1a, 1b, 3a, and 3b of Form 8582 are computed, keeping the significant participation amounts separate.

**PART II, ORDINARY GAINS AND LOSSES.** Lines 10 through 18 are used for reporting gains and losses for short-term holdings (those held one year or less) and certain recapture amounts. **CAUTION:** *For property inherited from someone who died before or after 2010, you should never report the sale in Part II, because such inherited property is always treated as a long-term holding regardless of the actual holding period.* For someone who died in 2010, see IRS Pub. 4895.

**10 Ordinary gains and losses.** Ordinary gains and losses not reported elsewhere in the return are entered here in four separate sets of worksheets. The worksheets accessed here are the same as ones described for line 2, above, except that date checking ensures that only property held 1 year or less is reported here. Among the long-term holdings that you could report here as ordinary gains and losses are the dissolution or sale of a partnership, and the sale of small business stock at a loss. (All worksheets are accessed at line (g), and all other lines are auto-calc lines based on worksheet entries.) **CAUTION:** *Do NOT include sales reported in Part III of Form 4797.*

**Special requirements for small business stock.** If you have a loss from the sale of small business (section 1244) stock, you can report the loss (up to a limit) as an ordinary loss in a worksheet for line 10 of Form 4797. (If the sale resulting in a gain, it is reported on Schedule D like the sale of any other stock, qualifying for capital gains rates if held more than 1 year.) However, you must meet a number of conditions to qualify as a section 1244 stock, and you must also attach a statement to the return providing certain details of the transaction. The maximum allowed loss for this kind of sale is generally \$50,000 (\$100,000 if married filing jointly), with the excess reported as an ordinary short-term loss on Schedule D, which is subject to a \$3,000 per year limitation on losses. For details on the qualifications and further restrictions on the loss deduction, see the IRS Instructions for Form 4797 and IRS Pub. 550 (*Investment Income and Expenses*).

**For ordinary gain or loss NOT reported to you on Sch. K-1:** Using one worksheet for each transaction, any number of transactions may be entered on the following lines for transactions *NOT* reported to you on a Schedule K-1:

**Active rental real estate:**

(d) **Sales Price.** *(auto-calc)* This is the sum of sales prices entered on all the worksheets that are accessed on the next line.

**10(g), Net for Active Rental Real Estate.** *(Supported by the Ordinary Gain/Loss Worksheet, similar to Figure 2-49b.)* Enter only transactions involving rental real estate in which you actively participated on the worksheets you access at these lines.

**All other transactions:**

(d) **Sales Price.** *(auto-calc)* This is the sum of sales prices entered on all the worksheets that are accessed on the next line.

**10(g), Net for All other transactions.** *(Supported by the Ordinary Gain/Loss Worksheet, similar to Figure 2-49b.)* Enter all other transactions on the worksheets you access at these lines.

***For ordinary gain or loss reported to you on Sch. K-1:*** Using one worksheet for each transaction, any number of transactions may be entered on the following lines from Schedules K-1 received from partnerships, S corporations, estates, and trusts. Remember that these lines are intended only for sales the partnership transacts; any sale of your sale interest in the partnership, or a dissolution of the partnership, is reported on the Ordinary Gain/Loss Worksheets, above.

**K-1 Sec. 1231 Active rental real estate:**

**10(g), Sch. K-1 net for Active Rental Real Estate.** *(Supported by the Sch. K-1 Ordinary Gain/Loss Worksheet, Figure 2-50b.)* Enter only long-term transactions involving rental real estate in which you actively participated on the worksheets you access at this line.

**K-1 Sec. 1231 All others:**

**10(g), Sch. K-1 net for All other transactions.** *(Supported by the Sch. K-1 Ordinary Gain/Loss Worksheet, Figure 2-50b.)* Enter all other transactions on the worksheets you access at this line.

***For short-term gains from installment sales (Form 6252):*** Gains from installment sales of short-term holdings (property held 1 year or less) are reported here. ***CAUTION: While the amount from Form 6252 is posted here automatically and the proper calculations on Form 4797 are automatic, you must itemize to a special worksheet on the second line below in order for the amount to be recast in the format required by the IRS for official printouts and e-file output. (Note that ordinary gains stemming from recapture rules rather than short-term holdings are posted to line 15, not here.)***

**Ordinary gains from Form 6252 lines 26 and 37.** *(Road Map line, supported by Form 6252.)* Five copies of Form 6252 are built into the software for reporting up to five installment sales. Ordinary gains in lines 26 and 37 of Form(s) 6252 are posted here and reflected in the later total for line 10(g).

**ITEMIZE here if an amount is shown above.** *(Supported by the Ordinary Gain from 6252 Worksheet, Figure 2-51.)* If an amount appears on the preceding line ***you MUST itemize this line to create the worksheet required for printouts and e-file output.*** The worksheet is fully

automatic once you itemize, automatically generating the wording required by the IRS for line a and the amount from Form 6252 for line g and the NET line. All other lines will be blank or zero.

**CAUTION:** If the preceding two amounts are NOT IDENTICAL, you MUST itemize above line so that IRS printing and e-file format are proper. The two amounts may differ if Form 6252 is changed after you create the preceding worksheet. You should therefore check that the preceding two lines match after the final recalculation of the return.

**Ordinary Gain from 6252 Worksheet, Figures 2-51.** (*Supports the ITEMIZE line below "Ord. Gain in 6252, 26 or 37."*) This worksheet follows the form of the *Ordinary Gain/Loss Worksheet* for line 10 but without the special lines for passive activities. It is fully automatic, and only one worksheet can be created, because its sole purpose is to put the amounts from Form 6252 lines 26 and 37 into the proper format for the line 10 chart of gains and losses that appears on official printouts (and in the e-file output).

**a. Description.** (*auto-calc*) This entry is automatically generated to be "From Form 6252."

**b. Date acquired.** (*auto-calc*) Always blank for this special worksheet.

**c. Date sold.** (*auto-calc*) Always blank for this special worksheet.

ORDINARY GAIN/LOSS		From Form 6252
a.	Description	
b.	Date acquired (mm/dd/yy)	
c.	Date sold (mm/dd/yy)	
d.	Gross sales price...	0
e.	Depr'n allowed since acq...	0
f.	Cost or other basis...	0
	NET (your entry if d=e=f=0)	0
g.	GAIN or LOSS	0

**Figure 2-51. Ordinary Gain from 6252 Worksheet**

**d. Gross sales price.** (*auto-calc*) Always zero for this special worksheet.

**e. Depreciation allowed since acquisition.** (*auto-calc*) Always zero for this special worksheet.

**f. Cost or other basis.** (*auto-calc*) Always zero for this special worksheet.

**NET (your entry if d=e=f=0).** This line is automatically taken from the line "Ord. Gain in 6252, 26 or 37" above the line you itemized to reach this worksheet.

**g. GAIN or LOSS.** (*auto-calc*) Computed as the above NET, this is the ordinary gain from Form 6252 lines 16 and 37.

When you return from the worksheets the amount on line g is carried back to the line you itemized on Form 4797 to reach this worksheet, causing the amount posted from Form 6252 to match the amount posted from this worksheet.

**10(g) Total ordinary gain or loss.** (*auto-calc*) Computed as the sum of all preceding totals for line 10(g).

**11 Loss, if any, from line 7.** (*auto-calc*) If line 7 is negative, the loss is posted here as a positive number.

**12 Gain from line 7, or amount from line 8 if applicable.** *(auto-calc)* If line 9 shows a gain, the amount from line 8 is posted here. Otherwise, any gain on line 7 is posted here if there is an entry on line 8.

**13 Gain, if any, from line 31.** *(auto-calc)* Taken from Part III as indicated.

**14 Net gain or loss from Form 4684, lines 31 and 38a.** *(Road Map line, supported by Form 4684.)* Any net gain or loss from casualties and thefts is posted here from lines 31 and 38a of Form 4684, which is accessible from this line.

**15 Ordinary gains from installment sales in Form 6252, line 25 or 36.** *(Road Map line, supported by Form 6252.)* Five separate copies of Form 6252 are available. Gains recaptured as ordinary income in lines 25 and 36 of Form(s) 6252 are posted here. This amount includes recapture from Section 1252, 1254, and 1255 for installment sales that are reported in Part III of Form 4797. *(Note that ordinary gains from Form 6252 due to a short-term holding period, rather than recapture, are posted to line 10(g), not here.)*

**16 Ordinary gain or loss from like-kind exchanges from Form 8824.** *(If Premium Level, Road Map line supported by Form 8824.)* Ordinary gain or loss for like-kind exchanges is reported here.

**Passive loss limitations.** The complex interface with Form 8582 is enforced in this part of the form. You should pay particular attention to the lines labeled "W/S ERROR" because they indicate that you must view the worksheets at line 2 once again in order to update them with changes in Form 8582.

**Total gain to Form 8582 line 1a.** *(auto-calc)* The sum of gains from the preceding worksheets for rental real estate with active participation.

**Total loss to Form 8582 line 1b.** *(auto-calc)* The sum of losses from the preceding worksheets for rental real estate with active participation.

**Active rental real estate loss unallowed in prior year.** This entry is used in line 1c of Form 8582. Enter here any loss carryover from the prior year stemming from passive loss limitations on the long-term sale of active rental real estate reported on last year's Form 4797. This carryover is automatically transferred by the software from the prior-year return when you use the translate feature on a return that has 2013 as the entry for tax year on Form 1040 (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation). *Nevertheless, you must appropriately distribute this total among the worksheets for line 10 yourself so that the unallowed amounts calculated on the worksheets reflect the proper prorationing among the worksheets.* An amount on the below W/S ERROR line will alert you of the need to do so.

**Active rental real estate unallowed loss for 2014.** *(Road Map line, supported by Form 8582.)* This disallowance comes automatically from Form 8582, but can only be determined upon the final recalculation of the return. You can access Form 8582 with the Itemize Key at this line, but there is no need to do so because the form is automatically generated and completed upon the final recalculation of the return. *Once the return is complete, you may have to view each worksheet for lines 2 so that the unallowed losses are reallocated based*

upon the final return. An amount on the below W/S ERROR line will alert you of the need to do so.

**Total gain to Form 8582 line 3a.** *(auto-calc)* The sum of gains from the preceding worksheets for passive activities.

**Total loss to Form 8582 line 3b.** *(auto-calc)* The sum of losses from the preceding worksheets for passive activities.

**Other passive prior unallowed loss.** This is the loss carryover from the prior year stemming from passive loss limitations on sales reported on the Schedule D for 2013. This carryover is automatically posted here by the software from the prior-year return when you use the translate feature on a return that has 2013 as the entry for tax year on Form 1040 (as long as you answered Yes to "Transfer all prior \$ amounts" for the translation). Nevertheless, you must appropriately distribute this total among the worksheets for line 10 yourself so that the unallowed amounts calculated on the worksheets reflect the proper pro-rationing among the worksheets. An amount on the below W/S ERROR line will alert you of the need to do so.

**Other passive unallowed loss in 2014.** *(Road Map line, supported by Form 8582.)* This disallowance comes automatically from Form 8582, but can only be determined upon the final recalculation of the return. You can access Form 8582 with the Itemize Key at this line, but there is no need to do so because the form is automatically generated and completed upon the final recalculation of the return. Once the return is complete, you may have to view each worksheet for lines 2 so that the unallowed losses are reallocated based upon the final return. An amount on the below W/S ERROR line will alert you of the need to do so.

**Significant participation part of prior unallowed losses.** When reporting carryovers for activities that are significant participation activities in 2014, the IRS requires that you include those carryovers in the significant participation net to the extent that they are offset by gains for the same activity. This rule materially affects whether significant participation activities will be classified as passive activities. You must enter here the part of the carryover that is offset by significant participation gains which you have entered on the worksheets for line 10. (See our instructions for Form 8582 for more details on significant participation activities.)

**W/S ERROR in prior unallowed losses.** *(auto-calc)* Computed as the sum of prior unallowed losses you entered on all the worksheets for line 10, less the total prior unallowed losses shown above (which you entered or "translate" posted). If this result is nonzero, it means that you have not properly allocated the total prior unallowed losses among all the worksheets you have completed. You must return to the worksheets and revise the entries. Your record of unallowed loss for each item for the previous year should guide your entries on the worksheets.

**W/S ERROR in current unallowed losses.** *(auto-calc)* Computed as the sum of unallowed losses computed the last time you viewed the

worksheets for line 10, less the total losses unallowed shown above for 2014 (which comes automatically from Form 8582). *If this result is nonzero, it means that the allocation of unallowed losses on your worksheets is not based on the final return, so you must view each worksheet so that the unallowed losses can be reallocated.*

**17 Combine lines 10 through 16.** *(auto-calc)* Computed as the sum of all gains and losses in lines 10 through 16 less the appropriate disallowed amounts. If line 17 reflects a disallowance from Form 8582 or an additional loss due to a carryover from 2013, the IRS code "PAL" appears beside the result on the printout of Form 4797.

**18 Allocation to Schedule A and Form 1040:**

**Form 4684 loss for Schedule A, line 23.** *(auto-calc line, supported by Form 4684)* Any loss on line 35(b)(ii) of Form 4684 that stems from employee property appears here after being limited to its prorated share of loss on line 11. This result will be posted to line 23 of Schedule A where it is subjected to a threshold based on 2% of AGI.

**Form 4684 loss for Schedule A, line 28.** *(auto-calc line, supported by Form 4684)* Any loss on line 35(b)(ii) of Form 4684 that stems from income-producing property appears here after being limited to its prorated share of loss on line 11. This result will be posted to line 28 of Schedule A, which has no threshold that must be exceeded.

**18a Loss from Form 4684 for Schedule A.** *(auto-calc lines)* Computed as the sum of the preceding two amounts, this is the part of the losses in line 17 that is claimed on Schedule A, subject to the AGI-related limitations inherent in Schedule A.

**18b Balance for Form 1040, line 14.** *(auto-calc)* Computed as line 17 plus line 18a, and posted to line 14 of Form 1040, this is the gain or loss on Form 4797 that is reported directly on Form 1040 rather than through Schedule A or Schedule D.

**PART III, GAIN FROM DISPOSITION OF PROPERTY UNDER SECTIONS 1245, 1250, 1252, 1254, AND 1255.** This part is used for reporting the details on long-term gains subject to the recapture of depreciation and certain other deductions as ordinary gains. **ONLY SALES RESULTING IN A GAIN ARE REPORTED HERE;** all losses are reported directly in Parts I and II. Also, **ONLY LONG-TERM HOLDINGS ARE REPORTED HERE;** short-term holdings (those held one year or less) are reported directly in Part II. Pay particular attention to the installment sale question; it critically affects the automation of Form 6252. Also note that the passive activities are not identified on the supporting worksheets due to lack of space; you must identify total passive gains for all worksheets combined in the lines for Form 8582 detailed below. When entering cost or other basis in the following worksheets, if the entire interest is sold be sure to increase the cost by the amount of unused loss carryovers from Form 8582 for these properties.

**Worksheets provide details for all property.** The details for lines 19 through 29 of this section are all carried by the Gain/Recapture Worksheets that support this section, which are detailed in the next shaded section. This two-screen worksheet contains ALL of the lines, but the lines that are actually active depend on the line you itemize to reach the worksheet. A separate line accesses the worksheet for each of the five kinds of property covered in this section. Although the worksheets appear identical, a separate set of worksheets supports each of the five separate lines. Only the totals transferred back to Form 4797 from the worksheets appear on the screen for Part III.

**Total gains:**

**Total section 12xx gain.** (auto-calc lines, supported by the Gain/Recapture Worksheet, Figures 2-52a and 2-52b.) Total gains for all five sets of worksheets appear on these five lines.

**24 Total gains.** (auto-calc) Computed as the sum of the preceding five "total gain" lines.

**Gains in line 24 for Form 8582 lines 1a and 3a.** Enter here any gains reported above that are eligible for use on Form 8582 to offset passive losses. These gains will be posted to Form 8582 as indicated. CAUTION: You must identify passive gains for all of the above worksheets here yourself, because passive activities are not identified on the worksheets.

**Ordinary gains:**

- 25 Section 1245 property.** *(Supported by the Gain/Recapture Worksheet, Figures 2-52a and 2-52b.)* Long-term sales of depreciable trade or business property are reported here. In addition, sales of nonresidential real property that do not qualify as section 1250 property, below, are reported here. Sales of cattle and horses held less than 24 months and livestock held less than 12 months, however, are reported in Part II. ALL past depreciation is recaptured through the worksheet for this property. (New recapture rules apply to the disposition of amortizable section 197 intangibles after August 8, 2005. See IRS Instructions for line 25 of Form 4797 for information on when it is appropriate to combine these dispositions into one transaction.)
- 26 Section 1250 property.** *(Supported by the Gain/Recapture Worksheet, Figures 2-52a and 2-52b.)* Under the more favorable treatment of Sec. 1250, only deductions in excess of straight-line depreciation are recaptured, and for some property the recaptured amount phases out to zero after 16-2/3 years of holding the property. ALL residential rental property qualifies. Nonresidential rental property that qualifies includes (1) all property placed in service after 12/31/86, (2) 15-year, 18-year, and 19-year property depreciated under the alternate ACRS (optional straight-line) method, (3) 15-year, 18-year, and 19-year property used mostly outside the U.S., and (4) 15-year property that is low-income housing. All other nonresidential rental property is subject to recapture under Sec. 1245, above. The percentages to enter above line 26b and 26e are 100% for most property, but more favorable percentages are allowed for residential rental property (line 26e ONLY) and low-income housing (lines 26b and 26e) when held longer than 100 months. See IRS Pub. 527 (*Residential Rental Property*) for details.
- 27 Section 1252 property.** *(Supported by the Gain/Recapture Worksheet, Figures 2-52a and 2-52b.)* Report here long-term gains for farmland held less than 10 years upon which soil, water, or land clearing expenses were deducted.
- 28 Section 1254 property.** *(Supported by the Gain/Recapture Worksheet, Figures 2-52a and 2-52b.)* Report here gains on dispositions of oil and most other mineral property.
- 29 Section 1255 property.** *(Supported by the Gain/Recapture Worksheet, Figures 2-52a and 2-52b.)* Report here gains on dispositions of section 126 cost-sharing payments.

Gain/Recapture Worksheet, Figures 2-52a and 2-52b. All details for Part III are reported on these worksheets:

**19a Description of property.** Enter description in 25 characters or less.  
**Bypass date checking?** Unless answer Yes, date sold must exceed date acquired

<b>GAIN/RECAPTURE-Screen 1of2</b>		
<b>a</b>	<b>19 Description of</b>	
	<b>Bypass date checking? No</b>	
<b>b</b>	<b>Date acquired.....</b>	
<b>c</b>	<b>Date sold.....</b>	
	<b>Installment sale? No</b>	
<b>20</b>	<b>Gross sales price.....</b>	<b>0</b>
<b>21</b>	<b>Cost or other basis.....</b>	<b>0</b>
<b>22</b>	<b>Depreciation allowed.....</b>	<b>0</b>
<b>23</b>	<b>Adjusted basis.....</b>	<b>0</b>
<b>24</b>	<b>Total gain.....</b>	<b>0</b>
<b>25</b>	<b>If sec. 1245 property:</b>	
<b>a</b>	<b>Depreciation allowed.....</b>	<b>0</b>
<b>b</b>	<b>Smaller of ln 24 or 25a....</b>	<b>0</b>
<b>26</b>	<b>If sec. 1250 property:</b>	
<b>a</b>	<b>Add'l deprec'n after 1975.</b>	<b>0</b>
	<b>Percentage for 26b....</b>	<b>0</b>
<b>b</b>	<b>% of smaller of 24 or 26a....</b>	<b>0</b>
<b>c</b>	<b>Subtract line 26a from 24....</b>	<b>0</b>
<b>d</b>	<b>Add'l depr aftr69&amp;before76</b>	<b>0</b>

Figure 2-52a. Gain/Recapture Worksheet, Screen 1

by more than 1 year for any gain to be computed on this worksheet.

- 19b Date acquired.** Enter date acquired in the usual mm/dd/yy for-mat.
- 19c Date sold.** Enter date sold in the standard mm/dd/yy format. Note that the property must have been held more than one year to be reported here if it is section 1245, 1250, or 1252 property; otherwise the entire gain would be ordinary income.
- Installment sale?** If you answer Yes, the recapture and long-term gains are posted to Form 4797 and then the selected copy of Form 6252, as detailed below line 28.
- 20 Gross sales price.** Enter total proceeds from the sale here. If this amount was not included in line 1, you must explain why in a supporting statement for line 1.
- 21 Cost or other basis.** Enter the net purchase price and any costs of the sale not already reflected in line 20, above.
- 22 Depreciation allowed.** Enter total depreciation or depletion allowed or allowable since acquisition, whether or not you actually used it, including any section 179 expenses claimed. You should reduce this amount by any recapture already reported, and may have to add other deductions to this total. See the IRS instructions for this line for more detail.
- 23 Adjusted basis.** *(auto-calc)* Computed line 21 less line 22.

**24 Total gain.** *(auto-calc)* Computed as line 20 less line 23, but no less than zero. If a gain does not appear here, you should be reporting this sale in Part I or Part II of Form 4797, not here.

**25 If sec. 1245 property:** The following two lines are always zero unless you accessed the worksheet through line 25 of Form 4797.

**25a Depreciation allowed.** *(auto-calc)* Automatically equal to line 22.

**25b Smaller of line 24 or 25a.** *(auto-calc)* Computed as indicated, this is the amount recaptured as ordinary income for sec. 1245 property.

**26 If sec. 1250 property:** The following two lines are always zero unless you accessed the worksheet through line 26 of Form 4797.

**26a Additional depreciation after 1975.** Enter, for the years after 1975 only, the amount by which depreciation taken exceeds the amount that straight-line depreciation would provide. See IRS instructions for details.

**Percentage for line 26b.** Enter 100% for most property, but see IRS sec. 1250(a)(1)(B) for what to enter for low-income rental housing

**26b % of smaller of 24 or 26a.** *(auto-calc)* Computed as the above percentage times the smaller of line 24 or line 26a.

**26c Subtract line 26a from line 24.** *(auto-calc)* Computed as indicated.

**26d Additional depreciation after 1969 and before 1976.** Enter, for the years after 1969 and before 1976 only, the amount by which depreciation taken exceeds the amount that straight-line depreciation would provide. If the depreciation taken is actually LESS than straight-line depreciation, reduce your entry for line 26a by that amount instead (but no less than zero).

**26e Smaller of line 26c or 26d.** *(auto-calc)* Computed as the smaller of line 26c or line 26d.

**26f Section 291 amount (corporations only).** *(auto-calc)* Since this entry is relevant only to corporate returns, not Form 1040 returns, it is automatically zeroed for this software.

**26g Add lines 26b, 26e, & 26f.** *(auto-calc)* Computed as indicated, this is the amount recaptured as ordinary income for section 1250 property.



**Sec 126 exclusions.** Enter total payments previously excluded from income under IRS section 126.

**Percentage for line 29a.** Enter 100% for property disposed of less than 10 years after receipt of the last payment excluded, and 10% less (but no less than zero) for every full or partial year thereafter.

**29a Applicable payments excluded from income under sec. 126.** *(auto-calc)* Computed as the above percentage times the total section 126 exclusions.

**29b Smaller of line 24 or 29a.** *(auto-calc)* Normally computed as indicated, but if you made an entry above for "Ordinary income part of line 24," line 24 is replaced by line 24 less that entry before performing the computation. This line shows the amount of gain recaptured as ordinary income for section 1255 property.

### SUMMARY:

**Ordinary gain (Recapture).** *(auto-calc)* Computed as line 25b for section 1245 property, line 26g for section 1250 property, line 27c for section 1252 property, line 28b for section 1254 property, and line 29b for section 1255 property.

**Long-term gain.** *(auto-calc)* Computed as the total gain on line 24 less the preceding ordinary gain.

**Unrecaptured sec. 1250 gain.** *(auto-calc)* This line is *computed only if you accessed the worksheet by itemizing line 26*, which is the line for section 1250 property. When applicable, it is computed as the lesser of the preceding long-term gain vs. the amount by which depreciation on line 22 exceeds the ordinary gain (recapture) shown above.

When you return from the worksheets, totals for lines 24 through 29 are posted to Form 4797 as well as the four types of gains shown at the end of the worksheets. In addition, amounts for installment sales are posted separately from other sales in order to properly distribute totals to the proper lines and forms.

**Allocations to Form 6252.** The results from the worksheets are summarized here, and amounts destined for Form 6252 (for installment sales) are subtracted out before the results are posted to Parts I and II of Form 4797. *TIP: Form 6252 is accessible from lines 4 and 15 of Form 4797, but lines 12, 25, and 36 of Form 6252 will not have the proper amounts until you complete this part of Form 4797.*

**Sec. 1245 and 1250 recapture for Form 6252 line 12.** *(auto-calc)* *From worksheets identified as installment sales only*, this is the total "Ordinary gain (Recapture)" shown in the summary at the end of the worksheets for section 1245 and 1250 property. Your entries on the next five lines determine how this total is split among the five available copies of Form 6252. This entire amount will be posted to copy 1 of Form 6252 if you make no entries below.

**Part for Form 6252 copy 2, line 12.** Enter the portion of the above recapture total to be posted to copy 2 of Form 6252.

**Part for Form 6252 copy 3, line 12.** Enter the portion of the above recapture total to be posted to copy 3 of Form 6252.

**Part for Form 6252 copy 4, line 12.** Enter the portion of the above recapture total to be posted to copy 4 of Form 6252.

**Part for Form 6252 copy 5, line 12.** Enter the portion of the above recapture total to be posted to copy 5 of Form 6252.

**Part for Form 6252 copy 1, line 12.** *(auto-calc)* Computed as the earlier recapture total less the above four amounts.

**Sec. 1252, 1254, and 1255 recapture for Form 6252 line 25.** *(auto-calc)* *From worksheets identified as installment sales only*, this is the total "Ordinary gain (Recapture)" shown in the summary at the end of the worksheets for section 1252, 1254, and 1255 property. Your entries on the next five lines determine how this total is split among the five available copies of Form 6252. This entire amount will be posted to copy 1 of Form 6252 if you make no entries below.

**Part for Form 6252 copy 2, line 25.** Enter the portion of the above recapture total to be posted to copy 2 of Form 6252.

**Part for Form 6252 copy 3, line 25.** Enter the portion of the above recapture total to be posted to copy 3 of Form 6252.

**Part for Form 6252 copy 4, line 25.** Enter the portion of the above recapture total to be posted to copy 4 of Form 6252.

**Part for Form 6252 copy 5, line 25.** Enter the portion of the above recapture total to be posted to copy 5 of Form 6252.

**Part for Form 6252 copy 1, line 25.** *(auto-calc)* Computed as the earlier recapture total less the above four amounts.

**Unrecaptured sec. 1250 gain for Form 6252.** *(auto-calc)* *From worksheets identified as installment sales only*, this is the total "Unrecaptured 1250 gain" shown in the summary at the end of the worksheets for section 1250 property. Your entries on the next five lines determine how this total is split among the five available copies of Form 6252. This entire amount will be posted to copy 1 of Form 6252 if you make no entries below.

**Part for Form 6252 copy 2.** Enter the portion of the above recapture total to be posted to copy 2 of Form 6252.

**Part for Form 6252 copy 3.** Enter the portion of the above recapture total to be posted to copy 3 of Form 6252.

**Part for Form 6252 copy 4.** Enter the portion of the above recapture total to be posted to copy 4 of Form 6252.

**Part for Form 6252 copy 5.** Enter the portion of the above recapture total to be posted to copy 5 of Form 6252.

**Part for Form 6252 copy 1.** *(auto-calc)* Computed as the earlier recapture total less the above four amounts.

**Summary of Part III Gains.** The results from the worksheets are summarized here, and amounts destined for Form 6252 (for installment sales) are subtracted out before the results are posted to Parts I and II of Form 4797. *TIP: Form 6252 is accessible from lines 4 and 15 of Form 4797, but lines 12, 25, and 36 of Form 6252 will not have the proper amounts for a current-year sale until you complete this part of Form 4797.*

**30 Total gains for all properties.** *(auto-calc)* Computed as the sum of line 24 from all of the worksheets.

**Ordinary gains for ALL properties.** *(auto-calc)* Computed as the sum of lines 25b, 26g, 27c, 28b, and 29b (the "Ordinary gain (Recapture)" shown in the summary at the end of the worksheets).

**Form 6252 recapture to exclude.** *(auto-calc)* This is the recapture for sec. 1245 and 1250 installment sale property. The years that recapture for these classes of property is taxed are determined on Forms 6252. Recapture is usually *not* fully taxed currently for these properties.

**31 Ordinary gains for line 13.** *(auto-calc)* Computed as the ordinary gains for ALL properties less the above Form 6252 recapture to exclude. (Notice that, contrary to sec. 1245 and 1250 property, recapture for installment sales of sec. 1252, 1254, and 1255 is always fully taxed currently and is therefore included in this line.)

**Long-term gains for ALL properties.** *(auto-calc)* Computed as line 30 less ordinary gains for ALL properties.

**Form 6252 long-term gains to exclude.** *(auto-calc)* *From worksheets identified as installment sales only*, this is the total "Long-term gain" shown in the summary at the end of the worksheets. The years that these gains are is taxed are determined on Forms 6252. They are usually *not* fully taxed currently or else the sales wouldn't be classified as installment sales. *CAUTION: You must provide additional information directly on Form 6252 before the amount excluded here appears on a Form 6252.*

**32 Long-term gains.** *(auto-calc)* Computed as long-term gains for ALL properties less long-term gains for Form 6252.

**Casualty and theft part of line 32, for Form 4684.** Enter here the portion of line 32 attributable to casualty and theft. This entry is posted to line 33 of Form 4684.

**Remainder for Form 4797 line 6(g).** *(auto-calc)* Computed as line 32 less the above entry, *this result is posted to line 6 in Part I of Form 4797.*

**Unrecaptured section 1250 gain in Form 4797, Part I.** This section is used to compute unrecaptured sec. 1250 gain in the return that is associated with Part I of Form 4797, in accordance with the way the amounts throughout the return for unrecaptured sec. 1250 gain are used on Schedule D.

**For gains in Part III (but not Form 6252).** *(auto-calc)* This is the total "Unrecaptured sec. 1250 gain" shown in the summary at the end of the worksheets excluding worksheets identified as installment sales.

**For gains from Form 6252s.** *(auto-calc)* This is the unrecaptured sec. 1250 gain associated with the gain shown on line 4 of Form 4797, which comes from line 26 or 37 of Forms 6252. (The amount of unrecaptured sec. 1250 gain that is currently taxable is determined on the associated Form 6252.)

**From Schedule K-1s from partnerships and S corporations.** *(auto-calc)* This is the total unrecaptured section 1250 gain identified on the Sch. K-1 Sec. 1231 Gain/Loss Worksheets you completed for line 2 of Form 4797.

**Adjusted amount for line 19 of Schedule D, Part III.** *(auto-calc)* Computed as the sum of the above three amounts, then limited to no more than the gain on line 7 of Form 4797, subject to further reduction by line 8, in accordance with the IRS Unrecaptured Section 1250 Gain Worksheet (which appears at the end of the IRS Instructions for Schedule D). This result is posted to Schedule D as *just one component of line 19 of Schedule D* in its complex calculation of tax.

**PART IV, Recapture Amounts Under Sections 179 and 280F When Business Use Drops to 50% or Less.** Recapture required because of a change in the percentage of business use of the property is reported here. Lines labeled (a) are for recapture of section 179 deduction. Lines labeled (b) are for recapture of depreciation of listed property.

**33 Prior allowable (a) Sec. 179.** Enter section 179 deduction taken that is now subject to recapture for all but listed property.

**33 Prior allowable (b) Sec. 280F.** Enter depreciation allowable, whether taken or not, for listed property that is now subject to recapture. Be sure to include any section 179 deduction claimed for the property.

**34 Recomputed depreciation (a) Sec. 179.** Enter the extra amount of depreciation that would have been allowable over the years if the section 179 deduction had not been claimed.

**34 Recomputed depreciation (b) Sec. 280F. (a) Sec. 179.** Enter the total depreciation over the years that would have been allowable had the business been used less than 50% for business for all those years. This deduction is usually based on a straight-line depreciation.

**35 Recapture amount.** *(auto-calc lines)* Computed as line 33 less line 34, separately for columns (a) and (b).

The amounts on lines 35a and 35b must be reported as "Other income" on the form or schedule for which the original deductions applied (such as Schedule C, Schedule F, Form 2106, etc.).

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 4835 / Farm Rental Income and Expenses

**Who is it for?** Form 4835 is used to report farm rental income, providing you meet *ALL* of the following criteria:

- you own the property on which the farm operates,
- the activity is a rental activity (as defined for passive activities on Form 8582),
- the rental income is based on production (such as the amount of crops or livestock produced by the tenant), rather than a flat rate, and
- you did not materially participate in the operation or management of the rented farm (as defined for self-employment on Schedule SE).

If you don't meet all these criteria, you should report the income elsewhere on the return, not on this form. For example,

- if you are the tenant, or you materially participate in the operation or management of the farm, you should report the activity as Farm Self-employment on Schedule F;
- if the rent you receive is based on a flat charge for pasture or farmland, you should report the activity as Rental Real Estate on Schedule E.

**Form 4835 parallels Schedule F.** Form 4835 is nearly identical to Part I and II of Schedule F, where farm income is reported using the cash (not accrual) method. Rather than repeat all the detail of Schedule F here, we therefore highlight only the differences here. Therefore, you should refer to our instructions for Schedule F for details not shown here.

**GENERAL INFORMATION.** Your answers here control how this activity is treated under the passive activity rules on Form 8582.

**Employer ID Number (EIN).** Enter the EIN here in the standard 10-character format (00-0000000) only if required to file employment, excise, alcohol, tobacco, or firearms tax returns, or you had a Keogh plan. **CAUTION: Do NOT enter social security number here.**

**A Active participant during 2014?** Answer Yes only if you participated in a significant way in management decisions or arranging for others to provide services to maintain the rental activity. If the activity is classified as a passive activity in the next section, the gains and losses for this activity will be treated on Form 8582 as

- Rental Real Estate Activities with Active Participation if you answer Yes, or
- All Other Passive Activities if you answer No.

See Form 8582 for details.

**Exception to PAL limitations.** Unless you can answer Yes to some of the following questions, the activity will be considered a passive activity and the deduction of losses will be limited through Form 8582.

**Are you a real estate professional?** If you qualify as a real estate professional, then you may qualify to have this rental activity treated as a nonpassive activity.

**Did you "materially participate" in the operation of this business during 2014?** You can generally answer Yes if you participated in the opera-

tion of this rental business for more than 500 hours during the year. See our instructions for Form 8582 for details.

**Were you a "significant participant" in the operation of this business?** If you do not satisfy the requirements for material participation, you may be classified as a significant participant. You are tentatively considered to be a significant participant if you participated in the activity for more than 100 hours but no more than 500 hours during the tax year. See our instructions for Form 8582 for details on what constitutes significant participation. (No entry is accepted here if you answered Yes to "material participant in 2014.")

Unlike other activities, rental activities like this one are almost always treated as passive activities. Whereas material participation is enough to cause an activity to be classified as nonpassive, for this rental activity, you must be a real estate professional as well. So, for this form the activity is treated as a nonpassive activity *ONLY* if you are *BOTH* a real estate professional *AND* either (1) a material participant, or (2) a significant participant and the net of *ALL* significant participation activities through the return taken together is a gain.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**PART I, GROSS FARM RENTAL INCOME.** This part is similar to Part I of Schedule F, but there are enough differences to show the details here.

**1 Income from production of livestock and other items based on production.** Enter the total gross rental income here.

**2a Total distributions from cooperatives (Forms 1099-PATR).** Enter the totals from any Forms 1099-PATR that you receive, including *ALL* patronage dividends.

**2b Taxable amount in line 2a.** Enter the part of line 2a that is taxable. This is usually the amount on line 2a less the patronage dividends from buying personal items, capital assets, or depreciable assets.

**3a Total agricultural program payments.** Enter both cash and noncash payments, including direct payments, counter-cyclical payments, price support payments, diversion payments, and cost-share payments, and payments in the form of materials and services reported to you on Forms 1099-G or CCC-182. *NEW: If your entry on this line includes direct payments or counter-cyclical payments, you may have an "excess farm loss" that limits the amount of farm rental losses you can claim. See the shaded box titled "Excess Farm Loss" preceding our details for the summary of Part II of Schedule F.* You will generally have to complete Worksheet 4 or 5 at the end of the IRS *2014 Instructions for Schedule F* and enter the excess farm loss attributable to Form 4835 in the Summary section that follows line 32 of Form 4835.

**3b Taxable amount in line 3a.** Enter the full amount on line 3b unless some of the payments are nontaxable, such as payments received under certain conservation programs. See IRS Pub. 225 (*Farmer's Tax Guide*) for details.

**4a Commodity credit loans reported under election.** Enter here the loan proceeds from any loans from the Commodity Credit Corporation (CCC) which you elect to report as income when received, *showing the details of the loans in a supporting statement for this line.* *TIP: If you have an entry on this line, you may have an "excess farm loss" that limits the amount of farm rental losses you can claim. See the shaded box titled "Excess Farm Loss" preceding our details for the summary of Part II of Schedule F.* You will generally have to complete Worksheet 4 or 5 at the end of the IRS 2014 Instructions for Schedule F and enter the excess farm loss attributable to Form 4835 in the Summary section that follows line 32 of Form 4835.

**4b CCC loans forfeited.** Report the full amount forfeited even if you reported the loan proceeds as income.

**4c Taxable amount related to line 4b.** If you did *NOT* elect to report the amount forfeited as income, enter here the same amount as line 4b. If you *DID* elect to report the amount forfeited as income, but the amount forfeited is different from your basis in the commodity, you may still have to make an entry here. See IRS Pub. 225 (*Farmer's Tax Guide*) for details.

**5 Crop insurance proceeds and certain disaster payments.** You should report on the following lines total crop insurance proceeds, including disaster payments under the Federal disaster assistance acts, actually received in 2014, whether you elect to include them as income this year or next year.

**5a Amount received in 2014.** Enter total crop proceeds here.

**5b Taxable amount in line 5a.** Unless you elect to include them as income next year, as indicated by your answer to 5c, enter the full amount on line 5a here.

**5c Do you elect to defer the proceeds to 2015, and attach statement?** If you make the election you must *justify it in a supporting statement for this line.* See IRS Pub. 225 (*Farmer's Tax Guide*) for details on what to include. *Exception for e-file: The software does not support this statement for e-file. If you must create a supporting statement for this line, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

**5d Amount deferred from 2013.** If you elected on your 2013 return to include crop insurance proceeds from that year in 2014 income, enter that amount.

**6 Other income.** Report here any other taxable income, including

- barter income,
- gasoline and fuel credits and refunds,
- profit or loss on sales of commodity futures if they were made as a hedge against price changes,
- recapture on Form 4797, line 35 (sections 179 and 280F(b)(2)) that relates to deductions previously taken for this farm,
- any inclusion amount on leased property other than vehicles,
- amount canceled or forgiven on a discharge of your business debt,
- recovery of bad debts,

- recapture of credits taken for clean-fuel vehicles, and
  - recapture of credit taken for clean-fuel vehicle refueling property.
- 7 Gross farm rents.** *(auto-calc)* Computed as the sum of lines 1, 2b, 3b, 4a, 4c, 5b, 5d, and 6.

**PART II, EXPENSES--FARM RENTAL PROPERTY.** This part of Form 4835 is *identical to Schedule F except for the line numbers through line 31*. The expenses on lines 8 through 31 of Form 4835 have precisely the same labels and meanings as lines 10 through 33 of Schedule F. Therefore, you should *refer to our details for Part II of Schedule F for important instructions on the entries for lines 8 through 31*. After line 31 of Form 4835 there are a few technical differences. The main differences are (a) Form 4835 includes a provision for active participation in addition to other passive activities, (b) Form 4835 has a numbered line 32 to show the tentative net income before application of the passive activity rules (analogous to our line "Tentative net income" on Schedule F, which is not a part of the IRS form), and (c) Form 4835 has a numbered line 34c at the bottom of the form the shows the deductible loss after application of the passive activity rules. As a result of difference (a), depending on the answer in the General Information section, if the activity is classified as passive, gains and losses may be included in lines 3a, 3b, and 3c of Form 8582, just like Schedule F, or they may be included in lines 1a, 1b, and 1c of Form 8582 (unlike Schedule F) if afforded the favorable treatment of active participation in rental real estate. As a result of differences (b) and (c), the last two lines of the on-screen Form 4835 are unique to Form 4835.

**Excess Farm Loss.** A limitation on farm losses applies for 2014. If the farm received certain subsidies, it may be subject to the limitation if it had a net loss greater than \$300,000. Subsidies that count for this determination are:

- (3) Agricultural program payments that are direct payments or counter-cyclical payments, which are generally reported on line 3a of Form 4835, or
- (4) Commodity Credit Corporation (CCC) loans, which are generally reported on line 4a of Form 4835.

When these conditions are met, you must use one of the worksheets supplied by the IRS at the end of the 2014 Instructions for Schedule F to determine the amount of farm loss that is disallowed for 2014. If there is more than one farm business, or excess farm losses apply to other forms (such as Schedule C, Schedule E, or Schedule F), you must allocate the computed excess farm loss among the forms on a *pro rata* basis. You must report the amount allocated to Schedule F on the line above your entry for "\$ amount of loss NOT at risk," as described on the next page.

**SUMMARY.** This part is analogous to the lines after line 33 of Schedule F, but with several differences, as noted above.

**32 NET FARM RENTAL INCOME OR LOSS.** (*auto-calc*) Computed as gross farm income on line 7 less total expenses on line 31, this line has no equivalent on the official Schedule F because it is the net income *BEFORE* applying the excess farm loss, at-risk, and passive activity loss limitations. Rather, it is analogous to the on-screen line we show on Schedule F as "Tentative net income."

**Applicable farm subsidies.** The following three questions relate to subsidies that may make you subject to limitations due to excess farm loss. (See preceding page for more information.)

**Did the farm receive a direct agricultural program payment?** This subsidy may be included in line 5a or 40a of this copy of Schedule F.

**Did the farm receive a counter-cyclical agricultural program payment?** This subsidy also may be included in line 6a or 40a of this copy of Schedule F.

**Did the farm receive a CCC loan in 2014?** This subsidy may be included in line 7a or 41a of this copy of Schedule F.

**Did the farm receive an applicable subsidy?** (*auto-calc*) Computed as Yes if your answer to any of the preceding 3 questions is Yes. Otherwise, No. The answer that appears here is used as the answer for line 33 of Form 4835.

If the answer to the last question is Yes, *you may have an excess farm loss*. If so, complete the appropriate worksheet at the end of IRS 2014 *Instructions for Schedule F* and enter the part allocated to this copy of Schedule F on the following line:

**Excess farm loss.** If the answer to the preceding question is Yes and line 32 is a loss that exceeds \$300,000, complete the appropriate worksheet at the end of the IRS 2014 *Instructions for Schedule F* to determine your excess farm loss, and enter here the part allocable to this copy of Schedule F. The farm's net loss will be reduced by this amount before at-risk or passive activity rules are applied.

**\$ amount of loss NOT at risk (Form 6198).** If tentative net income reflects a net loss for the farm after limiting the loss by the preceding "Excess farm loss," you must enter the part of the net loss that is NOT at risk here. Your losses for any activity are limited to the amount that you have at risk, which is the amount that you personally stand to lose from that activity. This generally includes cash and the adjusted basis of any property you contributed to the activity plus any amount borrowed for which you are personally liable. Use Form 6198 (built into the Premium Level software) to determine the amount you have at risk, and file the form with your return. (Your entry here will affect the answer to lines 36a and 36b, later.)

**Prior unallowed passive loss for active participation activities.** This is the loss carryover from the prior year stemming from passive loss limitations on this activity for 2013 if it was identified as an active par-

participation activity. *This carryover is automatically transferred by the software from the prior-year return when you use the translate feature on a return that has 2013 as the entry for tax year on Form 1040.*

**Prior unallowed passive loss for other passive activities.** This is the loss carryover from the prior year stemming from passive loss limitations on this activity for 2013 if it was identified as neither an active participation activity nor a material participation activity. *This carryover is automatically transferred by the software from the prior-year return when you use the translate feature on a return that has 2013 as the entry for tax year on Form 1040.*

**Part allowed in significant participation net.** *(auto-calc)* If line 32 is a loss, no amount will appear here. But if it is a gain, and you identified this activity as a significant participation activity on screen 1, the part of the above two carryovers that does not exceed the amount on line 32 appears here.

**Significant participation net.** *(auto-calc)* If you identified this activity as a significant participation activity, this line is calculated as line 32 less the above part of carryover allowed.

**Net gain from ALL significant participation activities?** *(Road Map line, supported by Form 8582.)* Taken automatically from Form 8582, this answer can be reliable only upon the final recalculation of the return.

**Active participant passive loss unallowed in 2014.** *(auto-calc line, supported by Form 8582.)* The unallowed loss from Form 8582 for active participation activities for the current year is posted here, but it may not be accurate until the final recalculation of the return. It is the proper pro-rated portion of the amount shown on Form 8582.

**Other passive loss unallowed in 2014.** *(auto-calc line, supported by Form 8582.)* The unallowed loss from Form 8582 for other than active participation activities for the current year is posted here, but it may not be accurate until the final recalculation of the return. It is the proper pro-rated portion of the amount shown on Form 8582.

**33 Did you receive an applicable subsidy in 2014?** *(auto-calc)* The answer will be Yes only if you answered Yes to at least one of the three questions that follow line 32. If Yes, *you may have an excess farm loss. If so, complete the appropriate worksheet at the end of IRS 2014 Instructions for Schedule F and enter the part allocated to this copy of Form 4835 on the earlier "Excess farm loss" line of Form 4835.*

**34a All investment is at risk.** *(auto-calc)* Answered Yes only if there is *NOT* an entry for "\$ loss NOT at risk (6198)" below line 32. Otherwise, No.

**34b Some investment is not at risk.** *(auto-calc)* Answered Yes only if there *IS* an entry for "\$ of loss NOT at risk (6198)" below line 32. Otherwise, No.

**If line 34b is "Yes," itemize here for Form 6198.** *(If Premium Level, Road Map line supported by Form 6198.)* You must complete Form 6198 if line 34b is Yes because some investment is not at risk.

**34c Deductible loss for Schedule E, line 40.** *(auto-calc)* If line 32 (Net farm rental income or loss) is less than zero, this line will be the loss (as a positive number) *AFTER* applying the excess farm loss, at-risk, and passive loss limitations. Otherwise, zero. If this result reflects a disallowance from Form 8582 or reflects an additional loss due to a carryover from 2013, "PAL" is printed beside the result on the official printout of Form 4835.

**NET for Schedule E, line 40.** *(auto-calc)* If line 32 is zero or greater, that amount will appear here. Otherwise the amount on line 34c appears here as a negative number.

The result for "NET for Schedule E, line 40" is posted to Schedule E, line 40. If no Schedule E exists for the return, the schedule is automatically generated upon the final recalculation of the return, and made a permanent part of the return in order to hold the results of Form 4835.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 4868 / Automatic Extension of Time to File

**Who is it for?** This form is used to apply for an automatic extension of time to file a U.S. Individual Income Tax Return. You must file Form 4868 by the due date of the return, April 15, 2015, and, if approved, your next filing deadline will be October 15, 2015. Note that if you were classified as “out of the country” when the return was due, you have an extra 2 months to file the Form 1040 return without filing this form. (See “When to file Form 4868,” below, for the obtuse IRS definition of “out of the country.”) However, if you still cannot meet the new June 15, 2015 deadline, you can use this form for an additional 4 months, so that your next filing deadline is, again, October 15, 2015. By filing this form with a reasonable estimate of your tax liability, you avoid a stiff penalty for filing late, which is usually 5% per month (60% per annum!) up to a 25% maximum. *Form 4868 is accessible through the Road Map at line 70 of Form 1040.*

**Not an extension of time to pay.** This form gives you an extension of time to file, not an extension of time to pay. If you do not pay the total tax liability estimated on this form, or your estimate is inaccurate, you will be subject to interest and late payment penalties. Interest is charged at a rate that depends on the financial markets, generally about 0.3% per month at current rates. Penalties generally add another 0.5% per month (or part of a month), so your overall rate could be about 0.8% per month. If you want to avoid these interest charges and penalties, you should try to accurately estimate your tax liability and pay all tax due. (Penalties for not filing are much higher, generally 5% per month!)

**How the software works.** Because this form is used to estimate the tax liability when the return is not yet complete and could be far from the final version, *we intentionally refrain from completing this form automatically, but give you helpful guidance instead. It is up to you to make the final determination of estimates to report to the IRS on this form.*

**6-month extension now automatic.** Form 4868 now provides a 6-month extension of time to file, rather than the 4-month extension prior to 2006. As a result, Form 4868 extends your time to file from April 15, 2015 to October 15, 2015.

**WHEN TO FILE FORM 4868.** If you were “out of the country” (in the IRS sense) on April 15, 2015, you have an automatic 2-month extension of time to file without filing this form. *In the IRS sense, “out of the country” on April 15 does not mean that you were physically out of the country on that date. Rather, it means that you are classified as an “out of the country” taxpayer through your answers to the following two questions:*

**Do you live and work outside of the U.S. and Puerto Rico?** You can answer Yes only if BOTH your living quarters and your main place of work are outside the U.S. and Puerto Rico.

**Are you in military service outside the U.S.?** You can answer Yes only if you are in military or naval service outside the U.S. and Puerto Rico.

**Are you a U.S. citizen or resident?** Resident in this sense means that you normally live in the U.S. and are qualified to file Form 1040 (as opposed to Form 1040-NR), but live outside the U.S. currently only because of temporary work.

Your classification as "out of the country" in the IRS sense controls the automatic answers to the following two questions:

**You must file by April 15.** *(auto-calc)* Answered Yes if the first two questions are answered No or the last question is answered No. *If Yes, you must file this form by April 15, 2015 to avoid a penalty.*

**You may file until June 15.** *(auto-calc)* Answered Yes if either of the preceding questions is answered Yes. If Yes, you can file your return without penalty and without filing Form 4868 until June 15, 2015. If you still cannot file your return by June 15, you can file Form 4868 by that date for an additional 2-month extension. If a Yes appears here, line 8 of this form is answered Yes and the corresponding box is checked on the official printout of the form. *CAUTION: Even if you don't have to file Form 4868 or Form 1040 until June 15, you still must pay the amount due by April 15 in order to avoid interest and penalties.*

To avoid interest and penalties, you should accurately estimate the balance due (line 6 of this form) and pay that amount by the regular due date of the return (April 15, 2015 for individuals).

**PART I, IDENTIFICATION.** Most information for this section comes automatically from Form 1040.

**Information from Form 1040:**

**Filing status.** *(auto-calc)* Taken from your entry on Form 1040.

**1 Name(s) and address on 1040.** *(auto-calc lines)* The names and address you entered on Form 1040 are shown here. These are used for Form 4868 unless you supply a temporary alternate address for this form following line 3, below.

**2 Your social security number (SSN).** *(auto-calc)* Taken from your entry on Form 1040.

**3 Spouse's social security number (SSN).** *(auto-calc)* Taken from your entry on Form 1040.

**Alternate address (agent):**

**Use below name and address instead?** If you answer Yes, your entries on the lines that follow this question are used on the printed Form 4868 in place of the name(s) and address on line 1. You would do this if you want any correspondence with the IRS regarding this extension to be sent to an agent or to another address different from the address on your Form 1040 return.

**PART II, INDIVIDUAL INCOME TAXES.** Estimates for Form 1040 amounts are entered here.

**Tax on current Form 1040, line 63.** *(auto-calc)* Taken from Form 1040 as indicated, this line is your total tax at the current state of the return.

**4 Estimated tax liability for 2014.** Enter the total tax you estimate for 2014, using the preceding amount for guidance.

**Payments on current Form 1040, line 74 (excluding line 70).** *(auto-calc)*

Taken from Form 1040 line 74 with any entry on line 70 (where line 7 of this form is posted) removed. This is your total payments, including withholding and prior estimated tax payments, but excluding any payment to be made with this form.

**5 Total 2014 payments.** Enter the total payments tax you estimate for 2014, using the preceding amount for guidance.

**6 BALANCE DUE.** *(auto-calc)* Computed as line 4 less line 5.

**7 Amount you are paying.** Enter the amount you are enclosing with this form. If you do not pay the amount on line 6, and line 6 is an accurate estimate of your liability, you may be subject to interest and penalties on your underpayment, as explained previously. *Your entry on this line is posted to the Form 4868 component of Form 1040, line 70.*

**Interest and penalties may apply.** *(auto-calc)* Answered Yes if line 7 is less than line 6 to warn you that you could be charged a penalty on the amount underpaid unless you can show reasonable cause for not paying on time. You must show cause when you file your return, not when you file Form 4868, explaining in a statement attached to that return the reason for not paying the full amount due on time.

**8 Were you out of the country and a U.S. citizen or resident?** *(auto-calc)* Answered Yes only if the answer to "You may file until June 15" is Yes (on screen 1 of Form 4868).

**9 Do you file Form 1040NR or 1040NR-EZ and did not receive wages as an employee subject to U.S. income tax withholding.** *(auto-calc)* Automatically No because this software is designed for Form 1040 returns, not Form 1040NR or 1040NR-EZ returns.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Paying by phone or on-line accepted in lieu of filing Form 4868.** If you pay your estimated balance due by credit card, you will not have to file a paper or e-file Form 4868. *The IRS considers paying by credit card to satisfy the requirement to file Form 4868.* Go to [www.irs.gov/e-pay](http://www.irs.gov/e-pay) for more information on this and other payment options. To pay by check or money order, send payment with Form 4868 to the address for your state shown on page 4 of the official IRS Form 4868 for 2014. (CAUTION: If you live in Missouri, note that the IRS office to which you must mail Form 4868 has changed. It is now mailed to Connecticut instead of Kentucky.)

## Form 4952\*\* / Investment Interest Expense Deduction

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of Tax Preparer.

**Purpose.** This form is used to figure the amount of interest expense that you can deduct each year for investment loans. The deduction is limited to be no more than qualified investment income each year. However, that investment income does not include income from passive activities nor tax-exempt interest. It also does not include qualified dividends and capital gains unless you elect to include them (or a portion of them), in which case they are taxed at regular tax rates rather than the more favorable capital gains tax rates. The allowed deduction computed on this form is normally reported as an itemized deduction at line 14 of Schedule A, but there are some exceptions as detailed later. Form 4952 is *accessible through the Road Map at line 14 of Schedule A*. (This form is *not used for interest on business or personal loans*. Interest on business loans is deducted on the form used to report the business income, such as Schedule C. Interest on personal loans is not deductible at all, except for home mortgages, which are reported directly on Schedule A.)

**CAUTION:** If you have investment income other than interest, dividends, and capital gain distributions, **YOU must enter that income manually.** Other than interest, dividends, and capital gain distributions, the software has no way of knowing what other income on the return is qualified investment income. This is an unfortunate result of the IRS design in which disposition of personal, investment, and business property are all reported on the same forms, such as Schedule D and Form 4797, and not separately identified. Therefore, if you have any investment gains and losses on Schedule D or Form 4797, you must (except for capital gain distributions) enter them yourself as components of lines 4a and 4d.

**PART I, TOTAL INVESTMENT INTEREST EXPENSE.** The interest you want to consider for deduction is reported here.

**Investment interest expense from Sch. K-1.** Enter the interest paid or accrued in 2014 as reported to you on a Schedule K-1 from a partnership or S corporation.

**Other investment interest expense.** Enter here all other qualified investment interest you paid or accrued in 2014. *For the purposes of this form, investment interest does NOT include home mortgage interest, interest related to a passive activity, nor interest related to tax-exempt income.* On the other hand, it usually *does* include interest on a margin account with your brokerage. See IRS instructions for other exclusions and more details.

**1 Investment interest expense paid or accrued in 2014.** (*auto-calc*) Computed as the sum of the preceding two lines.

**2 Disallowed investment interest expense from 2013 Form 4952, line 7.** Enter as indicated. This is the amount not deductible for the prior tax year but carried over to the 2014 return.

**3 TOTAL INVESTMENT INTEREST EXPENSE.** *(auto-calc)* Computed as the sum of lines 1 and 2.

**PART II, NET INVESTMENT INCOME.** The income that can be used to justify the interest expense is determined here:

**Interest on Form 1040, line 8a.** *(auto-calc)* Taken from Form 1040, as indicated, this is ordinary interest received.

**Interest on Form 1040, line 9a.** *(auto-calc)* Taken from Form 1040, as indicated, this is ordinary dividends received.

**Child interest and dividends in Form 1040, line 21.** *(auto-calc)* Taken from the line labeled "Form 8814" at line 21 of Form 1040, *but reduced by any amount in that line that is attributable to Alaska Permanent Fund dividends.* (The amount attributed to Alaska Permanent Fund dividends is computed in accordance with a prorated method described in IRS Pub. 550.) This is the amount of your children's interest and dividend income that you are reporting on your return to avoid having to file returns for the children.

**Other gross investment income.** Enter here all other qualified investment interest, including nonpassive royalty income and annuities. DO NOT include any gains or losses on sales or other disposition of investment assets; these are reported on line 4d instead. Also, do not include any amount from Form 8814 (interest and dividends of your children) because they are already included in the preceding line.

**4a Gross investment income.** *(auto-calc)* Computed as the sum of the preceding four lines.

**4b Qualified dividends included on line 4a.** *(auto-calc)* Taken from line 9b of Form 1040, this is the part of line 9a identified as qualified dividends. They are eligible for low capital gains tax rates and are not automatically included in investment income for this form. However, you can elect to have them included in investment income on this form (so that you can deduct more interest) if you identify them to be taxed at ordinary tax rates instead of capital gains tax rates. You make that election at line 4g, below.

**4c Subtract line 4b from line 4a.** *(auto-calc)* Computed as indicated.

**Capital gain distributions (Schedule D, line 13).** *(auto-calc)* Taken from Schedule D, as indicated, this amount includes any amount from your children by means of Form 8814.

**Other net gain or loss from investment property.** Enter here any other gain or loss on the return that stems from qualified investment property. This amount is typically found on Schedule D and/or Form 4797, and includes both long-term and short-term amounts. It also includes the sale of both capital assets and other assets, as long as they were held for investment. *(Do not include any capital gain distributions from Schedule B or Form 8814; they are already included in the preceding line.)*

**4d Gross investment income.** *(auto-calc)* Computed as the sum of the preceding two lines, but no less than zero, this is the net gain from the disposition of property held for investment.

**Capital gain distributions (Schedule D, line 13).** *(auto-calc)* Taken from the corresponding line above line 4d. Capital gains are intentionally included in both line 4d and 4e.

**Other long-term capital gain or loss from investment property.** Enter here any other *long-term capital gain (or loss)* on the return. This amount is usually found in Part II of Schedule D, but be sure to exclude the capital gain distributions already shown on the preceding line.

**Net short-term capital gain or loss from investment property.** Enter here any *short-term capital gain (or loss)* on the return. This amount is usually found in Part I of Schedule D.

**4e Smaller of line 4d or your net capital gain from the disposition of property held for investment.** *(auto-calc)* First the net long-term capital gain is computed (as the sum of the first two of the preceding three lines, but no less than zero); then the net short-term capital loss is computed (as the preceding line only if negative); then the two are combined to arrive at the net capital gain. Line 4e is then the lesser of this result and the gain on line 4d. This is the maximum amount of capital gain that is excluded from investment income for this form, because of its favorable tax treatment, but which can be included back at line 4g by electing to forego the favorable tax treatment.

**4f Subtract line 4e from line 4d.** *(auto-calc)* Computed as indicated.

**4g Amount from lines 4b and 4e that you elect to include in investment income.** Thus far, investment income is the sum of lines 4c and 4f. The qualified dividends in line 4b have been excluded in arriving at line 4c, and the capital gains in line 4e have been excluded in arriving at line 4f. However, as noted above, you can elect to include any or all of the amounts in lines 4b and 4e in investment income, but will have to forego their favorable tax treatment in the process. This is accomplished through your entry here, which affects the tax computation on Schedule D. Your entry here causes some or all of qualified dividends in 4b and/or capital gains in 4e to be taxed at ordinary rates, but allows their reinclusion in investment income on this form (in order to allow a greater investment interest deduction) so that potentially more interest can be deducted. *Before making an entry here you should carefully consider the tax consequences. It is a good idea to make your final decision only after the entire return is complete. You can then experiment with entries on this line by using our Recalculate Key (shift-F8 or ctrl-B) to recompute the entire return after each change.* (CAUTION: NEVER make an entry here if the investment income total at line 4h is greater than or equal to line 3. An entry in this case will never lower your tax and will usually increase it.)

**Default attributable to line 4e.** *(auto-calc)* Computed as the lesser of line 4g and line 4e, this is the maximum amount of line 4g that you can attribute to line 4e. Unless you make another election on the next line, the IRS will attribute this part of your entry on line 4g to capital gains, and not qualified dividends. For most taxpayers this will

be the optimum choice because it results in the lowest tax at line 44 of Form 1040.

**Amount of attribution you elect to shift to line 4b.** If you use Form 1116, you may find it beneficial to attribute a lesser amount to line 4e and a greater amount to line 4b because it could result in enough of an increase in the credit from Form 1116 to reduce the overall tax after credits even though line 44 of Form 1040 is increased. *Your entry here is limited by the software so that the amount attributed to line 4b does not exceed line 4b, and the amount attributed to 4b and 4e combined is equal to the amount on line 4g.*

**Modified line 4e for Schedule D Tax Worksheet.** *(auto-calc)* If you make no entry on the preceding line, the amount on line 4e appears here unmodified, and is used that way in the Schedule D tax computations. However, if you *do* make an entry, and it is accepted by the software, a lesser amount will appear here and used in the Schedule D tax computations to compute a lesser amount of capital gains at favorable tax rates. In the latter case, this amount will appear on the dotted line for line 4e on the official printout of Form 4952 along with the word "Elec" to flag to the IRS that this special election is being made.

**4h Investment income.** *(auto-calc)* Computed as the sum of lines 4c, 4f, and 4g.

**Total on Schedule A, line 23.** *(auto-calc)* Taken from Schedule A, as indicated. This total includes both investment expenses and job expenses, so you must identify the investment expense part on the following three lines.

**Part for investment expense from Schedule B.** *(auto-calc)* Taken from the corresponding part of Schedule A, line 23, this is the amount of investment expense you identified on the 1099-INT and 1099-DIV worksheets that you completed for Schedule B.

**Part from Schedule E, line 38(e).** *(auto-calc)* Taken from the corresponding part of Schedule A, line 23, this is income from a REMIC that is reported as taxable income on Schedule E but deductible on Schedule A, line 23.

**Other investment expense in Schedule A, line 23.** Enter other investment expenses included in Schedule A, line 23, but not reflected in the preceding two lines. *TIP: Be sure to include depreciation or amortization related to qualified investment property that is included in line 23 of Schedule A. (CAUTION: Do not include the amounts from Forms 4684 and 4797 that appear on Schedule A, line 23.* These amounts relate to property used as an employee, not investment property. Investment expenses from these forms are reported at Schedule A, line 28, and are included below.)

**Limitation from Schedule A, line 27.** *(auto-calc)* The deduction for lines 21 through 23 of Schedule A is limited to the part that exceeds 2% of AGI, as reflected in line 27. The same limitation applies to your application of amounts in line 23 to line 5, below.

**Part of Schedule A, line 23, for line 5.** *(auto-calc)* Computed as the lesser of the preceding limitation and the sum of the three investment expense amounts that precede it, this is the only part of Schedule A, line 23, that is allowable for line 5 of Form 4952.

**Total on Schedule A, line 28.** *(auto-calc)* Taken from Schedule A, as indicated. This total also includes both investment expenses and job expenses, so you must identify the investment expense part on the following three lines.

**Part for investment expense from Form 4684, lines 32 and 38b.** *(auto-calc)* Taken from the corresponding part of Schedule A, line 28, this is the loss from casualty or theft on Form 4684 associated with investment property.

**Part for investment expense from Form 4797, line 18a.** *(auto-calc)* Taken from the corresponding part of Schedule A, line 28, this is also the loss from casualty or theft on Form 4797 associated with investment property.

**Other investment expense in Schedule A, line 28.** Enter other investment expenses included in Schedule A, line 28, but not reflected in the preceding two lines.

**Part of Schedule A, line 28, for line 5.** *(auto-calc)* Computed as the total of the preceding three lines, this is the only part of Schedule A, line 28, that is allowable for line 5 of Form 4952.

**Other investment expense for line 5.** Enter any other investment expenses that are qualified for inclusion in line 5, below.

**5 Investment expenses.** *(auto-calc)* Computed as the sum of "Part of Schedule A, line 23, for line 5," "Part of Schedule A, line 28, for line 5," and "Other investment expense for line 5."

**6 NET INVESTMENT INCOME.** *(auto-calc)* Computed as line 4h less line 5, but no less than zero, this is the maximum amount of interest you can deduct this year.

**PART III, INVESTMENT INTEREST EXPENSE DEDUCTION.** The final result is computed here:

**7 Disallowed investment interest expense.** *(auto-calc)* Computed as line 3 less line 6, but no less than zero, this is the amount disallowed this year but carried forward to your Form 4952 for tax year 2015.

**8 INVESTMENT INTEREST EXPENSE DEDUCTION.** *(auto-calc)* Computed as the smaller of line 3 or line 6, this is the amount you can deduct on your return for tax year 2014.

**Allocation of line 8.** Where you report your deduction depends on the specifics of the interest expenses:

**Not-at-risk activities.** If any of your investment interest expense is attributable to an activity for which you are *not* at risk, you will have to complete Form 6198 to determine the amount you are allowed to deduct for that activity. Enter here the part of line 8 that you *cannot* deduct, as determined from Form 6198.

**Royalties (for Schedule E line 12 or 13).** If any of the interest expense is attributable to royalties reported in Part I of Schedule E, you must enter here the part of line 8 attributable to those royalties *and also enter it on line 12 or 13 of the appropriate worksheet that supports Part I of Schedule E.*

**Nonpassive business.** If any part of the amount in line 8 is attributable to a nonpassive trade or business, enter that amount here and on the schedule you use to report other income and expenses for the activity.

**Other not for Schedule A.** If any other part of the amount in line 8 is attributable to an activity for which a deduction on Schedule A is not appropriate, enter that amount here and report it on the appropriate form for that activity.

**Balance for Schedule A, line 14.** *(auto-calc)* Computed as line 8 less the sum of the preceding four amounts, this amount is automatically posted to line 14 of Schedule A for inclusion in itemized deductions.

**CAUTION.** Amounts for Schedule A are posted automatically. However, *no other amounts in the preceding allocations are automatically posted to other forms or schedules.* You must enter the appropriate amounts elsewhere manually as instructed above.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 4970\* / Tax on Accumulation Distribution of Trusts

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used by beneficiaries of certain domestic trusts to figure a partial tax on "accumulation distributions" reported to them by the trusts via Part IV of Schedule J (Form 1041). Form 4970 is *accessible through the Road Map at the ADT line above line 62 Form 1040*. (This form is not applicable if the trust was created on March 1, 1984 or later.)

**More than one trust.** If you have an accumulation distribution from more than one trust, you must complete a separate Form 4970 for each trust. However, the IRS allows only one Form 4970 as a part of an e-filed return, so you will have to file a paper return if you received accumulation distributions from more than one trust. Only one Form 4970 is built into this software. Therefore, if you have an accumulation distribution from more than one trust you must prepare all but one of the Forms 4970 independent of the Form 1040 return. Then, once all other Forms 4970 are complete, enter the total from line 28 of the other Forms 4970 at the end of this form. This procedure will ensure that the proper total is reflected in line 62 of Form 1040.

#### IDENTIFICATION.

**Is spouse the beneficiary?** You must identify the spouse who is the beneficiary of the trust by answering Yes here *only* if the taxpayer identified as "spouse" is the beneficiary of the trust. Otherwise, it will be assumed that the primary taxpayer is the beneficiary. (You can answer Yes only for a joint return.)

**A Name shown on return.** (*auto-calc*) The first and last name entered on Form 1040 for the beneficiary of the trust is shown here and printed on the official Form 4970. *The IRS's preprinted Form 4970 implies that both names on a joint return should be shown on line A of Form 4970. However, the IRS's e-file specifications for Form 4970 make it clear that the name and SSN of only the spouse associated with the trust should be shown, to which we conform.*

**B Social security number.** (*auto-calc*) The SSN of the identified beneficiary is shown here and printed on the official Form 4970.

**C Name of trust.** Enter the name of the trust in 35 characters or less.

**U.S. street address of trust.** Enter the street address in 35 characters or less. *Only U.S. addresses are supported because Form 4970 can be filed with a Form 1040 return only for a domestic trust.*

**City.** Enter the city or town in 22 characters or less.

**State.** Enter the standard 2-letter code for the state.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**D Employer identification number.** Enter the EIN of the trust in the standard xx-xxxxxxx format.

**E Type of trust (1=Domestic, 2=Foreign).** (*auto-calc*) Automatically 1 because Form 4970 is can be used with a Form 1040 tax return only if

the trust is a domestic trust. If a foreign trust, you must instead file a Form 3520 tax return (*Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts*) and pay the tax on the accumulation distribution as a part of that return. You may have to attach a copy of Form 4970 to the Form 3520 return as a calculation worksheet. If so, you can create a Form 4970 separately from your Form 1040 return and override this line with a 2.

**F Beneficiary's date of birth.** Enter the date of birth in the standard xx/xx/xxxx format. (This must be the birth date of you or, if filing jointly, your spouse, whichever is the beneficiary of the trust.)

**G Number of trusts from which you received accumulation distributions in this tax year.** *If you enter more than one here, you must enter the result of the other Forms 4970 on the last screen of this form; a separate Form 4970 must be prepared for each trust. However, you cannot e-file a return that requires more than one Form 4970. See the boxed paragraph, above, for details.*

**PART I, AVERAGE INCOME AND DETERMINATION OF COMPUTATION YEARS.** The entries in this section require amounts from the Schedule J (Form 1041) that the trust provides you.

**1 Amount of current distribution that is considered distributed in earlier tax years (from Schedule J (Form 1041), line 37, column (a)).** Enter as indicated.

**2 Distributions of income accumulation before you were born or reached age 21.** Enter the part of line 1 that represents the undistributed net income (UNI) of a domestic trust accumulation before you reached age 21 (including before you were born).

**3 Subtract line 2 from line 1.** *(auto-calc)* Computed as indicated.

**4 Taxes imposed on the trust on amounts from line 3 (from Schedule J (Form 1041), line 37, column (b)).** Enter as indicated.

**5 Total (add lines 3 and 4).** *(auto-calc)* Computed as indicated.

**6 Tax-exempt interest included on line 5 (from Schedule J (Form 1041), line 37, column (c)).** Enter as indicated.

**7 Taxable part of line 5 (subtract line 6 from line 5).** *(auto-calc)* Computed as indicated.

**8 Number of trust's earlier tax years in which amounts on line 7 are considered distributed.** Enter the number of throwback years for which there are entries on lines 32 through 36 of Part IV of Schedule J (Form 1041). (Note that there can be more than 5 such years, as indicated through additional schedules from the trust.)

**9 Average annual amount considered distributed.** *(auto-calc)* Computed as line 3 divided by line 8.

**10 Multiply line 9 by 25% (.25).** *(auto-calc)* Computed as indicated.

**Number of years on line 8.** *(auto-calc)* Computed as indicated.

**Enter the number of years for which amounts in column (a) of Schedule J (Form 1041), Part IV, is less than line 10 above.** In making this determination you must look at all entries in column (a) for lines 32 through 36 and any attached schedules for additional throwback

years. Enter zero if all amounts in column (a) (excluding the total line) are equal to or greater than line 10 above.

**11 Number of earlier tax years to be taken into account.** *(auto-calc)* Computed as the number on line 8 less the preceding entry.

**12 Average amount for recomputing tax.** *(auto-calc)* Computed as line 7 divided by line 11.

**Information from tax returns for the 5 immediately preceding tax years.** Although the IRS requires only that taxable income be shown on the form for these years (line 13 columns (a) through (e)), you must provide additional information in order for the software to properly compute the tax for you at lines 17 and 18. You must therefore provide all information requested on the five screens for the immediately preceding 5 tax years. (The information requested varies from screen to screen because the tax laws have changed several times in the last few years.)

**INFORMATION FROM 2013 TAX RETURN.** The following entries must be taken from the prior-year return. They are *automatically translated from the prior-year* Form 1040, Schedule D, and Schedule D Tax Worksheet as long as you translated the return as filed, with 2013 retained as the tax year on the Control Form for that return.

**13(a) Enter your taxable income before this distribution for tax year 2013.** Enter the taxable income shown on line 43 of your Form 1040 for tax year 2013 (or a corrected amount, if applicable).

**Filing status for 2013.** Enter the filing status number you used on your return for tax year 2013, where 1 = Single, 2 = Married Filing Jointly, 3 = Married Filing Separately, 4 = Head of Household, 5 = Qualifying Widow(er).

**Capital gains and qualified dividends.** If you did not prepare a Schedule D and/or Schedule D Tax Worksheet for the year but you had capital gains or qualified dividends, you should enter the amounts that would have appeared on Schedule D and its worksheet had you prepared the schedule for the return. (Skip this section if you had neither capital gains nor qualified dividends for the year.)

**2013 Schedule D Tax Worksheet, line 9.** Net long-term gain less elected investment income from Form 4952.

**2013 Schedule D, line 18.** 28% rate gain.

**2013 Schedule D, line 19.** Unrecaptured section 1250 gain.

**2013 Foreign Earned Income Tax Worksheet, line 2.** You will have an entry here only if you filed Form 2555 (or 2555-EZ) for 2013. This entry is the foreign earned income or housing exclusion claimed on the 2013 Form 1040.

**2013 Form 1040, line 9b.** Qualified dividends.

**2013 Form 4952, line 4g.** Excludable net capital gain included in investment income.

**2013 Form 4952, line 4e.** Net capital gain excludable from investment income.

**Tax computations.** The amounts computed here will be used in Part II if the taxable income entered for line 13(a) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2013 tax on line 13(a).** *(auto-calc)* The tax computed here should match the tax shown on line 44 of Form 1040 for tax year 2013 (as corrected, if applicable). This result will be used for one of the columns of line 18 if the taxable income entered for line 13(a) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2013 tax on line 13(a) plus line 12.** *(auto-calc)* This is your 2013 tax re-computed to include the appropriate portion of accumulation distributions. This result will be used for one of the columns of line 17 if the taxable income entered for line 13(a) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**INFORMATION FROM 2012 TAX RETURN.** Make the following entries based on your return for tax year 2012. *They are automatically translated from the prior-year Form 4970 as long as you translated the return as filed, with 2013 retained as the tax year on the Control Form for that return.*

**13(b) Enter your taxable income before this distribution for tax year**

**2012.** Enter the taxable income shown on line 43 of your Form 1040 for tax year 2012 (or a corrected amount, if applicable).

**Filing status for 2012.** Enter the filing status number you used on your return for tax year 2012, where 1 = Single, 2 = Married Filing Jointly, 3 = Married Filing Separately, 4 = Head of Household, 5 = Qualifying Widow(er).

**Capital gains and qualified dividends.** If you did not prepare a Schedule D and/or Schedule D Tax Worksheet for the year but you had capital gains or qualified dividends, you should enter the amounts that would have appeared on Schedule D and its worksheet had you prepared the schedule for the return. (Skip this section if you had neither capital gains nor qualified dividends for the year.)

**2012 Schedule D Tax Worksheet, line 9.** Net long-term gain less elected investment income from Form 4952.

**2012 Schedule D, line 18.** 28% rate gain.

**2012 Schedule D, line 19.** Unrecaptured section 1250 gain.

**2012 Foreign Earned Income Tax Worksheet, line 2.** You will have an entry here only if you filed Form 2555 (or 2555-EZ) for 2012. This entry is the foreign earned income or housing exclusion claimed on the 2012 Form 1040.

**2012 Form 1040, line 9b.** Qualified dividends.

**2012 Form 4952, line 4g.** Excludable net capital gain included in investment income.

**2012 Form 4952, line 4e.** Net capital gain excludable from investment income.

**Tax computations.** The amounts computed here will be used in Part II if the taxable income entered for line 13(b) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2012 tax on line 13(b).** *(auto-calc)* The tax computed here should match the tax shown on line 44 of Form 1040 for tax year 2012 (as corrected, if applicable). This result will be used for one of the columns of line 18 if the taxable income entered for line 13(b) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2012 tax on line 13(b) plus line 12.** *(auto-calc)* This is your 2012 tax recomputed to include the appropriate portion of accumulation distributions. This result will be used for one of the columns of line 17 if the taxable income entered for line 13(b) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**INFORMATION FROM 2011 TAX RETURN.** Make the following entries based on your return for tax year 2011. *With one exception, they are automatically translated from the prior-year Form 4970 as long as you translated the return as filed, with 2013 retained as the tax year on the Control Form for that return.*

**13(c) Enter your taxable income before this distribution for tax year 2011.** Enter the taxable income shown on line 43 of your Form 1040 for tax year 2011 (or a corrected amount, if applicable).

**Filing status for 2011.** Enter the filing status number you used on your return for tax year 2011, where 1 = Single, 2 = Married Filing Jointly, 3 = Married Filing Separately, 4 = Head of Household, 5 = Qualifying Widow(er).

**Capital gains and qualified dividends.** If you did not prepare a Schedule D and/or Schedule D Tax Worksheet for the year but you had capital gains or qualified dividends, you should enter the amounts that would have appeared on Schedule D and its worksheet had you prepared the schedule for the return. (Skip this section if you had neither capital gains nor qualified dividends for the year.)

**2011 Schedule D Tax Worksheet, line 9.** Net long-term gain less elected investment income from Form 4952.

**2011 Schedule D, line 18.** 28% rate gain.

**2011 Schedule D, line 19.** Unrecaptured section 1250 gain.

**2011 Foreign Earned Income Tax Worksheet, line 2.** You will have an entry here only if you filed Form 2555 (or 2555-EZ) for 2011. This entry is the foreign earned income or housing exclusion claimed on the 2011 Form 1040.

**2011 Form 1040, line 9b.** Qualified dividends.

**2011 Form 4952, line 4g.** Excludable net capital gain included in investment income.

**2011 Form 4952, line 4e.** Net capital gain excludable from investment income.

**Tax computations.** The amounts computed here will be used in Part II if the taxable income entered for line 13(c) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2011 tax on line 13(c).** *(auto-calc)* The tax computed here should match the tax shown on line 44 of Form 1040 for tax year 2011 (as corrected, if applicable). This result will be used for one of the columns of line 18 if

the taxable income entered for line 13(c) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2011 tax on line 13(c) plus line 12. (*auto-calc*)** This is your 2011 tax re-computed to include the appropriate portion of accumulation distributions. This result will be used for one of the columns of line 17 if the taxable income entered for line 13(c) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**INFORMATION FROM 2010 TAX RETURN.** Make the following entries based on your return for tax year 2010. *They are automatically translated from the prior-year Form 4970 as long as you translated the return as filed, with 2013 retained as the tax year on the Control Form for that return.*

**13(d) Enter your taxable income before this distribution for tax year 2010.** Enter the taxable income shown on line 43 of your Form 1040 for tax year 2010 (or a corrected amount, if applicable).

**Filing status for 2010.** Enter the filing status number you used on your return for tax year 2010, where 1 = Single, 2 = Married Filing Jointly, 3 = Married Filing Separately, 4 = Head of Household, 5 = Qualifying Widow(er).

**Capital gains information.** If you did not prepare a Schedule D and/or Schedule D Tax Worksheet for the year but you had capital gains, you should enter the amounts that would have appeared on Schedule D and its worksheet had you prepared the schedule for the return. (Skip this section if you had no capital gains for the year.)

**2010 Schedule D Tax Worksheet, line 9.** Net long-term gain less elected investment income from Form 4952.

**2010 Schedule D, line 18.** 28% rate gain.

**2010 Schedule D, line 19.** Unrecaptured section 1250 gain.

**2010 Foreign Earned Income Tax Worksheet, line 2.** You will have an entry here only if you filed Form 2555 (or 2555-EZ) for 2010. This entry is the foreign earned income or housing exclusion claimed on the 2010 Form 1040.

**2010 Form 1040, line 9b.** Qualified dividends.

**2010 Form 4952, line 4g.** Excludable net capital gain included in investment income.

**2010 Form 4952, line 4e.** Net capital gain excludable from investment income.

**Tax computations.** The amounts computed here will be used in Part II if the taxable income entered for line 13(d) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2010 tax on line 13(d). (*auto-calc*)** The tax computed here should match the tax shown on line 44 of Form 1040 for tax year 2010 (as corrected, if applicable). This result will be used for one of the columns of line 18 if the taxable income entered for line 13(d) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2010 tax on line 13(d) plus line 12. (*auto-calc*)** This is your 2010 tax re-computed to include the appropriate portion of accumulation distributions. This result will be used for one of the columns of line 17 if the

taxable income entered for line 13(d) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**INFORMATION FROM 2009 TAX RETURN.** Make the following entries based on your return for tax year 2009. *They are automatically translated from the prior-year Form 4970 as long as you translated the return as filed, with 2013 retained as the tax year on the Control Form for that return.*

**13(e) Enter your taxable income before this distribution for tax year 2009.** Enter the taxable income shown on line 43 of your Form 1040 for tax year 2009 (or a corrected amount, if applicable).

**Filing status for 2009.** Enter the filing status number you used on your return for tax year 2009, where 1 = Single, 2 = Married Filing Jointly, 3 = Married Filing Separately, 4 = Head of Household, 5 = Qualifying Widow(er).

**Capital gains information.** If you did not prepare a Schedule D and/or Schedule D Tax Worksheet for the year but you had capital gains, you should enter the amounts that would have appeared on Schedule D had you prepared the schedule for the return. (Skip this section if you had no capital gains for the year.)

**2009 Schedule D Tax Worksheet, line 9.** Net long-term gain less elected investment income from Form 4952.

**2009 Schedule D, line 18.** 28% rate gain.

**2009 Schedule D, line 19.** Unrecaptured section 1250 gain.

**2009 Foreign Earned Income Tax Worksheet, line 2.** You will have an entry here only if you filed Form 2555 (or 2555-EZ) for 2009. This entry is the foreign earned income or housing exclusion claimed on the 2009 Form 1040.

**2009 Form 1040, line 9b.** Qualified dividends.

**2009 Form 4952, line 4g.** Excludable net capital gain included in investment income.

**2009 Form 4952, line 4e.** Net capital gain excludable from investment income.

**Tax computations.** The amounts computed here will be used in Part II if the taxable income entered for line 13(d) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2009 tax on line 13(e).** *(auto-calc)* The tax computed here should match the tax shown on line 44 of Form 1040 for tax year 2009 (as corrected, if applicable). This result will be used for one of the columns of line 18 if the taxable income entered for line 13(e) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**2009 tax on line 13(e) plus line 12.** *(auto-calc)* This is your 2009 tax re-computed to include the appropriate portion of accumulation distributions. This result will be used for one of the columns of line 17 if the taxable income entered for line 13(e) is neither the highest nor the lowest taxable income for the 5 years used in line 13.

**PART II, TAX ATTRIBUTABLE TO THE ACCUMULATION DISTRIBUTION.** Information for this part is taken from 3 of the 5 tax years that precede the tax

year of the current return. Among the 5 years, the ones with the highest and lowest taxable income entered on line 13 are eliminated. The remaining 3 are used for the 3 columns of lines 14 through 23. The determination of years to use and the tax computations are fully automatic based on the information you supplied for each tax year. However, you may have to make an adjustment at line 20 and/or line 22 for each year.

**(a) First column:**

**Tax year for this column.** *(auto-calc)* Computed as the most recent year not eliminated.

**14 Enter the amounts from line 13.** *(auto-calc)* Taken from the column of line 13 or the above year.

**15 Enter the amount from line 12 in each column.** *(auto-calc)* Taken from line 12, as indicated.

**16 Recomputed taxable income.** *(auto-calc)* Computed as the sum of lines 14 and 15, this is the taxable income with an added amount for the accumulation distribution.

**17 Income tax on amounts on line 16.** *(auto-calc)* Computed using the tax laws for the year shown above.

**18 Income tax before credits on line 14 income.** *(auto-calc)* Computed using the tax laws for the year shown for column (a), this result should match the tax shown on Form 1040 for the year above (or a corrected amount).

**19 Additional tax before credits.** *(auto-calc)* Computed as line 17 less line 18, this is the additional tax for the above year stemming from the accumulation distribution for the year.

**20 Tax credit adjustment.** Because some credits are limited to tax liability, such as credits reported on Form 3800, you may be able to deduct more credit than shown on the original return. If so, refigure the credits for the year based on the tax shown on line 17 and enter any resulting increase here. See IRS instructions for details, and *attach the form(s) on which you figured the credit.*

**21 Subtract line 20 from line 19.** *(auto-calc)* Computed as indicated.

**22 Alternative minimum tax adjustments.** If subject to the AMT for the tax year you must recompute the AMT for the year (based on the tax on line 17 and the credit adjustment) and enter any change here. (The IRS requires you to attach the AMT form for the year showing the refigured amounts.)

**23 Combine lines 21 and 22.** *(auto-calc)* Computed as indicated.

**(b) Second column:**

**Tax year for this column.** *(auto-calc)* Computed as the middle year not eliminated.

**14 through 23.** Analogous to those for column (a).

**(c) Third column:**

**Tax year for this column.** *(auto-calc)* Computed as the oldest year not eliminated.

**14 through 23.** Analogous to those for column (a).

**Total tax:**

**24 Add columns (a), (b), and (c), line 23.** *(auto-calc)* As indicated.

**25 Divide the line 24 amount by 3.** *(auto-calc)* Computed as indicated.

**26 Multiply the amount on line 25 by the number of years on line 11.** *(auto-calc)* Computed as indicated.

**27 Enter the amount from line 4.** *(auto-calc)* Computed as indicated.

**28 Partial tax attributable to the accumulation distribution..** *(auto-calc)*  
Computed as line 26 less line 27, but no less than zero.

**Line 28 of OTHER Forms 4970.** If your entry for line G is greater than one, you must enter the result of all other Forms 4970 here so that Form 1040 will reflect the tax on all Forms 4970 combined. See the boxed paragraph at the beginning of these Form 4970 instructions for details. An entry here will make the return unacceptable for e-file because the IRS supports only one copy of Form 4970 for e-file returns.

**Total tax for Form 1040, line 62.** *(auto-calc)* Computed as line 28 plus the preceding entry, this total is posted to the ADT component of Form 1040, line 62.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 4972\* / Tax on Lump-Sum Distributions

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to figure a favorable tax on a total distribution of the entire balance from a qualified plan, including pension, profit-sharing, and stock bonus plans. (IRAs are not qualified.) The plan participant can be you or your benefactor (upon death), but *the plan participant must have been born before January 2, 1936*. Form 4255 is *accessible through the Road Map at line 44b of Form 1040*. (Each spouse who received a lump-sum distribution must file a separate Form 4972, so two copies of Form 4972 are available – one for each spouse.)

**What constitutes a lump-sum distribution?** In general, a lump-sum distribution is a total withdrawal of funds, including all earnings, from an employer's qualified plan, such as a pension, profit sharing, or stock bonus plan. However, to qualify in the eyes of the IRS you must have withdrawn all funds from all of the employer's plans that are of the same kind, and all withdrawals must have been in the same tax year. If you have lump-sum distributions from more than one kind of plan during the year, you should combine all such distributions for use on this one Form 4972. Note, however, that you do *not* have to withdraw amounts that you voluntarily contributed to the plan. *See IRS Instructions for Form 4972 for a long list of distributions that do not qualify for use of this form.*

**Two types of favorable tax treatment.** There are two ways that the lump-sum distribution can be tax-favored through this form, and you can generally use either or both to reduce your tax on the gain.

**20% Capital Gain Election.** If the Form 1099-R you received for the distribution has an amount in box 3, you can generally elect to have that amount taxed at a 20% rate. This election is especially favorable if your regular tax bracket is high because the amount in box 3 does not received favorable treatment as a capital gain except through this form. *The tax resulting from this election is figured in Part II.*

**10-Year Tax Option.** This option is available for the taxable balance of the distribution not taxed through the 20% capital gain election (or for the entire taxable amount if the election was not made). The tax on this amount is figured as if the lump-sum were income averaged over 10 years but the tax rate schedule used is not related to the actual tax rate schedules for the preceding 10 years. Therefore you should determine your overall tax liability with and without this option to determine which is best for you. *The tax resulting from this option is figured in Part III.*

The computations for this form can become very complex as indicated by the many special steps and worksheets in the IRS instructions. As a result, we gather much more information in Part I than does the IRS in order to fully automate Parts II and III.

**Where to report amounts from Form 1099-R.** Your lump-sum distribution should be reported to you on a Form 1099-R with the "Total distribution" box in line 2b checked. Although amounts on Form 1099-R are normally reported at lines 15a through 16b of Form 1040, the involvement of Form 4972 deviates from this rule. The IRS has defined three different ways to report the amounts on Form 1099-R other than IRAs, depending on the choices you make here:

- ◆ If you choose not to compute any tax on the distribution using Form 4972, you must report the entire amount in box 1 at line 16a of Form 1040 and the amount in box 2a (or a recomputed amount) at line 16b. With Tax Preparer you must itemize line 16a and complete the 1099-R Worksheet so that it matches the entries on the Form 1099-R you received. You must answer "No" to the question that follows line 3 of our 1099-R Worksheet, "Reporting box 3 on 4972?" (If a taxable amount is not shown in box 2a, or you question the accuracy of the calculation, you may need to use IRS Pub. 939 to determine the proper amount to enter.)
- ◆ If you choose to use Form 4972 only to make the 20% capital gain election, and not the 10-year tax option, you must again report the distribution at line 16a of Form 1040, but line 16b must have the capital gain part of the taxable amount removed. With Tax Preparer you must itemize line 16a and complete the 1099-R Worksheet so that it matches the entries on the Form 1099-R you received. You must answer "Yes" to the question that follows line 3 on our 1099-R Worksheet. The amount will then be removed from line 2a before it is posted to line 16b of Form 1040 because that amount will be treated on Form 4972 instead.
- ◆ If you choose to use Form 4972 in order to use the 10-year tax option, you must NOT enter any amounts from Form 1099-R of our 1099-R worksheets for Form 1040. Instead, you must enter all amounts on Form 4972, whether or not you also make the 20% capital gain election.

For more detail, see the IRS instructions for Form 4972 and for Form 1040 lines 16a and 16b.

**PART I, COMPLETE THIS PART TO SEE IF YOU CAN USE FORM 4972.** Your qualification to use Form 4972 is determined here.

**Social security number for this copy.** *(auto-calc)* One copy of Form 4972 is available for each spouse. The social security number entered on Form 1040 for the spouse whose copy you chose when you entered Form 4972 appears here.

**Is this spouse's copy (vs. you)?** *(auto-calc)* This answer is also based on the copy you chose.

**1 Was this a distribution of a plan participant's entire balance from all of an employer's qualified plans of one kind?** In answering this question you can exclude deductible voluntary employee contributions and certain forfeited amounts. If you must answer "No," you cannot use this form.

**2 Did you roll over any part of the distribution?** If you must answer "Yes," you cannot use this form.

**3 Was the distribution paid to you as a beneficiary of a plan participant who was born before January 2, 1936?** In order to use this form to figure the tax on an amount you received as a beneficiary, you must be able to answer "Yes."

**4 Were you:**

**(a) the plan participant who received this distribution?** If "Yes," you must answer (b) and (c) as well. (You will not be able to answer "Yes" here if you already answered "Yes" to line 3.)

**Age at year-end on Form 1040.** *(auto-calc)* Taken from the age entry for the appropriate spouse.

**(b) born before January 2, 1936?** *(auto-calc)* Answered "Yes" if the preceding age is at least the tax year minus 1935 (79 for tax year 2014).

**(c) a participant in the plan for at least 5 years before the year of the distribution?** In order to use this form to figure the tax on a distribution from your own plan, you must be able to answer "Yes" to all three parts of line 4.

**5a Did you use Form 4972 after 1986 for a previous distribution from your own plan?** You cannot use Form 4972 more than once after 1986 for a distribution from your own plan. Therefore, if you answered "Yes" to lines 4(a), (b), and (c), a "Yes" answer here will disqualify you from using the form.

**5b If you are receiving this distribution as a beneficiary of a plan participant who died, did you use Form 4972 for a previous distribution received for that participant after 1986?** You cannot use Form 4972 more than once after 1986 for a distribution from the same benefactor. Therefore, if you answered "Yes" to line 3, a "Yes" answer here will disqualify you from using the form. (There is no limit to the number of benefactors you can have, using one Form 4972 in your lifetime for each.)

**QUALIFIED to use Form 4972?** (*auto-calc*) Answered in accordance with the explanations above for each line. If “No,” you cannot use this form and all its results will be zero.

**FORM 1099-R for this distribution.** Information from the Form 1099-R you received is entered here for use in the remainder of the form.

**Form 1099-R, box 2a – Taxable amount.** Enter the full taxable amount, include both ordinary income and capital gains. If “Taxable amount not determined” is checked in box 2b, you must figure the taxable amount yourself using IRS Pub. 939 as your guide.

**Form 1099-R, box 3 – Capital gain.** This is the part of line 2a that is eligible for the 20% capital gain election.

**Form 1099-R, box 6 – NUA in employer’s securities.** This is the net unrealized appreciation (NUA) in employer’s securities. When you have an entry here, the complexity of the computations on this form is greatly increased. However, the software handles the complexities automatically for accurate results in Parts II and III of this form.

**Your share of current actuarial value of annuity, shown in Form 1099-R, box 8.** This amount is used only in tax computations for the ordinary part of the distribution.

**Your percentage shown in Form 1099-R, box 8.** If a percentage appears in box 8, enter your share as a percentage from 0 to 100. (No entry is taken as 100%.)

**If shared, your percentage of the lump-sum distribution as shown in Form 1099-R, box 9a.** If a percentage appears in box 9a, enter your share as a percentage from 0 to 100. (No entry is taken as 100%.)

*When there are multiple recipients* of the lump-sum distribution, as indicated by percentages under 100% in boxes 8 and 9a, special procedures must be followed, as detailed in the IRS instructions. These procedures are not intuitive, but *the software handles them automatically*, including the printing of “MRD” at line 29, when applicable.

**ELECTIONS (Choose all that apply).** Except for an entry on line 18 of this form, the rest of the form is automatic once you make the elections here. *TIP: The tax laws are not simple, so it is not always clear which elections are best in any particular case. You may therefore want to experiment with different elections and compare results after a final recalculation of the return for the various options.*

**A 20% capital gain election?** If you answer “Yes,” the tax on the capital gain part of the distribution will be computed for you in Part II.

**B 10-year tax option?** If you answer “Yes,” a tax will be computed for you in Part III, whether or not Part II is used. The tax will be computed for the entire distribution if Part II is not used. Otherwise, only the ordinary income part will be taxed.

**C Include NUA in taxable income?** Normally the net unrealized appreciation in employer securities is not taxable until the securities are actually sold. However, you can *elect* to include it in taxable income currently in order to take advantage of the favorable treatment on Form 4972. If you make this election the complexity of the computations

increases considerably as a prorated portion of the appreciation qualifies as capital gain. The software, however, handles all the complexity automatically.

**D Death benefit exclusion?** You may qualify for an exclusion of up to \$5,000 of the lump sum *if received as a beneficiary of a plan participant who died before August 21, 1996*. Answer "Yes" only if you qualify. See IRS instructions for details.

Note that *the software automatically takes of a number of subtleties* in the law, including the complications of multiple recipients and all combinations of elections.

**NUA WORKSHEET.** If you elected to include NUA in taxable income, the NUA Worksheet is *automatically completed for you* in order to determine the capital gain portion of the NUA. All details of the IRS NUA Worksheet in the IRS instructions for Form 4972 are satisfied, including the proper printing of "NUA" at line 6 and/or 8 of Form 4972.

**DEATH BENEFIT WORKSHEET.** If you elected to take advantage of the Death Benefit Exclusion, the Death Benefit Worksheet is *automatically completed for you* to determine a reduced tax at Form 4972 line 6. All details of the IRS Death Benefit Worksheet in the IRS instructions for Form 4972 are satisfied.

**PART II, COMPLETE THIS PART TO CHOOSE THE 20% CAPITAL GAIN EXCLUSION.** This part is *automatically completed for you* based on your elections and details from Form 1099-R. *If you did not also elect the 10-year tax option, the result for this part (line 7) is posted to Form 1040, line 44b.*

**PART III, COMPLETE THIS PART TO CHOOSE THE 10-YEAR TAX OPTION.** Except for one entry, described below, this part is also *automatically completed for you* based on your elections and details from Form 1099-R. *If the 10-year tax option is used then the result of this part (line 30) is posted to Form 1040, line 44b*, rather than the result of Part II because line 30 includes the result on line 7.

**18 Federal estate tax attributable to lump-sum distribution.** An entry is required here only if this Form 4972 is being used to report a distribution because of a beneficiary's death. You must enter here any federal estate tax paid on the lump-sum distribution.

**TAX POSTED TO FORM 1040, LINE 44B. (auto-calc)** If no amount appears on line 30 (the result of Part III), computed as line 7 (the result of Part II). Otherwise, computed as line 30 (which includes line 7).

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 5329 / Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

**Who is it for?** This form is used to compute penalty taxes for distributions (withdrawals) that violate the government rules for certain plans. The plans covered include all types of Individual Retirement Accounts (IRAs), other qualified retirement plans, annuities, modified endowment contracts, certain education accounts, and Medical Savings Accounts (MSAs). Transactions subject to penalty include

- Early distributions (within the minimum 5-year waiting period for Roth IRAs, and under age 59-1/2 for all others)
- Distributions from education accounts not used for educational expenses
- Excess contributions to Traditional and Roth IRAs, ESAs, MSAs, and HSAs
- Excess Accumulation in qualified retirement plans (that is, insufficient withdrawals when a minimum withdrawal is required)

Even if you do not owe a penalty you may be required to file this form to explain any exceptions to which you are entitled. *Form 5329 is accessible through the Road Map at line 59 of Form 1040.*

**You may be qualified to omit Form 5329.** Form 5329 provides a number of exceptions to the early distribution penalty, but you do not have to file Form 5329 if the Form 1099-R you receive properly identifies the exception. You have no penalty and can omit Form 5329 if the Distribution Code in box 7 of Form 1099-R is one of the following:

- **Code 2:** a known exception to the early distribution (under age 59-1/2) penalty applies
- **Code 3:** the distribution is because of disability of the recipient
- **Code 4:** the distribution is because of death of the recipient
- **Code G:** direct rollover to an IRA from a non-IRA
- **Code H:** direct rollover or transfer to a qualified plan or annuity
- **Code Q:** qualified distribution from a Roth IRA

If any of these codes appear and properly apply to your case, you do not have to file Form 5329 and identify the exception in order to claim the exception. Instead, you can either block its automatic creation through the Control Form or enter the distribution as a negative in the line "Adjustment to total for I" in Part I of Form 5329.

### **Automatically created for certain distributions and excess IRA contributions.**

Unless you chose to block its auto-creation through the Control Form, Form 5329 is automatically created for the relevant spouse based on entries on Form 1040 and results of Form 8606 when any of the following are true:

- A taxable distribution from an education account is included in Form 1040, line 21.
- A taxable amount appears on Form 1040, line 15b (taxable IRA distribution), either from Form 8606 or from your entry on line 2a of a 1099-R Worksheet (for the relevant spouse).
- Form 8606 computes (for the relevant spouse) (a) a taxable amount for Form 1040, line 15b (taxable IRA distribution) for a spouse under 59.5

years of age, or **(b)** excess IRA contributions relative to the limits for Form 1040, line 32, or **(c)** an early Roth distribution for Form 5329, line 1, or **(d)** an excess Roth contribution for Form 5329, line 23.

**CAUTION:** If you have blocked the automatic creation of Form 8606 on our Control Form, or if Form 8606 does not exist for the relevant spouse for some other reason, Form 5329 will not be automatically created for the conditions listed for the third bullet. In this case, you must create Form 5329 yourself when necessary. For this reason, we recommend that you never block the auto-creation of Form 8606. If you have a problem with a result from Form 8606 for Form 1040, line 15b, you should instead correct the Form 8606 to get the proper result. Conditions that will cause Form 8606 to be automatically created include:

- A distribution was entered on Form 1040, line 15a and the age at year-end for the corresponding spouse is under 60.5.
- The distribution entered on line Form 1040, line 15a exceeds the taxable amount on line 15b.
- The IRA contribution entered above Form 1040, line 32 is more than the allowed deduction included in the total shown at line 32.

Form 8606 is automatically created under these conditions, and must be completed before Form 5329. (The age test is 60.5 rather than 59.5 because your age at the time you receive the distribution is what matters, not your age at year-end. Therefore, if your age at year-end is at least 59.5 but less than 60.5, you must answer the age question on Form 5329 to let the software know whether you received the distribution before age 59.5.)

**GENERAL INFORMATION.** This copy of the form is associated with the proper spouse and taxable distributions for that spouse are consolidated here.

**Identification.** One copy of Form 5329 is available for each spouse. The copy you are currently using is identified here.

**Social security number for this copy.** *(auto-calc)* The social security entered on Form 1040 for the spouse whose copy you chose when you entered Form 5329.

**Is this spouse's copy (vs. you)?** *(auto-calc)* This answer is also automatic based on your choice when you entered.

**Are you filing this form by itself?** If you do not have to file Form 1040 yet you have to file Form 5329 because you owe a tax on this form or are eligible for a special exception to the tax, answer Yes here so that the form will show the name, address, and social security number of the filer (as entered on Form 1040) and the name, address, and PTIN of the paid preparer, if any (as entered in the Program Settings of the software). The taxpayer, and paid preparer if any, must sign the bottom of page 2 of this form when filed separately from Form 1040.

**Address, city, state, ZIP (and foreign information, if applies).** *(auto-calc lines)* Entries will appear here ONLY if you answered Yes to the preceding question because the address block at the top of the printed Form 5329 must remain blank if you are filing Form 5329 with the Form 1040 return. When shown, these entries come from your en-

tries on Form 1040. *TIP for foreign addresses:* If you are using a foreign address for a Form 5329 that you are filing alone, you should enter the foreign street address and the foreign city in the entries for U.S. street address and city on Form 1040 because only the entries for foreign city, province or state, and postal code are used on the official printouts in addition to the complete U.S. address.

**If this is an Amended Return, check here.** Answer Yes only if this form is completed for filing with a Form 1040X for 2014. (You must always use the Form 5329 designed for the tax year for which you are filing the amended return.)

**DISTRIBUTIONS ON FORM 1040.** Taxable distributions reported on lines 15b and 16b of Form 1040 are reflected here, excluding rollovers and other distributions not currently taxed. Early distributions from most pensions are penalized in Part I of this form. The following lines are used to show the amount computed for the penalty in Part I. If you have reason to believe that this total should not be subject to the early distribution penalty, you can then make adjustments above line 1 of Part I or identify exceptions in line 2 of Part I.

**IRA distributions on Form 1040, line 15b.** *(auto-calc)* Taken from Form 1040 for the appropriate spouse, this is the taxable distributions from IRAs, from either line 2a of the 1099-R Worksheets that have Yes for line 7, or Form 8606, if one exists, for the appropriate spouse.

**Less conversions and Roth IRA distributions.** *(auto-calc, supported by Form 8606)* If you converted a traditional IRA into a Roth IRA, you must complete Form 8606 so that the proper taxable amount is computed for line 15b of Form 1040. If the conversion follows all the IRS rules, and you have identified it as such on Form 8606, the amount appears here so that you are not penalized on the conversion. Distributions from Roth IRAs are included here because they are not eligible for exclusion due to age; instead, they are deducted from the total at this line then added back to the total after the age test. (Roth IRA distributions are based on the results in Part III of Form 8606 for the appropriate spouse.)

**Plus income on excess IRA contributions.** You must include any income earned on any excess IRA contributions, whether distributed or not.

**Pension distributions on Form 1040, line 16b.** *(auto-calc)* Taken from Form 1040 for the appropriate spouse, this is the taxable distributions from pensions and annuities other than IRAs, from line 2a of the 1099-R Worksheets that have No for line 7.

**Taxable lump-sum distributions on Form 4972.** *(If Premium Level, Road Map line supported by Form 4972.)* Distributions received in a lump sum are eligible for special treatment through Form 4972. The taxable part of distributions reported on Form 4972 is reported here.

**Age (as entered on Form 1040).** *(auto-calc)* Taken from our Form 1040 as indicated, you MUST enter year-end ages for you and spouse on our Form 1040 for the proper operation of Form 5329.

**Distributions made to you before age 59-1/2?** Automatically Yes when the above age is less than 59.5, and automatically No when the above age is at least 60.5, you MUST answer this question yourself if your age is at least 59-1/2 but no more than 60-1/2, since the answer cannot be known automatically in those cases. Answer Yes if ANY distributions were received before age 59-1/2; you will exclude those that were not later.

**Distributions early due to age.** *(auto-calc)* Computed as the sum of all of the above distributions and adjustments if your answer to the above question is Yes, but zero otherwise.

**Early Roth distributions from Form 8606.** *(auto-calc)* Any nonqualified distributions from Roth IRAs that are taxable and not allocable to prior Forms 8606 are generally subject to a 10% penalty. (Nonqualified distributions include those withdrawn before age 59-1/2 and those withdrawn before the 5-year holding period required of Roth IRAs.) The amount subject to penalty is shown on-screen on Form 8606 as "Early distribution for Form 5329, line 1" after line 36 of the appropriate spouse's Form 8606, and is posted here automatically.

**TENTATIVE TOTAL FOR PART I.** *(auto-calc)* Computed as "Distributions early due to age" plus "Early Roth distributions from Form 8606."

**PART I, ADDITIONAL TAX ON EARLY DISTRIBUTIONS.** This part relates to taxable distributions received before age 59-1/2, or Roth IRAs distributions received before the required 5-year waiting period.

**Early distributions for Part I.** You can adjust the previously computed total for this section if you are not required to complete this part because of a known exception code appearing on the Form 1099-R you received.

**TENTATIVE TOTAL FOR PART I.** *(auto-calc)* Taken from the result of the preceding section.

**IRA part of the above.** *(auto-calc)* The part of the total stemming from traditional and Roth IRAs is shown here.

**Adjustment to total for Part I.** If any of the distributions identified for Part I are distributions for which you are NOT required to file Form 5329 (including amounts identified in box 7 of Form 1099-R with code 2, 3, 4, G, H, or Q), you should enter the excepted amount here as a negative number. You will not have to identify the exception on line 2 for this distribution. If some of your distributions were received before age 59-1/2 and some were not, you should answer Yes to the age question and enter here the total for those that were NOT received early as a negative number.

**IRA part of other adjustment.** Enter the part of the preceding adjustment that relates to distributions from traditional and Roth IRAs.

**FINAL TOTAL FOR PART I.** *(auto-calc)* Computed as "TENTATIVE TOTAL FOR PART I" plus "Adjustment to total for Part I."

**IRA part of the above.** *(auto-calc)* Computed is the IRA part of the tentative total plus "IRA part of other adjustment."

**1 Early distributions included in gross income attributable to.** You must identify the types of plans to which the above distributions apply:

**1a Qualified retirement plans (including IRAs).** *(auto-calc)* All distributions are attributed to this line until you make entries on the lines that follow. As you make entries, the amount appearing here is lowered so that the total at line 1 matches the total for Part I shown above.

**IRA part of line 1a.** *(auto-calc)* The software ensures that this amount can be no more than line 1a or the "IRA part of above" entered earlier.

**1b Annuity contracts.** Enter the taxable part of any annuity contract distribution you received before reaching age 59-1/2.

**1c Modified endowment contracts.** Enter the taxable part of any distribution you received before age 59-1/2 under a modified endowment contract (Sec. 7702A) entered into after June 20, 1988.

**1d Prohibited IRA transactions.** Enter prohibited transactions, such as any amount you borrowed from your IRA (account or annuity) that no longer qualified as an IRA on the first day of the tax year, or any amount of your IRA annuity that you pledged as security for a loan if under age 59-1/2 at the time. Code 5 should appear in box 7 of the Form 1099-R you receive for this distribution.

**1e Pledging of IRA accounts as security.** Enter any amount of your IRA account that you pledged as security for a loan if under age 59-1/2 at the time.

**1f Investing IRA in collectibles.** Enter any amount of your IRA that you invested in collectibles (art, rugs, antiques, metals, gems, stamps, coins, etc.) if under age 59-1/2 at the time. See IRS Sec. 408(m) for and the IRS Instructions for Form 5329 for details.

**1 Early distributions in gross income.** *(auto-calc)* Computed as the sum of lines 1a through 1f, which will match the total displayed above line 1.

**2 Exceptions to distributions subject to additional taxes.** Early distributions are allowed under certain special circumstances. You must identify here amounts that qualify for exclusion from the tax on early distributions, identifying the reason for the exception with IRS codes 01 through 12. The exceptions are not allowed for *all* types of retirement plans, so they are grouped below in accordance with the restrictions placed on them, rather than in IRS numerical order. The software then applies the exceptions in an order that maximizes the credit, with the most restricted withdrawals excepted first. If more than two exception applies, you must itemize one of the exception lines so that all exceptions will appear in a supporting statement; otherwise only the last exception entered will appear on the official printout of Form 5329. ***CAUTION: Because the following entries are limited based on line 1 amounts, you must properly complete all parts of line 1 before you make any entries here,*** or else your entries may be inappropriately reduced or zeroed.

**Itemizing may be required.** To ensure the proper reporting on the official return, *if you choose more than one exception below* you must itemize at least one of the exception lines. This procedure ensures that the breakdown among multiple exceptions is printed in a supporting statement for line 2.

**Exceptions NOT applicable to IRAs, annuities, modified endowment contracts.** The following entries are limited to line 1 less line 1b, line 1c, and the IRA part of line 1a:

**Due to separation from service: 01.** Enter amount withdrawn *ONLY* if separated from employment in or after the year of reaching age 55 (age 50 if a qualified public safety employee). *The lower age allowed for public safety employees was new for 2007; see IRS instructions for details.*

**Made to an alternate payee under qualified domestic relations order: 06.** Enter as indicated. This is limited to the indicated amount less the preceding entry.

**Exceptions NOT applicable to annuities nor modified endowment contracts.** The following entries are limited to line 1 less line 1b, line 1c, and the preceding amounts already excepted:

**Medical expenses on Schedule A, line 1.** (*Road Map line, supported by Schedule A.*) The total on line 1 of Schedule A, if any, is posted here.

**Medical expenses if no Schedule A is filed.** If you do not file a Schedule A for this return, enter here the medical expenses that you would enter on line 1 of Schedule A if you had filed one.

**Part above 7.5% of AGI.** (*auto-calc*) Using the amount on line 1 of Schedule A, or the above amount if no Schedule A exists, 7.5% of line 38 of Form 1040 is subtracted from this medical expense, and any remaining positive amount appears here.

**CAUTION:** If filing jointly and *both* spouses have a Form 5329 with an amount on line 1, you must *override the preceding line on both copies of Form 5329* so that the SUM of amounts on the two copies of Form 5329 is equal to the part of medical expenses above 7.5% of AGI. This procedure is required to prevent the same excepted amount from being applied twice.

**To the extent of deductible medical expenses: 05.** (*auto-calc*) Computed as the lesser of (a) the above amount, or (b) the total for line 1 less lines 1b and 1c and the preceding amounts already excepted.

**Made to an unemployed person for health insurance premiums: 07.** Enter amount received as indicated, but not if already claimed under exception 05.

**Made for higher education expenses: 08.** This exception allows you to withdraw amounts for qualified higher education expenses.

**Made for first home purchase: 09.** This exception allows you to withdraw amounts for your first-time purchase of a home.

**Exceptions NOT applicable to modified endowment contracts.** The following entries are limited to line 1 less line 1c and the preceding amounts already excepted:

**Due to death: 04.** Enter the amount received due to death.

**ALL others (applicable to all retirement plans).** The following entries are limited to line 1 less the preceding amounts already excepted:

**Made as part of substantially equal lifetime periodic payments: 02.** Enter amount received as indicated.

**Due to total and permanent disability: 03.** Enter amount received because of a disability.

**Due to an IRS levy of the qualified plan: 10.** Enter amount caused by an IRS levy.

**Made to reservists while serving on active duty for at least 180 days: 11.** Enter amount of qualified distributions from IRAs or elective deferrals.

**Other (itemize if necessary): 12.** Enter any additional excludable amount here. See IRS instructions for line 2 for examples of what else is allowable. If your exception is not listed in the IRS instructions, you must explain your entry in a supporting statement for this line. For example, you can use this line to report an exception for an economic stimulus payment deposited directly into an IRA account.

**2 Early distributions in line 1 excepted from additional tax.** *(auto-calc)* Computed as the sum of exceptions 01 through 12.

**3 Amount subject to additional tax.** *(auto-calc)* Computed as line 1 less line 2, this is the total amount subject to the additional tax. However, the penalty rate that applies depends on the type of plan.

**Part of line 3 from SIMPLE plans.** Your entry here is limited to be no more than line 3. Your distribution is from a SIMPLE retirement plan if the amount is included in boxes 1 and 2a of Form 1099-R and designated with a code "S" in box 7.

**Amount subject to 25% tax.** *(auto-calc)* Computed as 25% of the above entry because SIMPLE plans are subject to a 25% penalty on early distributions.

**Amount subject to 10% tax.** *(auto-calc)* Computed as 10% of the remainder of line 3 less the "Part of line 3 from SIMPLE plans."

**4 ADDITIONAL TAX.** *(auto-calc)* Computed as the sum of the above two penalties. This result is reflected in line 59 of Form 1040.

**PART II, ADDITIONAL TAX ON CERTAIN DISTRIBUTIONS FROM EDUCATION ACCOUNTS.** This part of the form applies to taxable distributions reported on line 21 of Form 1040 stemming from Coverdell Education Savings Accounts (ESAs) and Qualified Tuition Programs (QTPs).

**5 Distributions included in income from Coverdell ESA<sup>s</sup> and QTPs.** *(auto-calc line, supported by Form 1040)* Taken from the entry for the appropriate spouse on line 21 of Form 1040.

**Enter allowed exceptions below.** You will not owe a penalty on the preceding amount if any of the following exceptions apply. You must enter the dollar amount included in line 5 that applies to each applicable exception:

- **Due to disability or death.** Enter the amount withdrawn due to disability or death of the recipient.
- **Due to section 25A(g)(2) payment.** Enter the amount distributed as a part of a scholarship, allowance, or payment described in IRS sec. 25A(g)(2).
- **Due to QTP and ESA distributions used for advanced education at a military academy.** Enter the amount withdrawn from a QTP or ESA and used to pay for advanced education of the beneficiary at a U.S. military academy.
- **Due to distributions included in income in order to be used for American Opportunity and Lifetime Learning Credits.** Enter the amount withdrawn and used for qualified higher education expenses, and included in income at Form 1040 line 21 so that they could be used to figure the American Opportunity and Lifetime Learning Credits.
- **Other allowed exceptions.** Enter here any other allowed exceptions, itemizing the exceptions in a supporting statement for this line.

**6 Distributions excepted.** *(auto-calc)* Computed as the sum of all above exceptions.

**7 Amount subject to additional tax.** *(auto-calc)* Computed as line 5 less line 6, but no less than zero.

**8 ADDITIONAL TAX.** *(auto-calc)* Computed as 10% of line 7.

The result on line 8 is reflected in line 59 of Form 1040.

**PART III, ADDITIONAL TAX ON EXCESS CONTRIBUTIONS TO TRADITIONAL IRAs.** This part of the form is fully automatic for most taxpayers.

**Itemize to access Form 8606.** This line provides access from Form 5329 to Form 8606 through the Road Map. If you have made any nondeductible IRA contributions, you must generally complete Form 8606 before you can complete this part of Form 5329.

**Gross IRA contribution on Form 1040.** *(auto-calc)* Taken as the contribution for the appropriate spouse entered above line 32 of Form 1040.

**Additional contribution entered ONLY on Form 8606.** *(auto-calc)* Taken from the entry above line 1 of Form 8606 for the appropriate spouse, this is the amount voluntarily contributed as a nondeductible contribution, even though it is allowed as a deduction by law.

**IRA deduction allowed on Form 1040.** *(auto-calc)* Taken as the appropriate spouse's part of the total IRA deduction at line 32 of Form 1040.

**Additional allowed on Form 8606.** *(auto-calc)* Taken from line 1 of Form 8606 for the appropriate spouse, this is the amount allowed on Form 8606 as a nondeductible contribution.

**Computed excess (from Forms 1040 and 8606).** *(auto-calc)* Computed as the above two amounts contributed less the above two amounts allowed.

**Amount withdrawn by the due date of the return.** You can eliminate your penalty on excess contributions if you withdraw them and the income earned on them by the due date of the return. Enter here amount withdrawn *excluding the income earned on that amount.* a are allowed to Enter an adjustment ONLY if there are special circumstances why the above total will not be proper for line 5 after the final recalculation of the return.

**Withdrew income on excess too?** Answer Yes only if you also withdrew the extra income earned on the excess contributions withdrawn. If you cannot answer Yes, you are not allowed to reduce the penalized amount by the above withdrawal.

**Other amount excluded.** You would normally have no entry here, but this line is provided for any other amount that can be legally excluded from penalty.

**Excess contributions for line 15.** *(auto-calc)* Computed as the computed excess from Forms 1040 and 8606 less the above exclusion and, if the answer to "Income on above amount withdrawn?" is Yes, the "Amount withdrawn by the due date of the return."

**Line 16 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**Line 17 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**9 Excess contributions from 2013 Form 5329 line 16.** *(auto-calc)* If the prior line 17 was greater than zero, taken from the above entry from the prior line 16. Otherwise, zero.

**10 Traditional IRA contribution credit.** *(auto-calc)* Computed in accordance with the IRS worksheets and Pub. 590-A, you may have an amount here if your actual IRA contribution for 2014 is less than the allowed amount.

**Taxable 2014 Traditional IRA distributions.** *(auto-calc)* Computed from the amounts shown in screen 1 of this form as IRA distribution on 1040 line 15b less conversions and Roth IRA distributions.

**Withdrawal for line 12 in the above.** Enter any part of the preceding distribution that was withdrawn to reduce prior excess contributions. This amount will be reflected in line 12, below.

**11 2014 traditional IRA distributions included in income.** *(auto-calc)* Computed as "Taxable 2014 Traditional IRA distributions" less "Withdrawal for line 12 in the above."

**Withdrawal in Traditional IRA distribution** *(auto-calc)* Taken as the entry that precedes line 11.

**Other withdrawal for line 12.** Enter all other prior excess contributions withdrawn in 2014.

**Adjustment for line 12.** See IRS instructions for line 12 of Form 5329 to determine whether the sum of the preceding two amounts properly reflects the amount for line 12. If not, you can make a positive or negative adjustment here.

**12 2014 distributions of prior year excess contributions.** *(auto-calc)* Computed as the sum of the preceding two lines.

**13 Add lines 10, 11, and 12.** *(auto-calc)* Computed as indicated.

**14 Prior year excess contributions.** *(auto-calc)* Computed as line 9 less line 13, but no less than zero.

**15 Excess contributions for 2014.** *(auto-calc)* Taken as the "Excess contributions for line 15" computed before line 9.

**16 Total excess contributions.** *(auto-calc)* The sum of lines 14 and 15.

**IRA value on 12/31/2014 from Form 8606.** *(auto-calc)* Taken from the amount you entered above line 6 of Form 8606 for this spouse.

**If no value on Form 8606, enter IRA value on 12/31/2014 here.** If no Form 8606 exists with the return, enter the year-end value for the appropriate spouse. (An entry is not actually required if the value exceeds line 16. Unless you answer Yes to the question below, a zero entry will be taken as no entry.)

**If no value shown above, is it truly zero?** In case the year-end value is truly zero, you must so indicate by a Yes answer here.

**17 ADDITIONAL TAX.** *(auto-calc)* Computed as 6% of the lesser of line 16 or the year-end value of traditional IRAs.

The result on line 17 is reflected in line 59 of Form 1040.

## PART IV, ADDITIONAL TAX ON EXCESS CONTRIBUTIONS TO ROTH IRAs.

Your contributions to a Roth IRA are subject to the same limitations as those for a traditional IRA, and the contributions for the two combined cannot exceed these limitations. Excess contributions for the current year are determined in Part III of our Form 8606, which you should complete before preparing Form 5329. Even if you had no current-year excess, you will have to complete this part if you had a penalty tax on an excess last year (that is, an amount on the prior-year Form 5329, line 25.)

**Line 24 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**Line 25 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**18 Excess contributions on line 24 of 2013 Form 5329.** *(auto-calc)* If the prior line 25 was greater than zero, taken from the above entry from the prior line 24. Otherwise, zero.

**Contribution credit from Form 8606.** *(auto-calc line, supported by Form 8606)* Computed as the amount by which 2014 Roth IRA contributions fell short of the maximum allowed contributions for 2014, this amount appears on the screen after line 36 of the appropriate spouse's Form 8606. See page 2 of the IRS *2014 Instructions for Form 8606* for details.

**Adjustment for line 19.** Enter any adjustment to the preceding automatically computed amount. See IRS Pub. 590-A for details.

**19 Roth IRA contributions credit.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**Qualified Roth distributions to include in line 20.** Qualified Roth distributions are generally Roth IRA distributions that are not includible in income, such as those made at age 59½ or later, upon death, due to disability, or for qualified first-time homebuyer expenses. You should generally enter here all qualified Roth distributions. However, *if you file Form 8606, do not include any such distributions included in line 19 of that form*, such as those for qualified first-time homebuyer expenses.

**20 2014 distributions from Roth IRAs.** *(auto-calc)* Taken as the amount on line 19 of the appropriate spouse's Form 8606 for 2014 plus the preceding entry, but no less than line 18 if your answer for the next question is Yes.

**Withdrew ALL of Roth IRAs?** Answer Yes if the entire amount of ALL Roth IRAs was withdrawn in 2014. If Yes, see impact at line 20.

**21 Add lines 19 and 20.** *(auto-calc)* Computed as indicated.

**22 Prior year excess contributions.** *(auto-calc)* Computed as line 18 less line 21, but no less than zero.

**Excess contributions from Form 8606.** *(auto-calc line, supported by Form 8606)* The excess contributions are computed in Part III of Form 8606 using the Roth IRA Contribution Worksheet, which appears in the IRS Instructions for Form 8606.

**Other excess for line 23.** If you had no distributions from Roth IRAs and therefore do not need to complete Part III of Form 8606 to report them, you can enter the excess contributions here rather than using Form 8606 to compute them.

**23 Excess contributions for 2014.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**24 Total excess contributions.** *(auto-calc)* Computed as the sum of lines 22 and 23.

**Value of Roth IRAs on 12/31/2014.** Enter the value of all your Roth IRAs combined on the last day of the tax year.

**Contributions made to Roth IRAs in 2015 for 2014.** Enter contributions made for 2014 during the grace period January 1, 2015 through April 15, 2015.

**Total for limit on line 25.** *(auto-calc)* Computed as the sum of the above two lines.

**If no value shown above, is it truly zero?** In case the year-end value is truly zero, you must so indicate by a Yes answer here.

**25 ADDITIONAL TAX.** *(auto-calc)* Computed as 6% of the lesser of line 24 or the "total for limit on line 25."

The result on line 25 is reflected in line 59 of Form 1040.

**PART V, ADDITIONAL TAX ON EXCESS CONTRIBUTIONS TO COVERDELL ESAs.** Contributions to your Coverdell ESAs are subject to their own set of rules, which have much lower limits than those for traditional and Roth IRAs. All benefactors combined can contribute no more than \$2,000 per year to your Coverdell ESA, and a benefactor with more than \$110,000 of modified AGI (\$220,000 if married filing jointly) cannot make any contributions.

**Line 32 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**Line 33 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**26 Excess contributions on line 32 of 2013 Form 5329.** *(auto-calc)* If the prior line 33 was greater than zero, taken from the above entry from the prior line 32. Otherwise, zero.

**27 Coverdell ESA contributions credit.** Enter the amount by which the contributions for 2014 fell short of the allowed maximum contributions. *(See IRS Pub. 970 for 2014 to determine the allowed maximum contributions.)*

**28 2014 distributions from Coverdell ESAs.** Enter total distributions excluding rollovers or returned excess contributions.

**29 Add lines 27 and 28.** *(auto-calc)* Computed as indicated.

**30 Prior year excess contributions.** *(auto-calc)* Computed as line 26 less line 29, but no less than zero.

**31 Excess contributions for 2014.** Enter the contributions in excess of your contribution limit. Separate limitations apply to the benefactor and beneficiary. No more than \$2,000 can be contributed to any one beneficiary, but the benefactor is also limited in the amount he or she can contribute to all beneficiaries combined, and that limit depends on the benefactor's AGI. See the IRS instructions for this line for details.

**32 Total excess contributions.** *(auto-calc)* Computed as the sum of lines 30 and 31.

**Value of Coverdell ESAs on 12/31/2014.** Enter the value of the account at the end of the year for the appropriate spouse.

**If no value shown above, is it truly zero?** In case the year-end value is truly zero, you must so indicate by a Yes answer here.

**33 ADDITIONAL TAX.** *(auto-calc)* Computed as 6% of the lesser of line 32 or the year-end value of the Roth IRAs.

The result on line 33 is reflected in line 59 of Form 1040.

## **PART VI, ADDITIONAL TAX ON EXCESS CONTRIBUTIONS TO ARCHER MSAs.**

Archer Medical Savings Accounts (MSAs), which were new for 2002, are a form of self-insurance for those who have no other health insurance plan and are either self-employed or employees of a small company.

**Line 40 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**Line 41 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**34 Excess contributions on line 40 of 2013 Form 5329.** *(auto-calc)* If the prior line 41 was greater than zero, taken from the above entry from the prior line 40. Otherwise, zero.

**35 MSA contribution credit.** If you contributed less than allowed in 2014, you may have a contribution credit. See IRS Instructions.

**36 Taxable 2014 distributions from MSAs.** Enter the part of line 8 of the 2014 Form 8853 attributable to the spouse for this copy of Form 5329. *You must determine the amount to enter here by prorating the contributors to line 8 of Form 8853.*

**37 Add lines 35 and 36.** *(auto-calc)* Computed as indicated.

**38 Prior year excess contributions.** *(auto-calc)* Computed as line 34 less line 37, but no less than zero.

**39 Excess contributions for 2014.** If you or your employer made any contributions to your MSA, you must use Form 8853 (*built into Premium Level software*) to determine whether contributions exceeded allowed limits (generally 65% to 75% of the deductible for the plan, up to the income of the beneficiary). The excess contribution is the amount by which Form 8853 line 2 exceeds the smaller of line 3 or 4.

**40 Total excess contributions.** *(auto-calc)* The sum of lines 38 and 39.

**Value of MSAs on 12/31/2014.** Enter the value of all medical savings accounts on the last day of the tax year.

**If no value shown above, is it truly zero?** In case the year-end value is truly zero, you must so indicate by a Yes answer here.

**41 ADDITIONAL TAX.** *(auto-calc)* Computed as 6% of the lesser of line 40 or the year-end value of the MSAs.

The result on line 41 is reflected in line 59 of Form 1040.

## **PART VII, ADDITIONAL TAX ON EXCESS CONTRIBUTIONS TO HEALTH SAVINGS ACCOUNTS (HSAs).**

Health Savings Accounts are a form of self-insurance for those who are covered under a high-deductible health plan but have no other health insurance (except as specifically allowed).

**Line 48 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**Line 49 of 2013 Form 5329.** Enter the indicated amount, if any, from the prior-year Form 5329 for the appropriate spouse.

**42 Excess contributions on line 48 of 2013 Form 5329.** *(auto-calc)* If the prior line 49 was greater than zero, taken from the above entry from the prior line 48. Otherwise, zero.

- 43 HSA contribution credit.** *(auto-calc for Premium Level, supported by Form 8889)* If you contributed less than allowed in 2014, you may have a contribution credit. See IRS Instructions for Form 5329.
- 44 2014 distributions from HSAs from Form 8889, line 16.** *(auto-calc for Premium Level, supported by Form 8889)* The amount from line 16 of the 2014 Form 8889 for the appropriate spouse is reported here.
- 45 Add lines 43 and 44.** *(auto-calc)* Computed as indicated.
- 46 Prior year excess contributions.** *(auto-calc)* Computed as line 42 less line 45, but no less than zero.
- 47 Excess contributions for 2014.** *(auto-calc for Premium Level, supported by Form 8889)* If you or your employer made any contributions to your HSA, you should use Form 8889 (*built into the Premium Level software only*) to determine whether the contributions exceeded allowed limits. The excess contribution is the amount by which Form 8889, line 2 exceeds Form 8889, line 12. See IRS Instructions for Forms 5329 and 8889 for details.
- 48 Total excess contributions.** *(auto-calc)* The sum of lines 46 and 47.
- Value of HSAs on 12/31/2014.** Enter the value of all health savings accounts on the last day of the tax year.
- If no value shown above, is it truly zero?** In case the year-end value is truly zero, you must so indicate by a Yes answer here.
- 49 ADDITIONAL TAX.** *(auto-calc)* Computed as 6% of the lesser of line 48 or the year-end value of the HSAs.
- The result on line 49 is reflected in line 59 of Form 1040.

**PART VIII, ADDITIONAL TAX ON EXCESS ACCUMULATION IN QUALIFIED RETIREMENT PLANS (including IRAs).** IRS-qualified plans are subject to strict rules on when you MUST start drawing on the plans. If you did not receive the minimum required distribution in 2014, you may owe a penalty.

**Minimum required distribution.** Distributions must start by April 1st of the year following the year you reach age 70-1/2. Enter amount required for 2014. Note that the value of all accounts (as of December 31 of the year preceding the distribution) must be divided by a certain multiple for your life expectancy, as listed in tables in IRS Pub. 590-B (*Distributions from IRAs*) or 939 (*Pension General Rule*).

**Age (from Form 1040).** *(auto-calc)* Taken from your age entry on our Form 1040 for the appropriate spouse.

**Distributions are year after age 70-1/2?** *(auto-calc)* Since distributions must start by April 1st of the year following the year you reach age 70-1/2, your age at year-end for the first year you receive the distributions will be 71-1/2 or more. The answer here is therefore Yes only if the age shown above is 71.5 or more.

- 50 Minimum required distribution.** *(auto-calc)* Taken as the amount entered above for minimum required distribution if the answer to the above question is Yes, and zero otherwise.

**IRA distributions on Form 1040, line 15a.** *(auto-calc)* As indicated, this amount may include rollovers and other nontaxable distributions.

**Pension distributions on Form 1040, line 16a.** *(auto-calc)* As indicated, this amount may include nontaxable distributions.

**Gross lump-sum distributions.** *(If Premium Level, Road Map line supported by Form 4972.)* Distributions received in a lump sum are eligible for special treatment through Form 4972. The gross distributions, not just the taxable part, reported on Form 4972 are reported here. This entry can be no less than your entry preceding Part I for "Taxable lump-sum distributions on Form 4972."

**Adjustment for line 51.** Enter any adjustment or other applicable distributions. If you have more than one IRA, you can take the required minimum distributions from any one or more individual IRAs.

**51 Amount actually distributed.** *(auto-calc)* Computed as the sum of the above three gross distributions plus the above adjustment.

**Shortfall (line 50 less line 51).** *(auto-calc)* Computed as indicated, but no less than zero, this is the amount by which you fell short of withdrawing the minimum required distribution. The tax penalty will be 50% of this amount unless you qualify for a waiver.

**Itemized allowable WAIVER.** You may be able to get the tax excused, but you must *justify your claim in a supporting statement for this line*. You must convince the IRS that the excess accumulation was caused by a reasonable error, and that you have taken steps to remedy the problem. *TIP: In order to conform with IRS e-file specifications, explain your waiver in the text column of the support and enter only the amount of waiver you are claiming in the amount column.*

**52 Subtract line 51 from line 50.** *(auto-calc)* Computed as "Shortfall (line 50 less line 51)" less the above "Itemized allowable WAIVER," but no less than zero. This is the amount subject to a 50% penalty tax.

**53 ADDITIONAL TAX. Multiply line 52 by 50%.** *(auto-calc)* As indicated.

The result on line 53 is reflected in line 59 of Form 1040.

**SUMMARY OF PARTS I TO VIII.** The taxes from all 8 parts are combined here.

**Total tax for Form 1040, line 59.** *(auto-calc)* Computed as the sum of lines 4, 8, 17, 25, 33, 41, 49, and 53. This total, combined with the total for the other copy of Form 5329, if any, is posted to Form 1040, line 59.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 5405\*\* / Repayment of the First-Time Homebuyer Credit

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of Tax Preparer.

**Purpose.** The First-Time Homebuyer Credit expired in 2011 and was not reinstated by the year-end tax bill. However, repayment of the credit is required for some homeowners who claimed the credit in a prior year. Repayment in the form of a one-time recapture tax is required if you either dispose of the home or it is no longer your main home within 3 years of purchase. Repayment in the form of an annual installment is required if you claimed the credit in 2008 (because the credit in 2008 was really an interest-free loan, not a bona fide credit).

(a) For the recapture tax, the entire amount of credit previously claimed is generally paid back if the main home purchased ceases to be your main home within the 3-year period starting on the date of purchase. However, there are many exceptions, some resulting in paying the lesser of the previously claimed credit and the gain on a sale, and others resulting in no repayment at all!

(b) For the annual repayment, 1/15<sup>th</sup> of the credit claimed for a 2008 purchase is paid back for each of 15 years starting with the tax return for 2010.

Form 5405 is *accessible through the Road Map from line 60b of Form 1040*.

**IRS meaning of "related person" for Form 5405.** The IRS definition of "related person" for the questions on Form 5405 is very specific and unique. A "related person" is not always a person, and many of your blood relatives are not included! For the purposes of this form, any of the following is considered a "related person":

**Certain family members:** your spouse, ancestors, and lineal descendants only. In other words, parents, grandparents, children, and grandchildren are included but not your siblings and their descendants (brothers, sisters, aunts, uncles, cousins, etc.).

**Certain partnerships:** partnerships in which you own (directly or indirectly) more than 50% (by dollar value) of its outstanding stock.

**Certain corporations:** corporations in which you own (directly or indirectly) more than a 50% interest in its capital or profits.

This unique definition is important in determining the repayment of the credit. Specifically, in 2014, *if you sell to a "related person" a home for which you previously claimed the credit, you must generally repay the entire credit, irrespective of your gain on the sale.*

**GENERAL INFORMATION.** In order to automate the calculation of any repayment you owe, you must provide the following information on the prior credit claimed and the sale of the property, if any.

**Date purchased (MM/DD/YYYY).** Enter the date in the standard format for the home for which you claimed the credit in the past. Dates before April 9, 2008 are ignored because the credit was not available for purchases before April 9, 2008.

**Purchased in 2008 (after 4/8/2008)?** *(auto-calc)* Answered Yes if your entry for "Date purchased" is after 4/8/2008 but before 1/1/2009. Homes purchased in this date range are subject to repayment of the credit in 15 annual installments starting in 2010, as reflected in Part III of this form.

**Purchased after 2008.** *(auto-calc)* Answered Yes if your entry for "Date purchased" is after 12/31/2008. Homes purchased after 2008 are not subject to repayment over 15 years, but may be subject to recapture depending on your entries in Part II.

**Amount of prior credit claimed.** Enter the amount of credit claimed on a prior Form 5405. (If you claimed the credit on a joint return and the spouse died, only half of the amount you enter here will be subject to recapture, based on your entries at line 3h, later. If you own the home as a result of a divorce settlement, the entire amount will be subject to recapture.) *You will not be able to make an entry here if you entered a "Date purchased" before April 9, 2008 (the first date the credit was available).*

**Year credit claimed.** Your answers to the following questions identify the year you claimed the credit. These answers are required in addition your entry for date purchased, earlier, because it is possible to claim the credit in a year before or after your purchase year under certain circumstances. *You will not be able to answer Yes to any of these questions if you entered a "Date purchased" before April 9, 2008 (the first date the credit was available).*

**Claimed on 2008 Form 5405?** Answer Yes if this credit was claimed on your tax year 2008 return.

**Claimed on 2009 Form 5405?** Answer Yes if this credit was claimed on your tax year 2009 return.

**Claimed on 2010 Form 5405?** Answer Yes if this credit was claimed on your tax year 2010 return.

**Claimed on 2011 Form 5405?** Answer Yes if this credit was claimed on your tax year 2011 return.

**Claimed on 2012 Form 5405?** Answer Yes if this credit was claimed on your tax year 2012 return.

**Claimed on 2013 Form 5405?** Answer Yes if this credit was claimed on your tax year 2013 return.

**Amount repaid with your 2010 tax return.** Enter the amount on line 16 of your 2010 Form 5405. This was the amount of recapture or repayment for 2010. If you purchased the home in 2008, this will usually be 1/15<sup>th</sup> of the credit you claimed for 2008 and the box on line 16b will have been checked.

**Amount repaid with your 2011 tax return.** Enter the amount on line 18 of your 2011 Form 5405. This was the amount of recapture or repayment for 2011. If you purchased the home in 2008, this will usually be 1/15<sup>th</sup> of the credit you claimed for 2008.

**Amount repaid with your 2012 tax return.** Enter the amount on line 18 of your 2012 Form 5405. This was the amount of recapture or re-

payment for 2012. If you purchased the home in 2008, this will usually be 1/15<sup>th</sup> of the credit you claimed for 2008.

**Amount repaid with your 2013 tax return.** Enter the amount on line 18 of your 2013 Form 5405. This was the amount of recapture or repayment for 2013. If you purchased the home in 2008, this will usually be 1/15<sup>th</sup> of the credit you claimed for 2008.

**If sold (including condemnation).** If you sold the home (including through foreclosure or condemnation), the net gain or loss on the sale is computed for you based on the following entries:

**Selling price of home, insurance received, or gross condemnation award.** Enter the full amount before expenses.

**Selling or condemnation expenses.** Selling expenses include commissions, advertising and legal fees, and seller-paid loan charges. Condemnation expenses are the expenses in getting the condemnation award.

**Adjusted basis of home sold.** The adjusted basis is generally the purchase price less seller-paid points and closing costs, increased by additions, improvements, and special assessments and decreased by past allowable depreciation. For detailed instructions on calculating the amount to enter here, see the 2014 IRS Pub. 523 (*Selling Your Home*). The amount for this line is line 13 of Worksheet 1 on page 20 of that publication. Do not reduce your basis by the credit claim; that reduction will be automatically computed in Part III.

**Gain or loss from Part III, line 15. (auto-calc)** The net gain or loss is computed from the preceding three entries, the amount of prior credit claimed, and the amount repaid with your 2010 through 2013 tax return. See Part III, later, for details.

**Sold to a related person OR gave the home to someone other than spouse (or ex-spouse as part of a divorce settlement)?** See the unique IRS definition of "related person" in the shaded box on the first page of these details for Form 5405. ("Related person" in this context includes some corporations and partnerships and excludes some close relatives!) A Yes answer generally subjects you to less favorable calculations in Part II of this form.

**When to skip Part III.** If you still owned the home for which you claimed a prior credit and still used it as your main home throughout 2014, you can skip Part I, below.

**PART I, DISPOSITION OR CHANGE IN USE OF MAIN HOME FOR WHICH THE CREDIT WAS CLAIMED.** If you claimed the credit on your tax year 2008 tax return, the credit is subject to recapture on your 2014 return if the home ceased to be your main home anytime in 2014. But if you claimed the credit on your 2009 or later tax return, the recapture applies only if the home ceased to be your main home within 3 years of its purchase. Part I asks a number of questions to determine whether you are liable for recapture, and Part II computes the recapture based on your entries in Part I.

**1 Date you disposed of, or ceased using as your main home, the home for which you claimed the credit.** Enter the date in the standard

mm/dd/yyyy format. If the date is after the end of the tax year, Part I of this form does not apply, so all questions in Part I will be answered No and no amounts for recapture will contribute to Part II. "Disposed of your main home" includes sale, condemnation, or foreclosure. "Ceased using as your main home" includes conversion to a rental or vacation home, or abandonment. (Dates before April 9, 2008 are invalid, since the credit was first available on that date.)

**2 Are you (or spouse if married) a member of the uniformed services or Foreign Service, or an employee of the intelligence community, who sold the home, or ceased use of it as your main home, in connection with Government orders for qualified official extended duty service?**

If Yes, no recapture applies, so no recapture tax will contribute to Part II.

**3 Answer the line that applies to you:**

**a Sold the home to a person who is not related to me and had a gain on the sale?** *(auto-calc)* Answered Yes only if the amount on line 15 (in Part III) is greater than zero and your entry for "Sold to a related person?" is No. If Yes, recapture applies and is computed in Part II.

**b Sold the home to a person who is not related to me and did not have a gain on the sale?** *(auto-calc)* Answered Yes only if the amount on line 15 (in Part III) is zero or less, and your entry for "Sold to a related person?" is No, and you have an entry for "Amount of prior credit claimed", and you have an entry on at least one of the following lines on screen 1 (indicating a sale): "Sale price, insurance received, or gross condemnation award," "Selling or condemnation expenses," or "Adjusted basis of home."

**c Sold to a related person?** *(auto-calc)* Answered Yes only if your entry for "Sold to a related person?" on screen 1 is Yes. If Yes, recapture applies, so recapture is computed in Part II.

**d Converted entire home to a rental or business use?** Do not answer Yes if you still use part of the home as your main home; recapture will not apply in this case. If Yes, recapture applies, so recapture is computed in Part II.

**Still own the home but no longer use it as my main home?** If Yes, recapture applies, so recapture is computed in Part II.

**e Transferred the home to my ex-spouse as part of my divorce settlement.** If Yes, no recapture applies to you but rather to your ex-spouse.

**Full name of ex-spouse is:** If you answered Yes for line e, enter the full name of the ex-spouse to whom the home was transferred.

**f & g Destroyed, condemned, or disposed of under threat of condemnation and...**

**f ... had a gain?** If Yes, no recapture applies unless you fail to acquire a new home within 2 years of the event. If sold to an unrelated party, the recapture can be no more than your gain on the sale.

**g ... did not have a gain?** If Yes, no recapture applies unless you fail to acquire a new home within 2 years of the event. If sold to an unrelated party, you have no recapture.

**f & g I did or will acquire a new home within 2 years of the event.** If No, recapture applies on the tax return for the year in which the 2-year period ends. As a result, a recapture tax would generally apply for this tax year 2014 return for a home disposed of in 2012. But if the date is *after* 2012, no recapture tax yet applies. *TIP: See IRS instructions for lines 3f and 3g for special cases that may require you to override amounts in Part II.*

**h Taxpayer who claimed the credit died in 2014?** If Yes, no recapture is required of the deceased taxpayer. However, recapture may apply for the surviving spouse, as determined by your answers to the following questions.

**Filed a joint return with deceased taxpayer for tax year when credit claimed?** If Yes, box 3h on the printed form will not be checked and the amount for line 4 will be automatically halved. You are subject to recapture on only half of the prior credit claimed; recapture is forgiven for the deceased spouse's share.

**Filed a joint return with deceased taxpayer in 2014?** Your answer will be forced to No if the filing status on Form 1040 is not 2 (married filing jointly).

**PART II, REPAYMENT OF THE CREDIT.** If your entries in Part I indicate that you are liable for recapture of some of your prior credit, or your credit was for a home purchased in 2008, this part is completed for you. The result on line 8 is posted to Form 1040, line 60b.

**4 Credit you claimed on Form 5405 for a prior year.** *(auto-calc)* Normally taken as your entry for "Amount of prior credit claimed" on screen 1. However, if you answered Yes to line 13h and filed a joint return with the deceased taxpayer in the year when the credit was claimed, only half of that amount appears here. And if the answers in Part I do not indicate a need to complete Part II and the home was purchased after 2008, no amount will appear here.

**5 If you purchased the home in 2008, amount of credit you repaid with your 2010, 2011, 2012, and 2013 returns.** *(auto-calc)* If "Purchased in 2008 (after 4/8/2008)" is Yes, computed as the sum of your entries on screen 1 for "Amount repaid with your 2010 tax return," "Amount repaid with your 2011 tax return," "Amount repaid with your 2012 tax return," and "Amount repaid with your 2013 tax return." Otherwise, zero.

**6 Subtract line 5 from line 4.** *(auto-calc)* Computed as indicated, but no less than zero, this is the balance of credit not yet repaid.

**7 Gain on the sale of your main home.** *(auto-calc)* Taken from line 15 if line 3a is Yes and your other answers for line 3 indicate that a repayment is required. Otherwise, zero.

**8 Choice that applies to you:**

**a Reporting disposition or change in use of main home?** *(auto-calc)* Answered Yes only if your answers in Part I and on screen 1 indicate that you are liable for the recapture tax.

**b Paying an installment of credit claimed for a home purchased in 2008?** *(auto-calc)* Answered Yes only if line a is No and "Date purchased" on

screen 1 is after April 8, 2008 but before January 1, 2009 and line 3b is No and line 3g is No and either line 13f is No or you answered No to "I did or will acquire a new home within 2 years of event." Otherwise, No.

**Voluntary additional amount if line b is Yes.** If line b is Yes, you can voluntarily pay an amount in addition to the computed 1/15<sup>th</sup> of the prior 2008 credit claimed. You might want to do this in order to reduce the installment payments for the remaining years. (You can make no entry here if line b is No.)

**8 Amount of credit to be repaid.** *(auto-calc)* If line a, above, is Yes (that is, your answers in Part I indicate that a repayment is required), computed as the lesser of line 6 or 7 if line 3a is Yes and computed as line 6 alone if line 3a is No. On the other hand, if line b is Yes, computed as the lesser of line 6 or 1/15<sup>th</sup> of line 4, plus the preceding voluntary amount. (If neither line a nor line b is Yes, computed as zero.) This is your credit recapture and installment payment, which is posted to line 60b of Form 1040.

**PART III, FORM 5405 GAIN OR (LOSS) WORKSHEET.** This part is fully automatic based on your prior entries.

**9 Selling price of home, insurance proceeds, or gross condemnation award.** *(auto-calc)* Taken from your entry on screen 1 for "Selling price of home, insurance received, or gross condemnation award."

**10 Selling expenses or expenses in getting the condemnation award.** *(auto-calc)* Taken from your entry on screen 1 for "Selling or condemnation expenses."

**11 Subtract line 10 from line 9.** *(auto-calc)* Computed as indicated.

**12 Adjusted basis of home sold.** *(auto-calc)* Taken from your entry on screen 1 for "Adjusted basis of home."

**13 Credit claimed on Form 5405 less the amount you repaid with your 2010, 2011, 2012, and 2013 tax returns.** *(auto-calc)* If line 9 is non-zero, computed from your entries on screen 1 as "Amount repaid with your 2010 tax return," "Amount repaid with your 2011 tax return," "Amount repaid with your 2012 tax return," and "Amount repaid with your 2013 tax return." Otherwise, zero.

**14 Subtract line 13 from line 12.** *(auto-calc)* Computed as indicated, this is the adjusted basis of the home for the purposes of repaying the credit.

**15 Subtract line 14 from line 11.** *(auto-calc)* Computed as indicated, this is the gain or loss on the sale when using line 14 as the basis.

The result on line 15 is shown on screen 1 as "Gain or loss from Part III, line 15," and used throughout the form.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 5695\*\* / Residential Energy Credits**

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of Tax Preparer.

**Purpose.** This form is used by individuals to claim residential energy credits for installing energy efficiency improvements and alternative energy sources in your main home. It provides a credit for the costs of a variety of improvements and installations, subject to certain limitations. Form 5695 is accessible through the Road Map from the two lines above line 53 of Form 1040.

**Two separate credits.** Two separate credits are covered by this form because they stem from two separate sections of the tax code:

- **Residential energy efficient property credit.** This credit, claimed in Part I of the 2014 form, relates to alternative energy sources (solar electricity, solar water heating, and fuel cells) installed in your home (not restricted to your main home except for fuel cells). The credit is 30% of the costs (limited to \$1,000 times KW capacity for fuel cells), with no fixed cap on the total credit allowed but limited to tax after certain credits. Any credit disallowed because of the tax limitation can be carried over to next year.
- **Nonbusiness energy property credit.** This credit, claimed in Part II of the 2014 form, relates to such energy efficiency improvements to your main home as insulation, exterior windows and doors, furnaces, metal and asphalt roofs, etc. The credit is 10% of the costs, but is limited to no more than \$500 credit for all improvements combined, and further limited to tax after certain credits. Any disallowed amount cannot be carried over to any other year. *(This credit had expired at the end of 2007, and was not renewed for 2008. Therefore, it did not appear on the 2008 Form 5695. However, it was reinstated and tripled for 2009 and extended to 2010. It was later extended to 2011 as well, but with severe limitations on the amount you can claim for some items. And the tax bill that was signed into law on New Year's Day, 2013, extended them again to 2012 (retroactively) and 2013. It was extended again by the recent year-end tax bill. The credit rate is now the lower rate that existed before 2008.)*

Both credits are considered "residential energy credits" by the IRS, and both apply only to improvements to your home in the United States. Although the IRS titles for these credits do not distinguish them well, the main differences are that (a) the first credit applies only to alternative energy sources and generally applies to any home you lived in during the tax year (except for fuel cells), whereas (b) the second credit applies only to traditional energy savers and applies only to your main home. For both credits, only expenses for a U.S. residence you use as your home qualify.

**PART I, RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT.** Credit for alternative energy sources is claimed here. Only improvements to a U.S. residence you use as your home qualify for this credit, but *the home need not be your MAIN home except for fuel cell property (lines 7a through 11)*. For all entries in this part, *you can include labor costs for onsite preparation, assembly, or original installation allocable to the property claimed as well as piping and wiring to connect the property to the home.*

**1 Qualified solar electric property costs.** This is property that uses solar energy to generate electricity to your home, including solar panels or other roof systems.

**Amount you paid.** Enter amount you paid for the qualifying property.

**2 Qualified solar water heating property costs.** This is property that uses at least half solar energy to heat water for your home, including solar panels or other roof systems. See IRS instructions for the certification that is required to qualify.

**Amount you paid.** Enter amount you paid for the qualifying property.

**3 Qualified small wind energy property costs.** This is property that uses a wind turbine to generate electricity for your home.

**Amount you paid.** Enter amount you paid for the qualifying property.

**4 Qualified geothermal heat pump property costs.** This is property that uses the ground or ground water as either a thermal energy source to heat your home or a thermal energy sink to cool your home, and meets Energy Star requirements.

**Amount you paid.** Enter amount you paid for the qualifying property.

**5 Add lines 1 through 4. (auto-calc)** Computed as indicated.

**6 Multiply line 5 by 30% (.30). (auto-calc)** Computed as indicated.

**7a through 11, Qualified fuel cell property.** This is property in a system including a fuel cell stack that electrochemically converts fuel into electricity for your main home. Unlike other credits in this part of the form, *the home must be you MAIN home* for fuel cell property. See IRS instructions for other requirements.

**7a Was qualified fuel cell property installed on or in connection with your main home located in the United States?** If not, you do not qualify for this credit and no credit will be computed on line 11 for fuel cell property.

**b Complete address of the main home where you installed the fuel cell property:**

**Address where installed.** Enter the street address here in 35 characters or less.

**City.** Enter the city here in 22 characters or less.

**State.** Enter the standard 2-letter code for the state.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**8 Qualified fuel cell property costs.**

**Kilowatt capacity of above property.** Enter kilowatt (KW) capacity in decimal units (that is, not rounded to the nearest kilowatt). Kilowatt capacity less than ½-kilowatt does not qualify for the credit.

**Amount you paid.** Enter amount you paid for the qualifying property.

**Amount joint occupants paid.** If you occupied your home jointly with someone other than your spouse, enter amount that joint occupant paid. (A \$1,667 limitation for each ½-kilowatt capacity is prorated among all occupants who helped pay for the property.)

**Amount allocable to you.** *(auto-calc)* If there is no amount for joint occupants, taken as "Amount you paid." Otherwise, computed as the lesser of "Amount you paid" and a ceiling of \$1,667 for each ½-KW capacity times your percentage of the amount paid by you and joint occupants combined. *TIP: This is the amount that will appear on line 8 of the official printout of Form 5695.*

**9 Multiply line 8 by 30% (.30).** *(auto-calc)* Computed as indicated.

**10 Kilowatt capacity of property on line 8 times \$1,000.** *(auto-calc)* Computed as your entry for "Kilowatt capacity of above property," rounded down to the next ½-kilowatt increment, times \$1,000.

**11 Smaller of line 9 or line 10.** *(auto-calc)* Computed as indicated, this is the credit for qualified fuel cell property before tax liability limits are applied.

**12 Credit carryover from 2013 Form 5695, line 16.** Enter the carryover computed on the prior-year Form 5695 for the residential energy efficient property credit.

**13 Add lines 6, 11, and 12.** *(auto-calc)* Computed as indicated.

**Tax liability limit.** The credit is limited to the tax balance resulting after subtracting from the total tax certain personal credits that have a higher priority than this credit. This limitation is computed below based on the IRS's *Residential Energy Efficient Property Credit Limit Worksheet—Line 14* on page 5 of the *IRS 2014 Form 5695 Instructions*:

**Amount from Form 1040, line 47.** *(auto-calc)* Taken from Form 1040 as indicated, this is total tax before credits.

**Form 1040, lines 48 through 51.** *(auto-calc)* Taken from Form 1040 as indicated, this is the sum of credits from Form 1116 (*Foreign Tax Credit*), Form 2441 (*Child and Dependent Care Expenses*), the nonrefundable part of Form 8863 (*Education Credits*), and Form 8880 (*Retirement Savings Contributions Credit*).

**Line 30 of THIS form.** *(auto-calc)* This is the *Nonbusiness Energy Property Credit* taken from line 30 of this Form 5695, as indicated.

**Form 8396, line 9; 8839, line 16; 8859, line 3; 8910, line 15; 8936, line 23; & Schedule R, line 22.** *(auto-calc)* This is the sum of the credits on the cited lines, which are:

*Form 8396, line 9: Mortgage Interest Credit*, taken from the Form 8396 component of Form 1040, line 54c.

*Form 8839, line 16: Qualified Adoption Expenses*, taken from the Form 8839 component of Form 1040, line 54c.

*Form 8859, line 3: D.C. First-Time Homebuyer Credit*, taken from the Form 8859 component of Form 1040, line 54c.

*Form 8910, line 15: The personal part of the Alternative Motor Vehicle Credit*, taken from the Form 8910 component of Form 1040, line 54c.

*Form 8936, line 23: The personal part of the Qualified Plug-in Electric Drive Motor Vehicle Credit*, taken from the Form 8936 component of Form 1040, line 54c.

*Schedule R, line 22: Credit for the Elderly and Disabled*, taken from the Schedule R component of Form 1040, line 54c.

**From Line 11 Worksheet in IRS Pub. 972.** In addition to the above personal credits, the nonrefundable part of child tax credit is taken into account by using the Line 11 Worksheet in IRS Pub. 972 for 2014. If there is no child tax credit for the return on line 52 of Form 1040, the worksheet does not apply and no amount will appear on line 12 of the worksheet, below:

**Line 12 of worksheet.** *(auto-calc)* Computed as line 1 of the worksheet (the nominal child tax credit – \$1,000 per child – less a phaseout amount for high income) less line 11 of the worksheet (a fraction of earned income subject to several adjustments), but no less than zero. This is the amount of child tax credit that must be taken into account on line 29 of this form.

**Total of specified credits.** *(auto-calc)* Computed as the sum of all of the preceding credits.

**14 Limitation based on tax liability.** *(auto-calc)* Computed as “Amount from Form 1040, line 47” less “Total of specified credits,” this is the most credit that can be claimed on this return.

**15 RESIDENTIAL ENERGY EFFICIENT PROPERTY CREDIT.** *(auto-calc)* Computed as the smaller of line 13 or line 14, this credit is posted to the component of Form 1040, line 53, labeled “Line 15 of Form 5695.”

**16 Credit carryforward to 2015.** *(auto-calc)* Computed as line 15 less line 13, but no less than zero, this amount will be considered on your Form 5695 for tax year 2015.

**PART II, NONBUSINESS ENERGY PROPERTY CREDIT.** Credit for passive energy efficiency improvements and traditional energy property is claimed here. *Only improvements to a U.S. residence you use as your main home qualify for this credit.*

**17a Were the qualified energy efficiency improvements or residential energy property costs made to your main home located in the United States?** If not, you do not qualify for this credit and no credit will be computed in Part II irrespective of your entries.

**b Complete address of the main home where you made the qualifying improvements:**

**Address where made improvements.** Enter the street address here in 35 characters or less.

**City.** Enter the city here in 22 characters or less.

**State.** Enter the standard 2-letter code for the state.

**ZIP code.** Enter the 10-character ZIP code in the standard xxxxx-xxxx format.

**c Were any of these improvements related to the construction of this main home?** If Yes, you cannot claim the credit for those particular improvements in this part of the form.

**Lifetime limitation.** The credit is limited to a lifetime total of \$500, so you must enter all credit claimed in prior years. Any previously claimed credits reduce the \$500 limit for this year accordingly. The limitation is computed below based on the IRS's *Lifetime Limitation Worksheet—Line 18* on page 5 of the IRS 2014 Form 5695 Instructions:

**2006 Form 5695, line 12.** Enter here the nonbusiness energy property credit you claimed for tax year 2006.

**2007 Form 5695, line 15.** Enter here the nonbusiness energy property credit you claimed for tax year 2007.

**2009 Form 5695, line 11.** Enter here the nonbusiness energy property credit you claimed for tax year 2009.

**2010 Form 5695, line 11.** Enter here the nonbusiness energy property credit you claimed for tax year 2010.

**2011 Form 5695, line 14.** Enter here the nonbusiness energy property credit you claimed for tax year 2011.

**2012 Form 5695, line 32.** Enter here the nonbusiness energy property credit you claimed for tax year 2012.

**2013 Form 5695, line 30.** Enter here the nonbusiness energy property credit you claimed for tax year 2013.

**18 Lifetime limitation. (*auto-calc*)** Computed as the sum of the preceding six previously claimed amounts. *TIP: The IRS label for line 7 of the Lifetime Limitation Worksheet, which is the amount shown here, is misleading. It indicates that you cannot take the credit if the result is \$500 or more. However, there are circumstances for married taxpayers filing jointly under which the limit is \$1,000 instead of \$500. Therefore, the software allows you to continue if married filing jointly as long as the amount on line 18 is less than \$1,000. (If \$500 or more for any other filing status, no credits will be computed in this part of the form.)*

**19 Qualified energy efficiency improvements.** Passive improvements to the energy efficiency of your main home are reported here. Qualification of specific improvements is defined by the IRS by reference to recent supplements to the International Energy Conservation Code (IECC). *See IRS instructions for specific IECC criteria for each entry.* You may use a manufacturer's certification or Energy Star label to determine whether an item meets the IECC requirements. Enter amounts you paid for the following items, but **do not include labor costs** for on-site preparation, assembly, or original installation of the components. **CAUTION:** *For all of these improvements, the original use must begin with you and the component must reasonably be expected to last for at least 5 years.*

- a Insulation material or system specifically and primarily designed to reduce heat loss or gain of your home that meets the prescriptive criteria established by the 2009 IECC:**

**Amount you paid.** Enter amount you paid, including vapor retarders and seals, but not structural components or finished surfaces.

**Amount joint occupants paid.** If you occupied your home jointly with someone other than your spouse, enter amount that joint occupant paid. (This entry is used only in a special prorationing for line 25.)

- b Exterior doors that meet or exceed the Energy Star program requirements:**

**Amount you paid.** Enter amount you paid, including qualified storm doors installed with the exterior doors.

**Amount joint occupants paid.** If you occupied your home jointly with someone other than your spouse, enter amount that joint occupant paid. (This entry is used only in a special prorationing for line 25.)

- c Metal or asphalt roof that meets or exceeds the Energy Star program requirements and has appropriate pigmented coatings or cooling granules which are specifically and primarily designed to reduce the heat gain of your home:**

**Amount you paid.** Enter amount you paid for qualifying metal and asphalt roofs.

**Amount joint occupants paid.** If you occupied your home jointly with someone other than your spouse, enter amount that joint occupant paid. (This entry is used only in a special prorationing for line 25.)

- d Exterior windows and skylights that meet or exceed the Energy Star program requirements.** Lines 3d through 3h all relate to this property because windows and skylights are subject to a lifetime \$2,000 limit on the costs that qualify for the credit.

**Amount you paid.** Enter amount you paid for the qualifying items, including storm windows installed with the exterior windows.

**Amount joint occupants paid.** If you occupied your home jointly with someone other than your spouse, enter amount that joint occupant paid. (This entry is used not only in a special prorationing for line 25, but also a prorationing for the amount allowed for each of you for line 19d.)

**Amount allocable to you.** (*auto-calc*) If there is no entry for joint occupants, the amount for this line is the same as your entry for "Amount you paid." However, if there is an entry for joint occupants, the

amount for this line is computed in accordance with IRS instructions for prorationing the \$2,000 limit that appears below. *The amount on this line is the amount that will be used in the calculations and shown on line 21d of the official printed Form 5695.*

**Amount allocable to others.** *(auto-calc)* If there is **no** entry for joint occupants, the amount for this line will be zero. Otherwise, the amount for this line is computed in accordance with IRS instructions for prorationing the \$2,000 limit that appears below. (This amount is used in a special prorationing for line 27.)

**e Maximum amount of cost on which the credit can be figured.** *(auto-calc)* Always \$2,000, this is the limit on costs for windows and skylights for you and joint occupants combined, although your portion can be further reduced (below) due to prior credit claims for windows and skylights.

**Reduction of maximum amount.** The maximum shown on line 19e is reduced by an amount that reflects different limitations for prior years. The reduction is computed below based on the IRS's *Window Expense Worksheet—Line 19f* on page 6 of the IRS 2014 Form 5695 Instructions:

**Amount from your 2006 Form 5695, line 2b.** Enter here the costs you used in claiming credit for windows and skylights for tax year 2006.

**Amount from your 2007 Form 5695, line 2d.** Enter here the costs you used in claiming credit for windows and skylights for tax year 2007.

**Amount from your 2009 Form 5695, line 2b.** Enter here the costs you used in claiming credit for windows and skylights for tax year 2009.

**Amount from your 2010 Form 5695, line 2b.** Enter here the costs you used in claiming credit for windows and skylights for tax year 2010.

**Amount from your 2011 Form 5695, line 3d.** Enter here the costs you used in claiming credit for windows and skylights for tax year 2011.

**Amount from your 2012 Form 5695, line 21d.** Enter here the costs you used in claiming credit for windows and skylights for tax year 2012.

**Amount from your 2013 Form 5695, line 19d.** Enter here the costs you used in claiming credit for windows and skylights for tax year 2013.

**f Amount from the Window Expense Worksheet.** *(auto-calc)* Computed as the sum of credits for 2006, 2007, 2011, 2012, and 2013, plus 3 times the credits for 2009 and 2010, in accordance with the IRS worksheet. This is the amount by which the \$2,000 limit will be reduced due to prior claims.

**g Subtract line 19f from line 19e.** *(auto-calc)* Computed as indicated, but no less than zero.

**h Smaller of line 19d or line 19g.** *(auto-calc)* Computed as indicated.

**20 Add lines 19a, 19b, 19c, and 19h.** *(auto-calc)* Computed as indicated.

**21 Multiply line 20 by 10% (.10).** *(auto-calc)* Computed as indicated.

**22 Residential energy property costs.** Energy-efficient equipment is reported here. See IRS instructions for specific efficiency criteria for each entry. You may use a manufacturer's certification to determine whether an item meets the requirements. Enter amounts you paid for the following items, including labor costs for on-site preparation, assembly, or original installation of the equipment. **CAUTION:** *For all of these costs, the property must be placed in service by you.*

**a Energy efficient building property.** This category includes qualifying heat pumps, central air conditioning, and hot water heaters. See IRS instructions for specific efficiency requirements.

**Amount you paid.** Enter amount you paid for the qualifying items.

**Amount joint occupants paid.** If you occupied your home jointly with someone other than your spouse, enter amount that joint occupant paid. (This entry is used not only in a special prorationing for line 25, but also a prorationing for the amount allowed for each of you for line 22a.)

**Amount allocable to you.** *(auto-calc)* If there is no entry for joint occupants, the amount for this line is the lesser of \$300 or your entry for "Amount you paid." However, if there is an entry for joint occupants, the amount for this line is computed in accordance with IRS instructions for prorationing the \$300 limit. The amount on this line is the amount that will be used in the calculations and shown on line 22a of the official printed Form 5695.

**Amount allocable to others.** *(auto-calc)* If there is no entry for joint occupants, the amount for this line will be zero. Otherwise, the amount for this line is computed in accordance with IRS instructions for prorationing the \$300 limit. (This amount is used in a special prorationing for line 25.)

**b Qualified natural gas, propane, or oil furnace or hot water boiler.** This category includes furnaces and hot water boilers with an annual fuel utilization rate of 95 or more.

**Amount you paid.** Enter amount you paid for the qualifying items.

**Amount joint occupants paid.** If you occupied your home jointly with someone other than your spouse, enter amount that joint occupant paid. (This entry is used not only in a special prorationing for line 25, but also a prorationing for the amount allowed for each of you for line 22b.)

**Amount allocable to you.** *(auto-calc)* If there is no entry for joint occupants, the amount for this line is the lesser of \$150 or your entry for "Amount you paid." However, if there is an entry for joint occupants, the amount for this line is computed in accordance with IRS instructions for prorationing the \$150 limit. The amount on this line is the amount that will be used in the calculations and shown on line 22b of the official printed Form 5695.

**Amount allocable to others.** *(auto-calc)* If there is no entry for joint occupants, the amount for this line will be zero. Otherwise, the amount for this line is computed in accordance with IRS instructions for pro-

rationing the \$150 limit. (This amount is used in a special prorationing for line 25.)

- c Advanced main air circulating fan used in a natural gas, propane, or oil furnace.** To qualify, annual electricity use must be no more than 2% of the total annual site energy use of the furnace.

**Amount you paid.** Enter amount you paid for the qualifying items.

**Amount joint occupants paid.** If you occupied your home jointly with someone other than your spouse, enter amount that joint occupant paid. (This entry is used not only in a special prorationing for line 25, but also a prorationing for the amount allowed for each of you for line 22c.)

**Amount allocable to you.** *(auto-calc)* If there is no entry for joint occupants, the amount for this line is the lesser of \$50 or your entry for "Amount you paid." However, if there is an entry for joint occupants, the amount for this line is computed in accordance with IRS instructions for prorationing the \$50 limit. *The amount on this line is the amount that will be used in the calculations and shown on line 6c of the official printed Form 5695.*

**Amount allocable to others.** *(auto-calc)* If there is no entry for joint occupants, the amount for this line will be zero. Otherwise, the amount for this line is computed in accordance with IRS instructions for prorationing the \$50 limit. (This amount is used in a special prorationing for line 25.)

**23 Add lines 22a through 22c.** *(auto-calc)* Computed as indicated.

**24 Add lines 21 and 23.** *(auto-calc)* Computed as indicated, this is your credit before applying the overall \$500 limitation and tax liability limit. *TIP: The amount that appears here may be modified later for certain married taxpayers filing jointly, so the amount on the official printout on Form 5695 may exceed this amount.*

**Line 24 for joint occupants.** *(auto-calc)* Based on joint occupant entries for lines 19a through 19d and 22a through 22c, the total for line 24 that would result on the joint occupants' Form 5695 is computed here for use in a prorationing for the limit at line 25.

**If filing jointly and spouse had a separate main home, prepare a second Form 5695 and enter line 24 of the second Form 5695.** If filing jointly but spouse had a separate main home, you must prepare a Form 5695 for the spouse's separate home through line 24 only, and enter here the amount on line 24 of that form. (If you use the software to prepare the second Form 5695, you must do so on a separate return with no entries on Form 1040 other than names and filing status, then manually enter here the result from line 24.) *TIP: If you make an entry on this line, the phrase "More than one main home" will appear on the dotted line for line 24.*

**Amount to show for line 24.** *(auto-calc)* Computed as the previous amount on line 24 plus the preceding amount for spouse (if married filing jointly). *TIP: This is the amount that will be used in calculations and shown for line 24 on the official printed Form 5695.*

**25 Maximum credit amount.** *(auto-calc)* Normally computed as \$500, the amount may be less if joint occupants are involved, or more if a spouse with a separate main home applies. See the IRS instructions for married taxpayers and joint occupancy on page 4 and the instructions for line 25 on page 6 of the IRS 2014 Instructions for Form 5695. *TIP: If the amount that appears here is not \$500, the preprinted \$500 on the official printed form will be crossed out and the amount on this line will appear on the dotted line for line 27.*

**26 Amount from line 18.** *(auto-calc)* Computed as indicated, this is a modified total of claims for the nonbusiness energy property credit from prior years.

**27 Subtract line 26 from line 25.** *(auto-calc)* Computed as indicated, but no less than zero. *TIP: If zero, you have no nonbusiness energy property credit.*

**28 Smaller of line 24 or line 27.** *(auto-calc)* Computed as indicated, but using "Amount to show for line 24" rather than the nominal amount for line 24.

**Tax liability limit.** The credit is limited to the tax balance resulting after subtracting from the total tax certain personal credits that have a higher priority than this credit. This limitation is computed below based on the IRS's *Nonbusiness Energy Property Credit Limit Worksheet—Line 29* on page 6 of the IRS 2014 Form 5695 Instructions:

**Tax on Form 1040, line 47.** *(auto-calc)* Taken from Form 1040 as indicated, this is line 1 of the IRS worksheet.

**Credit on Form 1040, lines 48 through 51.** *(auto-calc)* Taken from Form 1040 as indicated, this is the first half of line 2 of the IRS worksheet.

**Credit on Schedule R, line 22.** *(auto-calc)* Taken from the Schedule R contribution to line 54c of Form 1040, which comes from line 22 of Schedule R, this is the second half of line 2 of the IRS worksheet.

**Tax balance available.** *(auto-calc)* Computed as the "Tax on Form 1040, line 47" less the two preceding credit amounts, this is line 3 of the IRS worksheet.

**29 Limitation based on tax liability.** *(auto-calc)* Taken as the preceding "Tax balance available," this is the limit on the credit that can be claimed.

**30 NONBUSINESS ENERGY PROPERTY CREDIT.** *(auto-calc)* Computed as the smaller of line 28 or line 29, this credit is posted to the component of Form 1040, line 53, labeled "Line 30 of Form 5695."

**CREDIT FROM PARTS I AND II.** The sum of current-year credits from the two parts of Form 5695 no longer appears on the IRS form, but is shown here to summarize the form:

**Residential energy efficient property credit on line 15.** *(auto-calc)* Taken from line 15 of this form.

**Nonbusiness energy property credit on line 30.** *(auto-calc)* Taken from line 30 of this form.

**TOTAL CREDIT FOR FORM 1040, LINE 53.** *(auto-calc)* Computed as the sum of the preceding two credits, this is the amount that will appear on the printed Form 1040 for line 53.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 5884\* / Work Opportunity Credit

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition. (See the separate Partnership Edition manual for details on the version of Form 5884 that is built into the Partnership Edition software.)

**Purpose.** This form is used by employers to claim credit for first-year wages to certain targeted groups (and now second-year wages to one of these groups). The result of this form is passed through Form 3800 (the result of which is reported on line 54a of Form 1040) rather than being reported directly on Form 1040. All carryovers are also reported on Form 3800, and all passive activity and tax limitations are applied on Form 3800 as well. (Form 3800 is automatically created when Form 5884 is present upon the final recalculation of the return.) Form 5884 is *accessible through the Road Map from screen 4 of Form 3800*. (After being extended by the year-end tax bill, this credit is now set to expire for employees who begin work after 2014.)

**CAUTION: Additional entries may be required on Form 3800.** Unless you make additional entries on screen 4 of the main Form 3800, the credit is initially assumed to be a Category A credit (General Business Credit from a Non-passive Activity) and posted to line 4b of Copy 2 of Form 3800, Part III. (Copy 2 of Form 3800, Part III, is reserved for the General Business Credit from a Non-passive Activity.) If the credit stems from a passive activity, or you have any carryforwards or carrybacks, you must indicate on Form 3800 screen 3 or 4 that it is not a Category A credit and manually enter the credit on line 4b of the appropriate copy of Form 3800, Part III. Also, if the credit originated from a pass-through entity, you must enter the EIN of the entity on the copy of Form 3800, Part III, that you use.

**Certification usually required.** In order to claim this credit *you must have certification for each employee* from the state employment security agency (SESA). You either must have received the certification for a particular employee by the employee's first day of work or must complete a Form 8850 by that date (signed by you and the employee) and file it by the 28<sup>th</sup> day after the employee starts work. You can claim the credit only if the request on Form 8850 is approved. If approved and later revoked, you can still generally claim the credit for the days before the revocation.

**Targeted groups.** The targeted groups to which Form 5884 apply include:

- ◆ *Long-term family assistance recipients.* Commonly called welfare recipients, for this group second-year wages are eligible for the credit in addition to first-year wages. However, only the first \$10,000 of wages of any one employee in any one year can be considered for the credit.
- ◆ *Qualified veteran.* The limit on first-year wages of any one employee in any one year that can be considered for the credit depends on specific parameters specified in the IRS 2014 *Instructions for Form 5884*. The limit can be \$6,000, \$12,000, \$14,000, or \$24,000.
- ◆ *Qualified recipient of Temporary Assistance for Needy Families (TANF).*
- ◆ *Qualified ex-felon.*

- ◆ *Designated community resident.*
- ◆ *Vocational rehabilitation referral.*
- ◆ *Summer youth employee.* Only the first \$3,000 of wages of any one employee in any one year can be considered for the credit.
- ◆ *Food stamp recipient, now officially called a Supplemental Nutritional Assistance Program (SNAP) recipient.*
- ◆ *SSI recipient.*

Except as noted above, the amount of wages considered for the credit is limited to \$6,000 of first-year wages for any one employee. Second-year wages are eligible only for employees who are long-term family assistance recipients (the first group in the above list). See IRS 2014 *Instructions for Form 5884* for specific restrictions on wages that qualify.

**1 Total qualified first- and second-year wages paid or incurred during the tax year for services of employees who are certified as members of a targeted group:**

**a Qualified first-year wages of employees who worked for you at least 120 hours but fewer than 400 hours.:**

**Wages for line 1a.** Enter only first-year wages paid or incurred within the tax year of the return. *Remember that qualifying wages are limited to \$6,000 per employee, except as previously noted in our list of targeted groups.*

**X 25%...1a. (auto-calc)** Computed as the sum of wages on the preceding line times 0.25.

**b Qualified first-year wages of employees who worked for you at least 400 hours.** Employees who you retain in your employment 400 hours or more qualify you for a higher credit.

**Wages for line 1b.** Enter only first-year wages paid or incurred within the tax year of the return. *Remember that qualifying wages are limited to \$6,000 per employee, except as previously noted in our list of targeted groups.*

**X 40%...1b. (auto-calc)** Computed as the sum of wages on the preceding line times 0.40.

**c Qualified second-year wages of employees certified as long-term family assistance recipients.** Only certified long-term family assistance recipients qualify you for credit on second-year wages, irrespective of the amount worked.

**Wages for line 1c.** Enter only second-year wages paid or incurred within the tax year of the return. *Only the first \$10,000 of any one employee's second-year wages qualifies.*

**X 50%...1c. (auto-calc)** Computed as wages on the preceding line times 0.50.

**2 Add lines 1a, 1b, and 1c. (auto-calc)** Computed as indicated. **CAUTION:** *You must generally reduce the deduction for wages and salaries on the return by the amount on line 2. For example, for a non-farm business you would enter this amount on the line above line 26 of our Schedule C labeled "Employment credits."*

**ITEMIZE to explain exception.** If an exception applies to reducing your deduction for wages and salaries on the return by the amount on line 2, *itemize here to explain in the text column of the support.*

**Special instructions for line 2 if a member of a controlled group.** If claiming the credit as a member of a controlled group, you must compute line 2 as your prorated share of the credit. The credit must first be computed for the group as a whole, reflecting the calculations for lines 1a and 1b. Then each group member must complete a Form 5884 for his or her own return by skipping lines 1a and 1b and entering on line 2 a prorated portion of the group total. Prorating of line 2 among group members must be in direct proportion to the amount of qualifying wages contributed by each member. To accomplish this with the software while satisfying the IRS reporting requirements, press the Override Key (F8) to access line 2, then, in a supporting statement for line 2, explain how the group credit was divided among the members, entering only *your* amount in the amount column. Your explanation will then be printed with the return and cross-referenced on the official printout.

**3 Work opportunity credit from partnerships, S corporations, cooperatives, estates, and trusts.** Enter any work opportunity credit allocated to the taxpayer from a pass-through entity as follows:

- **From partnerships:** Any amount in box 15 of Schedule K-1 (Form 1065) identified as code J.
- **From S corporations:** Any amount in box 13 of Schedule K-1 (Form 1120S) identified as code J.
- **From estates and trusts:** Any amount in box 13 of Schedule K-1 (Form 1041) identified as code F.
- **From cooperatives:** Any amount in box 8 of Form 1099-PATR or in any other written statement of credit allocation.

**CAUTION: Additional entry on Form 3800 always required if you have an amount on line 3.** Thanks to the IRS's complex design of Form 3800, manual entries are now required on Part III of that form when you have credit from a pass-through entity. You must now enter the EIN of the entity in column (b) of line 4b of the copy of Form 3800, Part III, that applies to this credit. (There are 10 copies available to handle the 8 unique IRS categories plus a consolidated copy and an unattached copy.)

**4 Add lines 2 and 3. *(auto-calc)*** Computed as indicated, this is the credit before passive activity or tax liability limitations are applied. Although the IRS form indicates that this result should be posted to line 4b of Form 3800, Part III, it is instead posted to screen 4 of the on-screen Form 3800, from which it is posted to line 4b of copy 2 of Form 3800, Part III, unless you specify otherwise on screen 4 of Form 3800.

**5 and 6. *(auto-calc)*** These lines apply only to cooperatives, estates, and trusts, and are therefore always zero for this Form 1040 return.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 6198\* / At-Risk Limitations**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to figure the amount of deductions or losses you can claim for investments in which you are not at risk for the entire amount of your investment. Examples include investments that are financed by nonrecourse loans, protected by stop-loss agreements or guarantees, financed by loans from certain related parties, financed by loans from persons who have an interest in the activity, financed by cash or property which itself is financed in one of the preceding ways. You are generally not allowed to deduct a net loss any more than the amount you have at risk, as reported on Form 6198. Only activities identified by the IRS as "at-risk activities" are subject to the at-risk limitations, but the IRS definitions are so broad that most activities carried on as a trade or business or for the production of income are subject to these limitations when financed in a way that makes you not fully at risk for the loans. A separate Form 6198 is used for each separate activity for which you have a net loss for which you are not fully at-risk, and the activity may have amounts reported on a number of different forms for different aspects of the activity. As a result, Form 6198 is not tied to any particular form or schedule but is instead a stand-alone form, so no results on this form are posted to any other form or schedule. Nevertheless, Form 6198 is accessible through the Road Map from some of the forms that may have amounts not at risk: Schedule C (below line 32b), Schedule E (below line 27), Schedule F (below line 37b), and Form 4835 (below line 33b).

**More than one Form 6198 may be required.** You must use a separate Form 6198 for each separate activity. However, the IRS definition of "activity" depends on the particulars of the activity. For example, the leasing of properties by a partnership is subject to "aggregation rules" so that all leasing is considered a single activity. Similarly, activities that constitute a trade or business are generally subject to aggregation rules. By contrast, the leasing of property by an individual is generally subject to "separation rules" so that each lease is considered a separate activity. Similarly, each investment that is not a part of a trade or business is treated as a separate activity. (Ten copies of Form 6198 are built into the software for this purpose. However, since Form 6198 is a stand-alone form, you can easily produce additional copies attached to an employment return with only your name(s) and SSN supplied on Form 1040.)

**Form 6198 is primary, before any other limitations.** Form 6198 holds a special place among forms that limit losses and deductions. It must always be completed before any other limitations are applied. Accordingly, your entries on other forms and schedules must reflect the limitations resulting from Form 6198 so that other limitations, such as passive activity loss limitations, are applied to amounts that have already been subjected to the at-risk limitations.

**Exception for real property.** You *do not* have to file Form 6198 and *are not* subject to the at-risk rules for real property if you acquired and placed it in service before 1987. (This exception does not apply to mineral property.)

**Description of activity.** The IRS provides a wide space on the form to describe the activity to which a particular Form 6198 relates. We therefore provide three 25-character entries, which are concatenated on the official printout. If the activity stems from your status as a partner in a partnership or a shareholder in an S corporation, also include the name and identifying number of the partnership or S corporation. (See page 2 of the IRS Instructions for Form 6198 for details on what constitutes a single activity. A separate Form 6198 must be prepared for each separate activity unless the aggregate rules described by the IRS apply.)

**PART I, CURRENT YEAR PROFIT (LOSS) FROM THE ACTIVITY, INCLUDING PRIOR YEAR NONDEDUCTIBLE AMOUNTS.** The overall profit or loss for the activity is computed here, taking into account all transactions reported throughout the return for the activity. Losses disallowed from a prior-year Form 6198 are included here as well. No other limitations, such as passive loss limitations, are reflected here or anywhere else on Form 6198.

**Loss carryover from prior Form 6198.** This entry is solely an informational line to help you complete the following entries. If you translated the return from the prior year with the tax year on the prior return retained at 2013, the excess of line 5 over line 21 of the prior-year Form 6198 will appear here if any loss was disallowed on the prior-year Form 6198. CAUTION: You must include this amount in your entries for lines 1 through 4. The carryover is not automatically reflected in Part I because it must be allocated among your entries in accordance with its source.

**Current Schedule K-1, line 1.** If you are a partner in a partnership, enter the amount from line 1 of the 2014 Schedule K-1 (Form 1065) you receive or from line 1 or 2 of the 2014 Schedule K-1 (Form 1065-B) you receive. If you are a shareholder in an S corporation, enter the amount from line 1 of the 2014 Schedule K-1 (Form 1120S) you receive.

**Prior Schedule K-1 loss disallowed.** If any losses or deductions from your partnerships or S corporations were disallowed in the prior tax year because of the at-risk limitations, enter the amount disallowed here. This will generally be the prorated amount for this activity of the above "Loss carryover from prior Form 6198."

**Other ordinary profit or loss.** Enter all other ordinary profit or loss from the activity for the 2014 tax year, but do not include gains and losses from sales or other disposition of assets.

**Prior other ordinary profit or loss.** If any losses or deductions from other than your partnerships or S corporations were disallowed in the prior tax year because of the at-risk limitations, enter the amount disallowed for the prior tax year here. This will generally be the prorated amount for this activity of the above "Loss carryover from prior Form 6198."

- 1 Ordinary income (loss) from the activity. (*auto-calc*)** Computed as the gain or loss on the first and third line above less the prior-year disallowed loss on the second and fourth lines.
- 2 Gain (loss) from the sale or other disposition of assets reported on: (including prior disallowed due to at-risk limitations).** For amounts stemming from your interest in partnerships and S corporations, you

must deduct from the amounts reported to you by the entities for 2014 any amounts disallowed for the 2013 tax year because of the at-risk limitations. For all other amounts the prior-year disallowed amounts should be reflected on the forms and schedules where you report the current-year gains and losses. You must identify the form or schedule where each amount is reported on the return:

**2a Schedule D.** Enter here gains and losses that are reported on Schedule D. If more than one item is reported on Schedule D, describe each item in a supporting statement for this line.

**2b Form 4797.** Enter here gains and losses that are reported on Form 4797. If more than one item is reported on Form 4797, describe each item in a supporting statement for this line. Do not include amounts already reflected in line 2a.

**2c Other form or schedule (itemize).** Enter here gains and losses that are reported elsewhere on the report. You must always report amounts for this line in a supporting statement for the line, identifying the form or schedule for each item reported. Take particular care not to duplicate any amount already included in line 2a or 2b. For example, amounts from Form 4684 may flow to Form 4797, but should be reported only on line 2b or line 2c, not both.

**3 Other income and gains from the activity, from Schedule K-1.** Enter all income and gains not included in lines 1 through 2c from any Schedule K-1 (Form 1065), Schedule K-1 (Form 1065-B), and Schedule K-1 (Form 1120S) you receive.

**4 Other deductions and losses from the activity.** Enter as a positive number all deductions and losses not included in lines 1 through 2c. The amount is surrounded by parentheses on the official printed form to indicate a loss, and the amount reduces the net profit or loss resulting for line 5.

**5 Current year profit (loss) from the activity.** (auto-calc) Computed as the sum of lines 1 through 3 less line 4.

If the result on line 5 is a gain, the at-risk limitations do not apply and all amounts are reported in full on the appropriate forms and schedules. However, if this amount is a loss, you must complete the rest of Form 6198 to determine how much of this loss is allowable for the 2014 tax year.

**PART II, SIMPLIFIED COMPUTATION OF AMOUNT AT RISK.** If you already know your adjusted basis in the activity (or your interest in the activity), you can use this part of Form 6198 to determine the amount at risk. Otherwise you must use Part III.

**6 Adjusted basis in the activity on the first day of the tax year.** Enter your adjusted basis at the beginning of the tax year.

**7 Increases for the tax year.** Enter here increases in your basis caused by events not reflected in lines 1 through 3, such as increases in the value of property that secures a nonrecourse loan. See the IRS Instructions for this line for detailed examples.

**8 Add lines 6 and 7.** (auto-calc) Computed as indicated.

**9 Decreases for the tax year.** Enter here decreases in your basis caused by events not reflected in lines 1 through 4, such as additional nonre-

course loans taken. See the IRS Instructions for this line for detailed examples.

**10a Subtract line 9 from line 8.** *(auto-calc)* Computed as indicated.

**10b If line 10a is more than zero, enter here.** *(auto-calc)* Computed as indicated, this is the amount at risk as computed in Part II.

If an amount appears on line 10b, you can generally skip Part III and proceed to line 20 in Part IV. However, it may be to your benefit to complete Part III anyway for a possibly larger amount at risk, and therefore a larger allowed deductible loss.

**PART III, DETAILED COMPUTATION OF AMOUNT AT RISK.** If you did not complete Part II, you must complete Part III or else your entire loss will be disallowed. If you completed Part III of the prior Form 6198 for the activity, you can skip lines 11 through 14. For all entries below, see the IRS Instructions for Form 6198 for important details and examples, especially the definition of "effective date" that applies to your activity.

**Completed Form 6198, Part III, for prior tax year?** If "Yes," make entries only on lines 15b, 16b, and 18b.

**11 Investment in the activity at the effective date.** If the activity stems from your interest in a partnership or S corporation, enter your investment in the at-risk portion of the entity as of the effective date. Otherwise, complete the Line 11 Worksheet in the IRS Instructions for Form 6198 to determine the amount to enter here.

**12 Increases at effective date.** Enter here increases, such as increases in the value of property that secures a nonrecourse loan. See the IRS Instructions for Form 6198, line 12, for detailed examples and a special Line 12 Worksheet.

**13 Add lines 11 and 12.** *(auto-calc)* Computed as indicated.

**14 Decreases for the tax year.** Enter here decreases, such as additional nonrecourse loans taken. See the IRS Instructions for Form 6198, line 14, for detailed examples.

**15 Amount at risk:**

**a At effective date.** *(auto-calc)* Computed as line 13 less line 14, but no less than zero.

**b From prior Form 6198, line 19b.** Applicable only if you answered Yes to "Completed Form 6198, Part III, for prior tax year?"

**16 Increases since:**

**a Effective date.** Enter as detailed in the IRS Instructions for Form 6198, line 16.

**b End of your prior tax year.** Applicable only if you answered Yes to "Completed Form 6198, Part III, for prior tax year?" above line 11. Enter the increase as detailed in the IRS Instructions for Form 6198, line 16, but substitute the words "since the end of your prior tax year" in place of "since effective date" when reading those instructions.

**17 Add lines 15 and 16.** *(auto-calc)* Computed as indicated.

**18 Decreases since:**

**a Effective date.** Enter as detailed in the IRS Instructions for this line.

**b End of your prior tax year.** Applicable only if you answered Yes to "Completed Form 6198, Part III, for prior tax year?" above line 11.

Enter the increase as detailed in the IRS Instructions for this line, but substitute the words "since the end of your prior tax year" in place of "since effective date" when reading those instructions.

**19a Subtract line 18 from line 17.** *(auto-calc)* Computed as indicated.

**19b If line 19a is more than zero, enter here.** *(auto-calc)* Computed as indicated, this is the amount at risk as computed in Part III.

**PART IV, DEDUCTIBLE LOSS.** The at-risk limitations are applied here, showing you how much of your deductions or losses are allowable in the current tax year.

**20 AMOUNT AT RISK.** *(auto-calc)* Computed as the larger of line 10b or line 19b, this is the amount of your investment in the activity that is considered at risk for purposes of this form. Only losses for the activity up to this amount are deductible in full in the current year.

**21 DEDUCTIBLE LOSS.** *(auto-calc)* Computed as the smaller of any loss resulting at line 5 and the amount on line 20, this is the part of any loss in line 5 that is deductible this year.

**Loss carryover to next year.** *(auto-calc)* If the amount on line 21 is less than any loss on line 5, the excess is shown here. This is the amount you must enter on the appropriate copy of Form 3800, Part III, for the next tax year.

**% of loss allowed this year.** *(auto-calc)* Computed as the amount on line 21 divided by any loss amount on line 5, expressed as a percentage. If 100% appears here, no limitation applies. However, if less than 100% you should apply this percentage to all components of the loss when reporting it on various forms and schedules. See the IRS Instructions for line 21 for details.

**CAUTION: If less than 100%, you must reduce your entries on appropriate forms and schedules.** Because Form 6198 is a stand-alone form summarizing amounts reported throughout the return, no amounts are posted automatically to other forms and schedules. You must reflect the reduction indicated by the preceding percentage in your entries on all appropriate forms and schedules yourself before any other limitations are applied!

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 6251 / Alternative Minimum Tax

**Why a minimum tax?** The alternative minimum tax (AMT) was originally designed to prevent high-income taxpayers from totally avoiding taxes through such tax shelters as accelerated depreciation, installment sales, and large itemized deductions, but it now affects many others.

**Fully automatic only for some taxpayers.** Form 6251 is automatically generated and completed when a minimum tax exists based on your adjusted gross income, exemptions, itemized deductions, and filing status, or a minimum tax limitation exists on your credit from Schedule R or Form 2441. However, this form is required under many more circumstances than those which generate it automatically, so you *MUST* access it yourself if you have any tax preferences not automatically posted to Form 6251. Note that you may have a credit for prior-year minimum tax if you paid AMT in 2013 or had a carryforward of credit on a 2013 Form 8801 (*Credit for Prior Year Minimum Tax*). *Form 6251 is accessible through the Road Map at line 45 of Form 1040.*

**CAUTION.** The tax laws for the alternative minimum tax are quite complex and subject to many special cases. You may therefore have to make adjustments to the automatically calculated lines, and determine entries for several lines that are not completed automatically. See IRS Instructions for Form 6251 for detailed instructions, especially those concerning what to enter on lines 8 through 27.

**PART I, ALTERNATIVE MINIMUM TAXABLE INCOME.** This is where favorable tax treatment throughout the return is identified, and the benefits of them are added back to income before the alternative minimum tax is computed. Adjustments typically involve itemized deductions claimed, and preferences typically involve the excess over some nominal deduction. *The official IRS instructions are indispensable* to completing these lines.

**Schedule A used for Form 1040, line 40?** (*auto-calc*) Taken from the answer to "Schedule A used for line 40?" on screen 1 of Form 1040, page 2, a Yes answer indicates that itemized deductions on Schedule A are used in place of the standard deduction on Form 1040. If the answer is No, Schedule A amounts are not shown on Form 6251 and lines 2 through 5 of Form 6251 are zero.

**AGI on Form 1040, line 38.** (*auto-calc*) From Form 1040 as indicated.

**minus Contributions for a CCF.** If, in arriving at taxable income on line 43 of Form 1040, you deducted contributions to a capital construction fund (CCF) set up with the National Marine Fisheries Service (NMFS), that amount appears here, where it similarly reduces income. Use line 27 for other adjustments, such as a negative adjustment for alcohol fuel credit.

**minus Form 1040, line 40 (if filing Schedule A).** (*auto-calc*) Taken from Form 1040, as indicated, this amount is used in the computation of line 1 only if itemized deductions are used for line 40 of Form 1040.

**1 If filing Schedule A, amount on Form 1040, line 41. Otherwise, Form 1040, line 38. *(auto-calc)*** Computed using all three lines above if filing Schedule A, but using only the first two lines if not.

**2 Medical and dental expenses. If you or spouse was 65 or older, smaller of Schedule A, line 4, or 2.5% of AGI. *(auto-calc)*** The amount computed for this line is the part of medical expenses deducted on Schedule A that lies between 7.5% and 10% of AGI. However, because the threshold for deductible medical expenses was raised from 7.5% to 10% for 2014 for taxpayers under 65 years of age, most taxpayers will have no amount for this line. Only a taxpayer who was at least 65 by the end of 2014 (or, if married filing jointly, spouse was at least 65) could have an amount for this line for 2014. (However, this line is zero for taxpayers who claimed the standard deduction instead of itemized deductions on Form 1040, irrespective of age.)

**Schedule A, line 9 (if used). *(auto-calc)*** Taken from Schedule A as indicated *ONLY* if itemized deductions were used on Form 1040 instead of the standard deduction. Otherwise, zero. (This amount is the sum of taxes deducted on Schedule A.)

**Excluded taxes in above.** You must enter here any generation-skipping taxes on income distributions that were included in line 9 of Schedule A.

**3 Taxes from Schedule A, line 9. *(auto-calc)*** Computed as indicated, less the preceding excluded taxes, if itemized deductions were used on Form 1040 instead of the standard deduction. Otherwise, zero.

**Mortgage interest on Schedule A not qualified.** Enter here any interest deducted on line 10, 11 or 12 of Schedule A that is for home mortgages taken out after 6/30/82 and NOT used to buy, build, or improve your main home or a qualified second home.

**4 Certain home mortgage interest. *(auto-calc)*** Automatically the same as the above entry if Schedule A is used in the return, but zero otherwise.

**5 Miscellaneous deductions from Schedule A, line 27. *(auto-calc)*** Taken from Schedule A, as indicated, if itemized deductions were used on Form 1040 instead of the standard deduction. Otherwise, zero.

**6 If Form 1040, line 38, is \$150,000 or less, zero. Otherwise, see instructions. *(auto-calc)*** The phaseout of itemized deductions for high-income taxpayers returns for 2014, so this line is once again used to reduce income for the minimum tax by the amount disallowed on Schedule A. The amount for this line comes from the line "Amount disallowed" shown on-screen above line 30 of Schedule A. (However, this line is zero for taxpayers who claimed the standard deduction instead of itemized deductions on Form 1040, irrespective of age.)

**Refunds on Form 1040, line 10. *(auto-calc)*** Taken from Form 1040 as indicated.

**Refunds on Form 1040, line 21 (itemize).** *In a supporting statement for this line, list any other refunds that must be included in line 7 in a*

supporting statement for this line, including state and local refunds of personal or real property taxes, etc., that have been reported as income on line 21 of Form 1040.

**7 Tax refund from Form 1040, line 10 or line 21.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**8 Investment interest expense.** If you file a Form 4952 (*built into our Standard Level and Premium Level software*) to report investment interest with this return, you may need to enter an adjustment here. See the official IRS instructions for Form 6251 for details.

**9 Depletion.** See IRS instructions for this line before making an entry.

**10 Net operating loss deduction in Form 1040, line 21.** Enter *as a positive number* any net operating loss deduction you claimed in line 21 of Form 1040.

**Total Alternative Tax NOL carryovers.** This entry for ATNOL carryovers (carryforwards and carrybacks) requires you to recompute your net operating losses from prior years with alternative minimum tax and preference items removed. See the instructions for line 11 in the *IRS 2014 Instructions for Form 6251*.

**Qualified losses in above.** This entry provides for a partial suspension of the usual limit on ATNOL carryovers. Qualified losses include certain Gulf Opportunity Zone losses. See the instructions for line 11 in the *IRS 2014 Instructions for Form 6251*.

**11 Alternative minimum tax Net Operating Loss deduction.** *(auto-calc)* If your entry for "Qualified losses in above" is zero, computed as the "Total ATNOL carryovers" but limited to no more than 90% of the sum of lines 1 through 10 and 12 through 27 (with lines 6, 7, and 25 subtracted instead of added) *plus* the domestic production activities deduction on Form 1040, line 35. However, if there is an entry on the "Qualified losses in above" line, the limitation is considerably more complex, as detailed in the *IRS 2014 Instructions for Form 6251*, but performed automatically by *Tax Preparer*. (The effect of the complex instructions is to modify the percentage used for the limitation from 90% to anywhere from 90% to 100% depending on the proportion of ATNOL carryover that is from qualified losses.)

**12 Interest from specified private activity bonds.** *(auto-calc line, supported by Schedule B and Forms 8814)* This special interest should have been identified by you on a Form 1099-INT Worksheet for Schedule B (or Form 8814 if paid to your child and you elect to report child's interest and dividends). It is the amount in box 9 of the Form 1099-INT you receive. Note that interest on private activity bonds issued in 2009 or 2010 is not a tax preference item and should not be entered on line 9 of our Form 1099-INT Worksheet, even if the payer included it in box 9 of the Form 1099-INT. Similarly, interest from GO Zone bonds and exempt-interest dividends from a regulated investment firm are not tax preference items and should not be entered on line 9 of our Form 1099-INT Worksheets. (The payer should not have included these amounts in box 9 of Form 1099-INT, but the IRS in-

*structions for that form do not so indicate, so we suspect there will be many erroneous Forms 1099-INT as a result. You will therefore have to take the initiative of not including these amounts on our Form 1099-INT if they should not have been included on the form.)*

**Full Section 1202 exclusion taken on Schedule D.** *(auto-calc line, supported by Schedule D)* Taken from Schedule D, this is the gain excluded under section 1202. It is the sum of exclusions claimed on Gain/Loss Worksheets for line 8 of Schedule D (Type 2 and Type 3).

- 13 Qualified small business stock.** *(auto-calc)* Computed as 7% of the sec. 1202 exclusion taken on Schedule D.
- 14 Exercise of incentive stock options.** Enter the excess of AMT income over regular tax income. Contrary to the rules for the regular tax, some income may be recognized when an incentive stock option is granted or exercised under AMT rules. See IRS instructions for details.
- 15 Estates and trusts.** Enter the amount identified as code A in box 12 of the Schedule K-1 (Form 1041) you receive.
- 16 Electing large partnerships.** Enter the amount from box 6 of the Schedule K-1 (Form 1065-B) you receive.
- 17 Disposition of property.** Enter the difference between AMT and regular tax gain or loss. Only gain or loss reported on Schedule D, Form 4797, or Section B of Form 4684 need be recomputed under AMT rules.
- 18 Depreciation on assets placed in service after 1986.** *(not applicable to depreciation for employee expenses that are already reflected in line 5)* This entry is the difference between depreciation taken for 2014 compared with depreciation figured under the less accelerated methods defined by the IRS, and can be positive in early years of depreciation but negative in later years. You must refigure all depreciation not reflected in other lines of Form 6251, including depreciation allocable to inventory costs. See the IRS Instructions for Form 6251 for details. (Do not recompute depreciation by AMT rules for any part of the cost you treated as a Sec. 179 expense deduction.) *Exception: Certain property eligible for the special depreciation allowance is generally not refigured for the AMT. See the IRS Instructions for line 18 of Form 6251 for details.*

**Read IRS instructions for line 18 carefully.** The IRS instructions define what depreciation methods you must compare to the methods you actually used. For example, whereas residential rental property or nonresidential real property may generally be depreciated using straight-line depreciation over 27-1/2, 31-1/2, or 39 years depending on the date placed in service, you must compare it to straight-line depreciation over 40 years for this line. *For property placed in service after 1998, only property depreciated using 200% declining balance method needs to be reported on line 18, comparing it to 150% declining balance using the same convention and recovery period as the actual deduction.*

**19 Passive activities.** Enter the difference between AMT and regular tax income or loss. See IRS instructions for details.

**Read IRS instructions for line 19 carefully.** This entry can involve returns from several past years because it involves recomputing the entire return under AMT rules, which often results in different unallowed losses on Form 8582, and therefore different year-to-year carryovers of unallowed loss, for each year. You may therefore need to keep a special AMT copy of your return for each year recomputed under AMT rules, using carryovers from the previous year's AMT return. The entry for this line is the difference between the amount reported on the AMT return and the amount reported on the regular return. Note that differences relating to Schedule D, Form 4684, and Form 4797 are reported at line 18, not here. Line 19 is used only to report differences relating to Schedules C, C-EZ, E, F, and Form 4835.

**20 Loss limitations.** See the IRS instructions for this line for the variety of calculations that can be required for this line.

**21 Circulation costs.** See the IRS instructions.

**22 Long-term contracts.** See the IRS instructions.

**23 Mining costs.** See the IRS instructions.

**24 Research and experimental costs.** See the IRS instructions.

**25 Income from certain installment sales before January 1, 1987.** Your will *rarely* enter an amount here. This line applies only to certain installment sales in a short 4-1/2 month period from August 17, 1986 through December 31, 1986. See IRS instructions for details. Any amount you enter here is *subtracted* from the total when computing line 28.

**26 Intangible drilling costs preference.** See the IRS instructions.

**27 Other adjustments.** Several other adjustments apply for which the IRS has provided no specific line. These include adjustments for those who depreciate post-1986 property using pre-1987 rules under transitional provisions of the law, AMT patronage dividend adjustment, an adjustment for certified pollution control facilities and tax shelter farm activities, and a negative adjustment alcohol fuel credit included in income. See IRS instructions for details, including income-based related adjustments.

**28 ALTERNATIVE MINIMUM TAXABLE INCOME.** *(auto-calc)* Nominally computed as the sum of lines 1 through 27 (with lines 6, 7, 11, and

25 subtracted instead of added). However, an additional amount is included for married taxpayers filing separately: for 2014, 25% of the amount by which the nominal amount exceeds \$242,450, up to a maximum additional amount of \$41,050.

**PART II, ALTERNATIVE MINIMUM TAX.** The alternative minimum tax to be used on Form 1040 is computed here.

**YOUR earned income.** *(auto-calc)* Computed from amounts throughout the return for you alone, *this and the next few entries are used in the calculations only if the taxpayer is treated as a child for the purposes of the Exemption Worksheet for line 29.*

**Adjustment for special businesses.** You may have to enter an allowance for personal services rendered, per IRS Instructions for line 29.

**Earned Income for Exemption Worksheet.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**Earned Income more than half your support?** Answer Yes only if the preceding amount provides more than half of your support for the year.

**Your age on Form 1040.** *(auto-calc)* Taken from your entry on Form 1040 for your age at the end of the tax year.

**Were you a full-time student at least 5 months of the year?** *(auto-calc)* Taken from your entry on Form 1040 for your student status.

**Filing status on Form 1040.** *(auto-calc)* Taken from Form 1040. If married filing jointly, you are not considered a child, irrespective of your age, for the purposes of the Exemption Worksheet.

**Both parents deceased by year-end?** Answer Yes only if neither of the taxpayer's parents were alive on the last day of the tax year.

**Considered a child for Exemption Worksheet?** *(auto-calc)* Generally answered Yes only if one of three conditions are satisfied for considering the child's earned income in the Exemption Worksheet for line 29: (1) your age was under 18 at year-end; (2) your age was 18 at year-end and you answered No to "Earned income more than half your support?"; or (3) your age was at least 19 but less than 24 at year-end, you were a student, and you answered No to "Earned income more than half your support?" However, the answer is always No if you made no age entry on Form 1040, or your age was 24 or more at year-end, or neither parent was alive, or you are filing as married filing jointly.

**29 Exemption amount.** *(auto-calc)* This amount is normally computed as a nominal exemption (for 2014: \$41,050 if married filing separately, \$52,800 if single or head-of-household, \$82,100 if married filing jointly or qualifying widow(er)) less 25% of the amount by which alternate minimum taxable income on line 28 exceeds a threshold (\$78,250 if married filing separately, \$117,300 if single or head-of-household, \$156,500 if married filing jointly or qualifying widow(er)). However, if the answer to the preceding question is Yes, the IRS's

*Exemption Worksheet--line 29* (for computing a minor child's AMT exemption) is used instead, which can result in a lower amount.

**30 Subtract line 29 from line 28.** *(auto-calc)* Computed as indicated, but no less than zero

**Test if Part III required.** Because of the complexities of capital gains taxes, additional information is required before the amount for line 31 can be computed. If there are qualified dividends on the return or a net long-term capital gain (after adjustment for the AMT), Part III of the form must be used to compute the amount for line 31. The amounts in this section determine the need for Part III. When it is needed, it is automatically completed for you and the result is used for line 31.

**QUALIFIED DIVIDENDS ON FORM 1040, LINE 9b.** *(auto-calc)* Taken from Form 1040 as indicated, no adjustment is necessary for the AMT.

**Lesser of Schedule D line 15 or 16.** *(auto-calc)* Taken from Schedule D as indicated, this is the net long-term capital gain on Schedule D.

**Adjustment if refigured for AMT.** Enter any adjustment required if net long-term capital gains are treated differently for AMT purposes than on the original Schedule D. You may have an adjustment if the basis of property sold is different under the AMT, or any carryover from 2013 is different. If so, you must complete a separate Schedule D (not attached to this return) using the amounts proper for the AMT so that you can determine the adjustment to make here.

**SCHEDULE D, LINE 15 OR 16 AS REFIGURED.** *(auto-calc)* Computed as the amount on Schedule D plus the above adjustment.

**Part III required for line 31 calculation?** *(auto-calc)* Answered Yes if there are qualified dividends on Form 1040, line 9b, or there is a net gain for Schedule D line 15 or 16 as refigured. **CAUTION: If Yes, you must refigure for the AMT several amounts on the Schedule D Tax Worksheet. To do so, you must figure required adjustments and enter them in the following section.**

**AMT adjustments for Part III.** The adjustments you enter here are used to automate the completion of Part III, when required. *Modifications to Part III for filers of Form 2555 are applied automatically, as described later.*

**Form 4952, line 4g.** *(auto-calc for Standard and Premium Level)* Taken from Form 4952 for the Standard and Premium Level software. Otherwise, you must enter the amount from Form 4952 yourself.

**Adjustment if refigured for AMT.** Enter any adjustment required for the AMT.

**FORM 4952, LINE 4G AS REFIGURED.** *(auto-calc)* Computed as the amount on the current Form 4952 plus the above adjustment.

**Form 4952, line 4e (or elected amount).** *(auto-calc for Standard and Premium Level)* Taken from Form 4952 for the Standard and Premium Level software. Otherwise, you must enter the amount from Form 4952 yourself.

**Adjustment if refigured for AMT.** Enter any adjustment required for the AMT.

**FORM 4952, LINE 4E AS REFIGURED.** *(auto-calc)* Computed as the amount on the current Form 4952 plus the above adjustment.

**28% rate net for Schedule D, line 18.** *(auto-calc)* Taken from the corresponding line on screen 8 of the current Schedule D, this is the amount taxed at no more than 28%.

**Adjustment if refigured for AMT.** Enter any adjustment required if any property subject to the 28% rate is treated differently for AMT purposes than it is on the unadjusted Schedule D.

**28% rate net AS REFIGURED.** *(auto-calc)* Computed as the amount on Schedule D plus the above adjustment.

**Unrecaptured sec 1250 gain for Schedule D, line 19.** *(auto-calc)* Taken from the corresponding line on screen 8 of the current Schedule D, this is the unrecaptured section 1250 gain that is taxed at no more than 25%.

**Adjustment if refigured for AMT.** Enter any adjustment required if any sale of section 1250 property is treated differently for AMT purposes than it is on the unadjusted Schedule D.

**UNRECAPTURED SEC 1250 GAIN AS REFIGURED.** *(auto-calc)* Computed as the amount on Schedule D plus the above adjustment.

**Capital gain excess.** Thanks to the *Technical Corrections Act of 2007*, several modifications to the calculations in Part III must be made for many of those who file Form 2555 (or 2555-EZ) for foreign earned income. The complex modifications are detailed in the *IRS 2014 Instructions for Form 6251*. However, the modifications for Form 2555 only apply if there is a "capital gain excess" as computed here:

**Refigured Schedule D Tax Worksheet line 10.** *(auto-calc)* This line is computed using the AMT-adjusted amounts from the preceding section.

**Amount on Form 6251, line 30.** *(auto-calc)* Taken from this form, as indicated.

**Capital gain excess.** *(auto-calc)* Computed as the refigured worksheet line less the amount on line 6251 of this form, this amount forms the basis for several modifications when the return includes Form 2555 or 2555-EZ.

**Part II continued (lines 31 through 35).** Once the above amounts have been defined, Part III (comprised of lines 36 through 54) is computed so that line 31, below, can be computed. However, additional modifications for filers of Form 2555 or 2555-EZ apply:

**Amount on Form 6251, line 30.** *(auto-calc)* Taken from this form, as indicated.

**Exclusion on Form 2555 (or 2555-EZ).** *(auto-calc)* Taken from the Form 2555 component of Form 1040, line 21, but expressed as a positive number, this is the foreign earned income or housing exclusion claimed on the return.

**Line 30 modified by Form 2555.** *(auto-calc)* Computed as Form 6251, line 30, plus the exclusion on Form 2555 (added back to income).

**Amount on Form 6251, line 64.** *(auto-calc)* Taken from this form, as indicated, this amount will be zero if Part III is not used.

**Tax on modified line 30 or line 64.** *(auto-calc)* If Part III is used, the preceding amount from line 64 appears. Otherwise, this tax is figured as 26% of "Line 30 modified by Form 2555" plus 2% of the amount by which "Line 30 modified by Form 2555" exceeds \$182,500 (\$91,250 if married filing separately).

**Tax on Form 2555 exclusion.** *(auto-calc)* Computed as 26% of the "Exclusion on Form 2555 (or 2555-EZ)" plus 2% of the amount by which the "Exclusion on Form 2555 (or 2555-EZ)" exceeds \$182,500 (\$91,250 if married filing separately).

**31 Usually, multiply line 30 by 26%.** *(auto-calc)* Computed as the sum of the preceding two taxes, this result reflects all the subtleties of capital gains in Part III and adjustments for Form 2555.

**32 Alternative minimum tax foreign tax credit.** This entry is *NOT* generally the same as line 45 of Form 1040. You must manually prepare Form 1116 (*built into the software at the Standard and Premium Levels*) in a different manner from that used to compute line 45 of Form 1040. See the IRS instructions for Form 6251 for details.

**33 Tentative minimum tax.** *(auto-calc)* Computed as line 31 less line 32, this result is used in figuring limitations on Form 3800, and to figure credit for prior minimum tax on Form 8801.

**Tax on Form 1040, line 44.** *(auto-calc)* This is the regular tax before credits, taken from Form 1040 as indicated.

**Tax from Form 4972.** *(auto-calc)* Taken from line 44b of Form 1040, this is the tax from Form 4972 that is included in line 44 of Form 1040.

**Is this tax from Schedule J.** *(auto-calc)* If the tax on Form 1040, line 44, was figured using Schedule J, the amount for line 34 of Form 6251 is refigured, below.

**If Yes, line 44 refigured.** *(auto-calc)* Taken from the line below line 4 of the on-screen Schedule J when the preceding answer Yes; otherwise, zero. The tax that appears here is the regular tax that would be computed for Form 1040 line 44 if Schedule J were not used to compute the tax.

**Foreign tax credit on Form 1040, line 48.** *(auto-calc)* Taken from Form 1040, as indicated.

**34 Tax from Form 1040, as adjusted.** *(auto-calc)* Computed as Form 1040, line 44 less the part from Form 4972, or the refigured amount for Form 1040 line 44 from Schedule J, less any foreign tax credit, above.

**35 AMT. Subtract line 34 from line 33.** *(auto-calc)* Computed as indicated, but no less than zero.

The result on line 35 is posted to line 45 of Form 1040.

**PART III, TAX COMPUTATION USING MAXIMUM CAPITAL GAINS RATES.** If the return includes net long-term capital gains on Schedule D (as refigured for the AMT) or qualified dividends on Form 1040 line 9b, the tax computation for Form 6251 may involve the capital gains tax, and the entry for line 31 of Form 6251 must be computed in this part of the form. The computation is complex because there are several different rates involved depending on taxable income and the classification of the transaction. And, for 2014, there are additional complexities to handle an additional tax for high-income taxpayers. *This part of Form 6251 is fully automatic.* The result at line 64 is used for line 31 of Form 6251 in place of the simpler calculations. *These calculations include all the complexities involving Form 2555, as detailed in the latest IRS instructions.*

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 6252 / Installment Sale Income

**Who is it for?** This form is used to report the sale of qualifying property for which you did not receive full payment in the year of sale. By filing the form you defer taxation on some of the gain to a later year. You qualify for the installment method by meeting two requirements:

**A** At least one payment from the sale is received in a tax year *AFTER* the year of sale.

**B** The property sold or disposed of is either personal property that is not considered inventory or real property.

If you meet these requirements you may elect to use the installment method by filing this form. If you do not make the election you must be sure to report the gain on Form 4797 or Schedule D, whichever applies. Form 6252 is accessible through the Road Map above lines 4 and 11 of Schedule D, and at lines 4, 10, and 15 of Form 4797.

**How to handle more than five sales.** Five copies of Form 6252 are built into the software for reporting up to five separate installment sales. If you have more than five to report, use the following procedure:

**Step 1.** Remove all copies of Form 6252 attached to this return using the file manager's REMOVE function detailed in Chapter 9.

**Step 2.** Prepare ALL copies of Form 6252 separately from this return by preparing them for dummy returns with up to five Forms 6252 each.

**Step 3.** Enter the totals from all copies of Form 6252 prepared for the dummy returns on the lines of Schedule D and Form 4797 that are noted in the section titled "Posting of results from Form 6252" after the details for line 37, below.

Step 1 is critical because any entries you make on Schedules D and Form 4797 in Step 3 will be overridden by any remaining Form 6252 upon the final recalculation of the return.

**TYPE OF PROPERTY.** The first few entries describe the property to the software so that it can properly automate the form.

**Copy number (1 through 5).** (*auto-calc*) The copy you chose is displayed here. Five copies are built into the software. A separate copy of Form 6252 must be prepared for each separate sale for which you elect the installment method.

**Main home?** If Yes, the remaining entries in this section are ignored and you are allowed to enter the excluded gain on line 15. (See our details for Schedule D for more information on the allowed exclusion, which can be as high as \$500,000 for married taxpayers and \$250,000 for all others.)

**Qualified small business stock (sec. 1202)?** Certain sales of small business stock are eligible for an exclusion of up to 50% of their gain. See our details for Schedule D for detailed qualifications.

**Collectibles gain?** If Yes, the gain is ineligible for the lowest tax rates on capital gains, and is instead subject to the 28% rate rules.

**Business property?** Answer Yes for property used in your trade or business. If Yes, the results of this form are posted to Form 4797.

**Investment property?** If you answered Yes to this or the preceding question, be sure to answer the below participation questions as well so that any gains or losses are properly handled under the passive loss rules.

**Gain is for Form 4797?** *Automatically* Yes if you answered Yes to "Business property?" or you have identified a gain in Part III of Form 4797 as destined for this copy of Form 6252. *Automatically No* if you answered Yes to the main home, small business stock, or collectibles question. Otherwise, answer Yes yourself for sales that must be reported on Form 4797 instead of Schedule D.

**Gain is for Schedule D.** *(auto-calc)* *Automatically* the opposite of the preceding answer.

**Material participant?** *Automatically* Yes if you answered Yes to the main home, small business stock, or collectibles question. Otherwise, see our instructions for Form 8582 to determine whether you can answer Yes. If not, any gain reported this year will be used on Form 8582 to offset passive losses. **CAUTION: You must answer No for ALL sales of rental real estate and you must answer Yes for ALL sales of portfolio assets, regardless of the level of participation.**

**Significant participant?** If you answered No above, you must also answer this question. See our instructions for Form 8582 to determine whether a Yes answer is appropriate here.

**Active rental real estate?** Answer Yes if the property is rental real estate and you have significantly participated in making management decisions or arranging for others to provide needed services to renters. This answer controls to which section of Form 8582 any current-year gain will be posted.

**GENERAL INFORMATION.** The next few entries describe the sale to the IRS.

**1 Description of Property.** Describe in 35 characters or less.

**2a Date acquired.** Enter date acquired here in the standard mm/dd/yy format, or, if the property is inherited, enter INHERITED.

**2b Date sold.** Enter the date sold here in the same mm/dd/yy format.

**Sold in the current tax year?** *(auto-calc)* *Automatically* Yes if your entry for "Date sold" (line 2b) lies in the current tax year. Otherwise, No.

**Held more than 5 years?** *(auto-calc)* *Automatically* Yes if your date entry for "Date sold" is more than five years after "Date acquired."

**Exception to long-term test?** You should answer Yes here only if the automatic computation for the next line is improper because of a special exception. For example, the sale of business stock and business livestock follow different rules, and the holding period to qualify as long-term is two years rather than one year for cattle and horses used as livestock in a business. Do not answer Yes for property inherited from someone who died before or after 2010 because, if you properly entered INHERITED on line 2a, the software will determine that the property is a long-term holding, which is appropriate for inherited property no matter when acquired. (For someone who died in 2010, see IRS Pub. 4895.)

**Treated as LONG term.** *(auto-calc)* Normally Yes if line 2b is more than one year later than line 2a, or INHERITED was entered on line 2a, but reversed if your answer to the preceding question is Yes.

**% of gain to exclude per sec. 1202.** You can make an entry here only if you answered Yes to the qualified business stock question, your entry for line 2b is at least 5 years later than your entry for line 2a, and the date on line 2a is 8/11/93 or later. You are then qualified for an exclusion of as much as 50% of the total gain on the sale. You may be qualified for as much as 60% for empowerment zone business stock if acquired after December 21, 2000. See IRS Instructions for Schedule D for more information.

**% of gain subject to 28% rule?** *(auto-calc)* There are now only two situations where the 28% rules apply: collectibles gain and gain on the sale of sec. 1202 stock to the extent of the exclusion taken. Therefore, if you answered Yes to "Qualified small business stock (sec. 1202)," your preceding entry appears here. If you answered Yes to "Collectibles gain," 100% appears here. Otherwise, the amount for this line is zero.

**3 Sold to related party after May 14, 1980?** A related can be a person (spouse, child, grandchild, parent, brother, or sister) or an organization (corporation, S corporation, partnership, estate, or trust). If you answer Yes, you must complete Part III for the first three years of the installment period (including the year of sale) and any year in which you received a payment.

**4 If 3 is yes, was the property a marketable security?** If you answer Yes, you must complete Part III of this form EVERY year of the installment period, whether a payment was received or not.

**PART I, GROSS PROFIT AND CONTRACT PRICE.** This part should be completed ONLY for the tax year of the sale:

**5 Selling price including debt.** Enter the total amount you will receive, including cash, face amount of the installment obligation, and fair market value of any other property or debt, including mortgages and other indebtedness. *In a supporting statement for this line, explain your computation for this line in the text column and enter only the result in the amount column.*

**6 Mortgage and other debt assumed.** Enter only the amount of mortgages or other indebtedness that the buyer assumes from the seller or takes the property subject to.

**7 Subtract line 6 from line 5.** *(auto-calc)* As indicated.

**8 Cost or other basis.** Enter original cost plus buying expenses plus improvements less previously allowed casualty losses, employer-provided child care credit, diesel-powered highway vehicle credit, enhanced oil recovery credit, disabled access credit, or new markets credit.

**9 Depreciation allowable.** Enter all depreciation or amortization allowed or allowable from date of purchase until date of sale. Include any deduction you took under section 179 and add back any downward basis adjustment you made for investment tax credit. But subtract out

any section 179 or 280F recapture that you had to include in income in any prior year.

- 10 Adjusted basis.** *(auto-calc)* Line 8 less line 9.
- 11 Commission and other expenses of sale.** Enter expenses incurred in selling the property, including sales commissions, advertising expenses, and legal fees.
- 12 Income recapture from Part III of Form 4797.** *(auto-calc)* Amounts you identified in Part III of Form 4797 for line 12 of this copy of Form 6252 are posted here (for Section 1245 and 1250 property).
- 13 Add lines 10, 11, and 12.** *(auto-calc)* As indicated.
- 14 Subtract line 13 from line 5.** *(auto-calc)* Computed as indicated. *If zero or less, there is no gain to report and you should not file Form 6252. Instead, report the entire sale on Form 4797 or Schedule D.*
- Section 1202 exclusion.** *(auto-calc)* Computed as line 14 times the percentage shown above line 3 as the percentage to exclude under sec. 1202. (This line applies only to qualified small business stock.)
- 15 If main home, excluded gain.** If you answered Yes to the "Main home?" question, your entry is accepted here. Otherwise, the preceding sec. 1202 amount is used here and "Sec 1202 excln" is printed beside line 15 on the official printout for the IRS.
- 16 GROSS PROFIT.** *(auto-calc)* Line 14 less line 15.
- 17 Subtract line 13 from line 6.** *(auto-calc)* Line 6 less line 13, but no less than zero.
- 18 CONTRACT PRICE.** *(auto-calc)* Line 7 plus line 17.

**PART II, INSTALLMENT SALE INCOME.** This part must be completed for the year of sale AND any year in which a payment is received.

**Gross profit percentage.** *(auto-calc line ONLY if sold in current tax year.)* If this form is prepared for property sold this year, this line is computed as 100% times line 16 divided by line 18. But if prepared for property sold in a prior year, you must enter the percentage (from 0 to 100.0) yourself based on the Form 6252 for the year of sale.

- 19 Gross profit percentage expressed as a decimal.** *(auto-calc)* Gross profit percentage expressed as a ratio (0 to 1.0). (Even though the IRS still uses the word "percentage" in the line label, the label now clarifies that a decimal representation is intended. Technically, the IRS should call this a ratio expressed as a decimal, but their intention is clear.)
- 20 For year of sale only: line 17.** *(auto-calc)* Automatically equal to line 17 for a sale in the current tax year.
- 21 Payments received during year.** Include cash and the fair market value of property received, reflecting all principal payments but not stated or unstated interest. Before October 22, 2004, a note or other debt was considered a payment (and therefore not eligible for installment sale treatment) if it was payable on demand or readily tradable and issued by a corporation or governmental entity. On or after October 22, 2004, a note or other debt is considered a payment (and therefore not eligible for installment sale treatment) if it is payable on demand or readily tradable whether or not issued by a corporation or

governmental entity. Enter here any such amount considered a payment.

**22 Add lines 20 and 21.** *(auto-calc)* Computed as indicated.

**23 Payments received in prior years.** Enter all amounts received prior to the current tax year, including cash and the fair market value of property received, reflecting all principal payments but not stated or unstated interest.

**24 INSTALLMENT SALE INCOME.** *(auto-calc)* Computed as line 22 times the percentage on line 19.

**Amount from Form 4797 for line 25.** *(auto-calc)* Amounts you identified in Part III of Form 4797 for line 25 of this copy of Form 6252 are posted here (for Section 1252, 1254, and 1255 property).

**Prior-year recapture carryover.** Enter here the amount by which last year's recapture (line 25 of last year's Form 6252) was limited by last year's installment sale income (line 24 of last year's Form 6252).

**25 Part of line 24 that is recaptured as ordinary income.** *(auto-calc line if sold in current tax year.)* If in the year of sale, this line is the smaller of line 24 and the amount from Form 4797, above. If after the year of sale, it is the smaller of line 24 and the preceding carryover.

**Carryover to Part III or next year.** *(auto-calc)* This is the amount by which this year's recapture exceeds line 24, and is therefore carried over for use in Part III line 36, if applicable, or next year's line 25.

**26 Subtract line 25 from line 24.** *(auto-calc)* Computed as indicated. This result is posted to Schedule D or Form 4797, depending on your answer to "Gain is for 4797?" as explained in "Posting of results from Form 6252" at the end of these details for Form 6252.

**PART III, RELATED PARTY INSTALLMENT SALE INCOME.** This part is applicable only if your answer to Question 3 on this form was Yes. *TIP: Do NOT complete this part for the year the LAST installment payment is received.*

**27 Name of related party.** Identify the related party in 25 characters or less. This can be the name of a person or a business or other entity.

**SSN of related party.** If you entered the name of a person above, enter here that person's social security number (SSN) in the standard xxx-xx-xxxx format. Otherwise, enter the EIN (employer identification number) of the related party in the standard xx-xxxxxxx format. *CAUTION: Because of a change in format, for a translated return in which you entered an EIN for the related party's taxpayer IDN, you must remove in from this line and enter it manually on the next line instead..*

**Or EIN of related party.** If you did not enter the name of a person above, enter here the entity's employer identification number (EIN) in the standard xx-xxxxxxx format. *CAUTION: Do not enter both an SSN and an EIN, even if the person you name has both. Because of a change in format, no entry will appear here for a translated return; you must enter the EIN manually if it applies.*

**Street address.** Enter the street address in 25 characters or less, abbreviating if necessary.

**City.** Enter the city in 22 characters or less. *CAUTION: Because of a change in format, no entry will appear here for a translated return; you must enter the city manually.*

**State.** Enter the standard 2-character code for the state. *CAUTION: Because of a change in format, no entry will appear here for a translated return; you must enter the state manually.*

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format. *CAUTION: Because of a change in format, no entry will appear here for a translated return; you must enter the ZIP code manually.*

**e-file ONLY: If a foreign address, use these lines instead.** For a paper return, because of the restricted space on the official Form 6252, you must enter a foreign address on the preceding lines, abbreviating as necessary to fit. The following lines are ignored for a paper return. However, *for an e-file return, a special format is required for foreign addresses, so you must enter a foreign address here and leave the preceding address lines blank.*

**Foreign address.** Enter the street address of the foreign location in 25 characters or less.

**Foreign city.** Enter the city in 25 characters or less.

**Foreign province or state.** Enter the province or state in 15 characters or less.

**Foreign country (2-letter code).** Enter the official country code for the country as shown in Table 2-6 on page 2-22.

**Foreign postal code.** Enter the postal code in 15 characters or less.

**28 Did related party resell or dispose of property during this tax year?**  
Enter Yes if applicable.

**29 If 28 is Yes, answer Yes to any following condition that applies.** If the answer to line 28 is Yes, you must answer the following questions. *If you answered Yes to line 28 but cannot answer Yes to at least one of the following five questions, you MUST complete the rest of this form.*

**Second disposition was more than two years after the first.** You can answer Yes ONLY if the property is other than marketable securities.

**If so, enter date of disposition.** Enter the date (in the standard month/day/year format) ONLY if you answered Yes to the preceding question.

**First disposition was sale or exchange of stock to the issuing corporation?** Answer Yes if applicable.

**Second disposition was an involuntary conversion?** Answer Yes ONLY if the threat of conversion occurred after the first disposition.

**Second disposition occurred after death of original seller or buyer?** Answer Yes if applicable.

**Tax avoidance was not a principal purpose for either disposition?** Answer Yes ONLY if you can establish to the satisfaction of the IRS that tax avoidance was not a principal purpose for either disposition. *You must explain a Yes answer in a supporting statement for this line.*

You need to complete the remaining lines *only* if your answer at line 28 is Yes *and* you qualify for *none* of the preceding five exceptions.

**30 Selling price of property sold by related party.** Enter the selling price less the cost of improvements made by the related person while the related person held the property.

**31 Contract price for year of first sale.** *(auto-calc line if sold in current tax year.)* Equal to line 18 if sold this year. Otherwise, enter the amount yourself based on the Form 6252 for the year of sale.

**32 Smaller of line 30 or 31.** *(auto-calc)* As indicated.

**Amount for line 33 not in lines 22 and 23.** If you completed Part II of this form, the amount on line 33 is automatically the sum of lines 22 and 23. But if you did not have to complete Part II, enter here the FMV of property you received before 2014 from the sale, including allocable installment income and any other deemed payments from prior years, but excluding interest whether stated or not.

**33 Total payments received by end of this tax year.** *(auto-calc)* The preceding entry plus line 22 and line 23.

**34 Subtract line 33 from line 32.** *(auto-calc)* As indicated.

**35 Multiply line 34 by percentage on line 19.** *(auto-calc)* Computed as indicated.

**Part of line 35 to be recaptured as ordinary income.** *(auto-calc)* If sale in current year, the recapture from Form 4797 for line 25 that is *not* included in line 25, above, appears here.

**Prior-year recapture carryover.** Enter here the amount by which last year's recapture (line 36 of last year's Form 6252) was limited by last year's installment sale income (line 35 of last year's Form 6252).

**36 Part of line 35 that is recaptured as ordinary income.** *(auto-calc line if sold in current tax year.)* Taken as the smaller of line 35 and either the amount from Form 4797 for line 25 that is NOT included in line 25 if the year of sale, or the prior-year carryover if not.

**Carryover to next year.** *(auto-calc)* This is the amount by which this year's recapture exceeds line 35, and is therefore carried over for consideration in next year's line 36.

**37 Subtract line 36 from line 35.** *(auto-calc)* As indicated. This result may be posted to either Schedule D or Form 4797. See "Post of results from Form 6252" on the next page.

**SUMMARY AND ALLOCATION.** The results are automatically transferred to the appropriate forms and lines based on the answers in the first two screens of this form.

**Passive activity gains for Form 8582.** Current-year gains are posted to Form 8582 to reduce any passive losses in accordance with your answers to the material participation, significant participation, and active rental real estate questions:

**Gain for Form 8582 line 1a.** *(auto-calc)* If the property is either business or investment property, and is also active rental real estate, computed as the sum of all gains and recapture to be reported this year (lines 25, 26, 35, and 36). Otherwise, zero.

**Gain for Form 8582 line 3a.** *(auto-calc)* If the gain is either business or investment property, the property is *not* active rental real estate, you are *not* a material participant, and either you are not a significant participant or the overall net significant participation gain for the return is zero, computed as the sum of all gains and recapture to be reported this year (lines 25, 26, 35, and 36). Otherwise, zero.

**Significant participation net for Form 8582.** *(auto-calc)* If the gain is either business or investment property, the property is *not* active rental real estate, you are *not* a material participant, but you are a significant participant, computed as the sum of all gains and recapture to be reported this year (lines 25, 26, 35, and 36). Otherwise, zero. This amount is used in Form 8582 to help determine the overall net significant participation gain for the return.

**Allocation to Schedule D and Form 4797.** Ordinary and long-term gains are reported on either Schedule D or Form 4797.

**Short-term gain for Schedule D, line 4,** *(auto-calc)* If treated as a short-term holding and the gain is for Schedule D, computed as the gain on lines 26 and 37. Otherwise, zero.

**Long-term gain for Schedule D, line 11,** *(auto-calc)* If treated as a long-term holding and the gain is for Schedule D, computed as the gain on lines 26 and 37. Otherwise, zero.

**Regular part of the above,** *(auto-calc)* Computed as the part of the preceding gain not subject to 28% rate rules.

**28% rate gain for Schedule D,** *(auto-calc)* Computed as the preceding amount times the percentage shown above line 3 as the “% of gain subject to 28% rule.” This result is used in Schedule D for tax calculations, using the highest capital gains rate for this gain.

**Long-term gain for Form 4797, line 4,** *(auto-calc)* If treated as a long-term holding and the gain is for Form 4797, computed as the gain on lines 26 and 37. Otherwise, zero.

**Short-term gain for Form 4797, line 10(g),** *(auto-calc)* If treated as a short-term holding and the gain is for Form 4797, computed as the gain on lines 26 and 37. Otherwise, zero.

**Recapture for Form 4797, line 15,** *(auto-calc)* Computed as the sum of lines 25 and 36.

**Current-year Unrecaptured Sec. 1250 Gain.** The amount of unrecaptured sec. 1250 gain for the sale to be allocated to the current year is determined here.

**From original sale (Form 4797, Part III).** If the property reported on this form was sold this year and the gain is section 1250 gain, you must report the gain in Part III of Form 4797, using a worksheet for line 26. You must then allocate (on screen 8 of Form 4797) the unrecaptured sec. 1250 gain computed on that worksheet to *this* copy of Form 6252. *The amount will then appear here automatically.* On the other hand, if you sold the property in a prior year, *you* must enter the unrecaptured section 1250 gain on the sale here.

**Amount allocated to prior years.** If the property was sold in a prior year, enter here the part of the preceding total that you previously allocat-

ed in prior tax returns. (You are not allowed to make an entry here if the property was sold in the current year.)

**Remainder still unrecaptured.** *(auto-calc)* Computed as the unrecaptured section 1250 gain realized on the original sale less the part allocated to prior years. This is the amount that remains to be allocated to a return.

**Amount allocated to this year.** *(auto-calc)* Computed as the lesser of the preceding remainder and the previously described "Long-term gain for Form 4797, line 4." That is, each year's installment payment is treated as unrecaptured section 1250 gain until this special gain is all used up, in accordance with the IRS instructions for their Unrecaptured Section 1250 Worksheet. (However, this was not always the case in the past, as detailed in the IRS Instructions for Schedule D. Otherwise we could have computed the "Amount allocated to prior years" automatically.)

**Carryover to next year.** *(auto-calc)* Computed as the remainder still unrecaptured less the amount allocated to this year. This is the amount still remaining unrecaptured after the current return is filed.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 6478\* / Biofuel Producer Credit**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition. (See the separate Partnership Edition manual for details on the version of Form 6478 that is built into the Partnership Edition software.)

**Purpose.** This form has traditionally been used to claim credits for several different types of specialized fuel credits. However, only one type of biofuel now qualify. The alcohol mixture credit, alcohol credit, and small ethanol producer credit all expired at the end of 2011, and have not been reinstated. The cellulosic biofuel producer credit was extended through January 2, 2013, but has now expired. However, the second-generation biofuel producer credit, which expired at the end of 2011, restarted on January 3, 2013 and is available through January 2, 2015. The result of this form is passed through Form 3800 (the result of which is reported on line 54a of Form 1040) and all tax liability and passive loss limitations are applied on Form 3800, not here. (Form 3800 is automatically created when Form 6478 is present upon the final recalculation of the return.) Form 6478 is accessible through the Road Map from screen 4 of Form 3800.

**See IRS instructions for important details.** The law is very specific about what specific kind of fuel is eligible, so it is important to read the definitions and qualifications in the IRS instructions.

**CAUTION: Additional entries may be required on Form 3800.** Unless you make additional entries on screen 4 of the main Form 3800, the credit is initially assumed to be a Category A credit (General Business Credit from a Non-passive Activity) and posted to line 4c of Copy 2 of Form 3800, Part III. (Copy 2 of Form 3800, Part III, is reserved for the General Business Credit from a Non-passive Activity.) If the credit stems from a passive activity, or you have any carryforwards or carrybacks, you must indicate on Form 3800 screen 4 that it is not a Category A credit and manually enter the credit on line 4c of the appropriate copy of Form 3800, Part III. Also, if the credit originated from a pass-through entity, you must enter the EIN of the entity on the copy of Form 3800, Part III, that you use.

**1 Qualified second generation biofuel production.** The credit is only allowed for fuel sold or used after January 2, 2013 and before January 2, 2015. See the IRS instructions for detailed qualifications.

- (a) **Number of gallons sold or used.** Enter here the number of gallons only for qualified second generation biofuel.
- (b) **Rate.** (auto-calc) The rate for qualified second generation biofuel production is \$1.01 per gallon.
- (c) **Column (a) X Column (b).** (auto-calc) Computed as 1.01 times the number of gallons sold or used.

**IRS CB registration number.** You must be registered with the IRS before you can claim credit for cellulosic or second generation biofuel. If you have a claim on line 1 or line 2, enter here your IRS-issued CB registration number.

**2 Enter amount in column (c) on line 1.** *(auto-calc)* Computed as indicated.

**CAUTION:** You must report line 2 as income on the return in order to qualify for the credit. The credit on Form 6478 is allowed only as an offset to income reported on the return for the claimed fuel. Therefore, you must be sure to include the amount on line 2 as income on the appropriate "other income" line of the appropriate form. For a Form 1040 return the amount may be reported on Schedule C, Schedule F, or line 21 of Form 1040. You must report the full amount of income even if you are not allowed the full credit shown on Form 6478 (or Form 8835) because of limitations to tax liability. (If you are subject to the alternative minimum tax, you must enter the amount as a negative adjustment at line 27 of Form 6251 because this amount is not income for the purposes of the alternative minimum tax.)

**3 Biofuel producer credit from partnerships, S corporations, cooperatives, estates, and trusts.** Enter the credit allocated to you from any pass-through entities as follows:

- **From partnerships:** Any amount in box 15 of Schedule K-1 (Form 1065) identified as code I.
- **From S corporations:** Any amount in box 13 of Schedule K-1 (Form 1120S) identified as code I.
- **From estates and trusts:** Any amount in box 13 of Schedule K-1 (Form 1041) identified as code H.
- **From cooperatives:** Any amount in box 10 of Form 1099-PATR or in any other written notice of credit allocation.

**CAUTION:** Additional entry on Form 3800 always required if you have an amount on line 3. Thanks to the IRS's complex design for Form 3800, manual entries are required on Part III of that form when you have credit from a pass-through entity. You must enter the EIN of the entity in column (b) of line 4c of the copy of Form 3800, Part III, that applies to this credit. (There are 10 copies available to handle the 8 unique IRS categories plus a consolidated copy and an unattached copy.)

**4 Add lines 2 and 3.** *(auto-calc)* Computed as indicated, this is the total credit for Form 6478. Although the IRS form indicates that this result should be posted to line 4b of Form 3800, Part III, it is instead posted to screen 4 of the on-screen Form 3800, from which it is posted to line 4c of copy 2 of Form 3800, Part III, unless you specify otherwise on screen 4 of Form 3800. *(Copy 2 of Form 3800, Part III, is reserved for the general business credit from a non-passive activity. If the credit is stems from a passive activity, or you have any carryforwards or carrybacks, you will use other copies of Form 3800, Part III, instead.)*

**CAUTION: Additional entries may be required on Form 3800.** If this is a general business credit from a non-passive activity, you're done (unless you have to enter an EIN as noted above). The credit will be automatically posted to screen 4 of Form 3800, and copy 2 of Form 3800, Part III (for category A) will be automatically created with the result from line 5, above, posted to line 4c of Form 3800, Part III. But if the credit is from a passive activity, you must indicate this fact by an entry on screen 4 of Form 3800 and then enter the result from line 4, above, on the copy of Form 3800, Part III that applies to your credit.

**5 Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust.** *(auto-calc)* Computed as zero because this line not relevant to Form 1040 returns.

**6 Cooperatives, estates, and trusts. Subtract line 10 from line 9** *(auto-calc)* Computed as zero because this line not relevant to Form 1040 returns.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 6765\* / Credit for Increasing Research

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition.

**Purpose.** This form is used to claim credit for investment in technological research over and above what was invested in the prior year. It had expired at the end of 2013, but it was extended by the year-end tax bill to the end of 2014. In the Form 1040 software, Form 6765 is accessible through the Road Map from screen 3 of Form 3800, to which its results are posted. (In the Form 1065 software, Form 6765 is accessible through the Road Map at the credit component of line 15f of Schedule K labeled "6765 Increasing research." When completing the form for a partnership with a fiscal year that starts after January 1, 2014, you must keep in mind that expenses that are paid and incurred after December 31, 2014 do not qualify as the law now stands.)

**CAUTION: Additional entries may be required on Form 3800.** Unless you make additional entries on screen 3 of the main Form 3800, the credit is initially assumed to be a Category A credit (General Business Credit from a Non-passive Activity) and posted to line 1c of Copy 2 of Form 3800, Part III. (Copy 2 of Form 3800, Part III, is reserved for the General Business Credit from a Non-passive Activity.) If the credit stems from a passive activity, or you have any carryforwards or carrybacks, you must indicate on Form 3800 screen 3 that it is not a Category A credit and manually enter the credit on line 1c of the appropriate copy of Form 3800, Part III. Also, if the credit originated from a pass-through entity, you must enter the EIN of the entity on the copy of Form 3800, Part III, that you use.

**Entries for Sections A and B.** Two methods for computing the credit are now available: a regular method (Section A) and an alternative simplified method (Section B). The regular method is used until you elect the alternative method. When originally conceived, it was intended that once you elect an alternative method you must use it for all future tax years. However, you are now allowed to revoke a prior election and make a different current election. While the computations for the two sections are quite different, information required for each section is nearly identical. Therefore, in order to avoid duplicate data entry and make it easy to compare the results of the two methods, we collect the data for all sections here. CAUTION: The law for this credit is relatively narrow and applies only to the type of research defined in the IRS instructions. For example, research for customization of an existing product, research for internally used software, research in social sciences, surveys, studies, and research into an existing product are all disallowed. You should therefore consult the IRS Instructions for Form 6765 for detailed qualifications.

**Certain amounts paid or incurred to energy consortia.** Enter only amounts paid to energy research consortia for energy research. An energy research consortium is a tax-exempt organization primarily created to conduct energy research. See IRS instructions for details.

**Wages for qualified services.** Enter only wages related to qualified in-house research. Do not include any wages used in figuring the work opportunity credit (Form 5884).

**Cost of supplies.** Enter only the cost of supplies related to qualified in-house research.

**Rental or lease costs of computers.** Enter only the amount paid or incurred for the rental or lease of computers used in qualified research. *CAUTION: Qualifications for this entry are very narrow. The computer you rent or lease must not be located on your premises and can-not be operated by you or primarily used by you.*

**Contract research expenses.** Enter the full amount paid or incurred for qualified outside research. This amount is reduced to 65% of your entry when used in Section A or B of Form 6765, unless you make an entry on one of the following two lines.

**Part for qualified energy research.** Enter the part of "Contract research expenses" that was used for a qualified energy research by an eligible small business, university, or federal laboratory. The amount you enter here is allowed in full when used in Section A or B. See IRS instructions for Form 6765, line 8, for details.

**Part to a qualified research consortium.** Enter the part of "Contract research expenses" that was used for a qualified research consortium. The amount you enter here is subject to a reduction to 75% of your entry when used in Section A or B. See IRS instructions for Form 6765, line 8, for details.

**Fixed-based percentage.** (*Required only for Section A*) If you will compute the credit by the Regular Method (Section A), *you must make an entry here that reflects the history of the company and its past research expenses.* See the IRS Instructions for Form 6765, line 10, for details. Your entry here is rounded to the nearest .01% and cannot exceed 16%.

**Average annual gross receipts.** For the business to which the research relates, enter the average annual gross receipts (reduced by returns and allowances) *for the 4 tax years that precede the tax year of the return.* This will generally be line 3 of the Schedule C for this business.

**Taxable income for this activity.** (*For Form 1040 returns only*) You must determine how much of the taxable income on line 43 of Form 1040 relates to the business for which the research was conducted. The amount you enter here (together with any taxable income you attribute to credit from pass-through entities below line 37) will be used in computing the taxable income limit that applies to this credit. This limitation is computed at line 1c of Form 3800. *CAUTION: If you are claiming the research credit for more than one business, you may have to override the result for line 1c of Form 3800 because the limitation must be applied separately for each business. See our instructions for Form 3800 in this Tax Forms Guide for details.*

**ELECTIONS.** There are now only two elections available, each of which has a significant effect on the results of this form.

**IRC Section 280C election:**

**Elect the reduced credit?** This election is described in *Section 280C(c)(3) of the Internal Revenue Code*. When you claim the full credit you are required to reduce any deductions for research expenses on your return (such as on Schedule C) by the amount of this credit. However, if you elect the reduced credit, which is 65% of the full credit, you are not required to reduce your deductions at all. **CAUTION: If you do NOT elect the reduced credit, you must provide to the IRS, in a supporting statement for the line "Schedule of reduced deductions" on the last screen of our Form 6765, a schedule of the reduced deductions you implemented because of this rule.**

**Section B election:**

**Elect Alternative Simplified Credit?** If you want to elect the alternative simplified method, answer Yes here. Before deciding whether to answer Yes or No, you may want to see the results for each choice by looking at the result on line 38 of this form for each choice.

**Did you elect section B previously (answer No if revoking it now)?** If you previously elected the alternative simplified credit, it applies to future years unless you revoke it. However, revocation is as simple as making a different election in the future year. (You can also revoke this election on an amended return.)

**Section B to be used. (*auto-calc*)** Answered Yes if either of the preceding two answers is Yes. If Yes, Section B is used; otherwise Section A is used. **CAUTION: If Section A is used, you must enter a percentage for the line "Fixed-base percentage" described previously.**

**2011, 2012, and 2013 qualified research expenses.** When you choose the alternative simplified method you must enter qualified research expenses claimed for the prior 3 years. Your entries are used in the computation of line 29 of this form.

**Special procedure for members of controlled groups or businesses under common control.** For the cited cases you are required to enter the full amounts for the entire business or group on lines 1 through 16 or 18 through 33, whichever applies, but report only your share on line 17 or 34, whichever applies. You are also required to explain how you arrived at your share. To accomplish this with the software, enter the full amounts on screen 1, note the computed credit at lines 17 or 34, whichever applies, then use the Override Key to access line 17 or 34, and itemize the line to report your share of the computed credit. In the description column of the support describe how you computed your share, which should be a prorated amount based on the ratio of your share the qualified research expenses to the total qualified research expenses. The supporting statement will then be printed with the return and cross-referenced on the dotted line for line 17 or 34, whichever applies. **CAUTION: If you must follow this procedure you are not allowed to e-file the return.**

**Section A, Regular Credit.** (*Fully automatic; no manual entries required in this section.*) The regular credit is based on a simplified computation in which all research credits are combined and one rate is applied to the overall eligible expense. This version of the credit is computed unless you elected to use Section B instead (or elected the alternative simplified credit in the past and don't revoke it now).

- 1 Certain amounts paid or incurred to energy consortia.** *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.
- 2 Basic research payments paid or incurred to qualified organizations.** *(auto-calc)* Automatically zero because this line relates only to corporations, not to individuals preparing a Form 1040 return nor partnerships preparing a Form 1065 return.
- 3 Qualified organization base period amount.** *(auto-calc)* Automatically zero because this line relates only to corporations, not to individuals preparing a Form 1040 return nor partnerships preparing a Form 1065 return.
- 4 Subtract line 3 from line 2.** *(auto-calc)* Computed as indicated but no less than zero.
- 5 Wages for qualified services.** *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.
- 6 Cost of supplies.** *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.
- 7 Rental or lease costs of computers.** *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.
- 8 Applicable percentage of contract research expenses.** *(auto-calc)* If Section A is used, computed from your prior entries for contract research expenses as 100% of your entry for "Part for qualified energy research" *plus* 75% of your entry for "Part to a qualified research consortium" *plus* 65% of the balance ("Contract research expenses" *less* "Part for qualified energy research" *less* "Part to a qualified research consortium").
- 9 Total qualified research expenses.** *(auto-calc)* Computed as the sum of lines 5 through 8.
- 10 Fixed-base percentage.** *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.
- 11 Average annual gross receipts.** *(auto-calc)* Taken from your prior entry for this category if Section A is used; otherwise zero.
- 12 Multiply line 11 by the percentage on line 10.** *(auto-calc)* Computed as indicated.
- 13 Subtract line 12 from line 9.** *(auto-calc)* Computed as indicated, but no less than zero.
- 14 Multiply line 9 by 50%.** *(auto-calc)* Computed as indicated.
- 15 Smaller of line 13 or line 14.** *(auto-calc)* Computed as indicated.
- 16 Add lines 1, 4, and 15.** *(auto-calc)* Computed as indicated.
- 17 Are you electing the reduced credit under Section 280C?** *(auto-calc)*  
 Answered Yes if you elected the reduced credit by your answer at

the top of screen 2. **CAUTION:** If No and you are using Section A, see Section C for the supporting statement you must supply.

**Multiply line 16 by .13 or .20.** *(auto-calc)* Computed as 20% of line 16 if the preceding answer is No and 13% if the answer is Yes. This is the Regular Credit.

**Section B, Alternative Simplified Credit.** *(Fully automatic; no manual entries required in this section.)* This version of the credit is used if you elected this alternative on screen 2 (or previously elected and do not revoke the election).

**18 Certain amounts paid or incurred to energy consortia.** *(auto-calc)*  
Taken from your prior entry for this category if Section B is used; otherwise zero.

**19 Basic research payments paid or incurred to qualified organizations.** *(auto-calc)* Automatically zero because this line relates only to corporations, not to individuals preparing a Form 1040 return nor partnerships preparing a Form 1065 return.

**20 Qualified organization base period amount.** *(auto-calc)* Automatically zero because this line relates only to corporations, not to individuals preparing a Form 1040 return nor partnerships preparing a Form 1065 return.

**21 Subtract line 20 from line 19.** *(auto-calc)* Computed as indicated but no less than zero.

**22 Add lines 18 and 21.** *(auto-calc)* Computed as indicated.

**23 Multiply line 22 by 20%.** *(auto-calc)* Computed as indicated.

**24 Wages for qualified services.** *(auto-calc)* Taken from your prior entry for this category if Section B is used; otherwise zero.

**25 Cost of supplies.** *(auto-calc)* Taken from your prior entry for this category if Section B is used; otherwise zero.

**26 Rental or lease costs of computers.** *(auto-calc)* Taken from your prior entry for this category if Section B is used; otherwise zero.

**27 Applicable percentage of contract research expenses.** *(auto-calc)* If Section B is used, computed from your prior entries for contract research expenses as 100% of your entry for "Part for qualified energy research" *plus* 75% of your entry for "Part to a qualified research consortium" *plus* 65% of the balance ("Contract research expenses" *less* "Part for qualified energy research" *less* "Part to a qualified research consortium").

**28 Total qualified research expenses.** *(auto-calc)* Computed as the sum of lines 24 through 27.

**29 Total qualified research expenses for the prior three years.** *(auto-calc)* If Section B is used, computed as the sum of your entries for 2011, 2012, and 2013 qualified research expenses. (If any of those three amounts is zero, lines 30 and 31 are skipped.)

**30 Divide line 29 by 6.0.** *(auto-calc)* Normally computed as indicated, but zero if any of the three amounts that contribute to line 29 is zero.

**31 Subtract line 30 from line 28.** *(auto-calc)* Normally computed as indicated, but no less than zero. However, computed as zero if any of the three amounts that contribute to line 29 is zero.

- 32 Multiply line 31 by 14%, or line 28 by 6% if skipped lines 30 and 31.** *(auto-calc)* Normally computed as 14% of line 31. However, computed as 6% of line 28 if any of the three amounts that contribute to line 29 is zero.
- 33 Add lines 23 and 32.** *(auto-calc)* Computed as indicated.
- 34 Are you electing the reduced credit under Section 280C?** *(auto-calc)*  
 Answered Yes if you elected the reduced credit by your answer at the top of screen 2. **CAUTION:** *If No and you are using Section B, see Section C for the supporting statement you must supply.*
- Multiply line 33 by .65 or 1.0.** *(auto-calc)* Computed as 100% of line 33 if the preceding answer is No and 65% if the answer is Yes. This is the Alternative Simplified Credit.

**Section C, Summary.** The full credit is summarized here.

- 35 Portion of credit from Form 8932, line 2, attributable to wages that were also used to figure the credit on line 17 or line 34 (whichever applies).** You must now reduce your research credit by the amount of credit you claim for employer differential wage payments that is based on the same wages as the research credit. Enter here the applicable amount included in line 2 of Form 8932 (Credit for Employer Differential Wage Payments), which is the credit for your own differential wage payments, not including those from a pass-through entity.
- 36 Subtract line 35 from line 17 or line 34 (whichever applies).** *(auto-calc)* Computed as indicated, but no less than zero, this is your total research credit before adding amounts from pass-through entities.
- 37 Credit for increasing research from partnerships, S corporations, estates, and trusts.** Enter any Form 6765 credits allocated to you from a pass-through entity as shown on Schedule K-1 (Form 1120S), box 13, code M from an S corporation, Schedule K-1 (Form 1065), box 15, code M from a partnership, or Schedule K-1 (Form 1041), box 13, code I from an estate or trust.

**CAUTION: Additional entry on Form 3800 always required if you have an amount on line 37.** Thanks to the IRS's complex design of Form 3800, manual entries are now required on Part III of that form when you have credit from a pass-through entity. You must now enter the EIN of the entity in column (b) of line 1c of the copy of Form 3800, Part III, that applies to this credit. (There are 10 copies available to handle the 8 unique IRS categories plus a consolidated copy and an unattached copy.)

**Taxable income for the line 37 activity.** *(For Form 1040 returns only)*  
 You must determine how much of the taxable income on line 43 of Form 1040 relates to the pass-through entity for which the research was conducted. The amount you enter here will be used in computing the taxable income limit that applies to this credit. This limitation is computed on screen 3 of Form 3800 before the credit is reported on line 1c of Form 3800, Part III. **CAUTION:** *If you are claiming the research credit for more than one business, you may have to override*

the adjustment above on screen 3 of Form 3800 because the limitation must be applied separately for each business.

**38 Add lines 36 and 37.** *(auto-calc)* Computed as indicated, this is the total research credit to be claimed on the return. For a Form 1040 return, this amount is posted to screen 3 of Form 3800, for use in line 1c of Form 3800, Part III. For a Form 1065 return, this amount is posted to the Form 6765 component of line 15f of Schedule K (Form 1065, page 3).

**ITEMIZED REDUCTIONS REQUIRED?.** *(auto-calc)* Answered No if you elected the reduced credit (via your prior Section 280C(c)(3) election at the top of screen 2). Otherwise, Yes. When you claim the full credit, you are required to reduce any deductions for research expenses on your return (such as on Schedule C) by the credit claimed on Form 6765 (excluding pass-through credits on line 37).

**Your credit on line 38 (less line 37).** *(auto-calc)* Computed as line 38 less line 37, this is the amount by which you must reduce deductions on your return if the preceding answer is Yes.

**ITEMIZE HERE if Yes above:**

**Schedule of reduced deductions.** If the answer to "ITEMIZED DEDUCTIONS REQUIRED" is Yes, you are required to attach a schedule showing in detail where you reduced your deductions. You must provide the schedule in a supporting statement for this line so that it is printed with the return and cross-referenced on the official printed Form 6765. The total from your support appears on this line and should match the amount on line 38 less line 37, even if the credit is later limited on Form 3800 by the tax liability limitations. Where the cross-reference is printed depends on the elections made for Form 6765, as follows. ***CAUTION: special format for e-file: the IRS requires that your supporting statement follow a strict format for e-file, with the type and schedule or form in the first 27 characters of text column, the line number\* for that schedule or form in the last 3 characters of the text column, and the amount of reduction in the amount column. (\*Because of a limitation in the IRS e-file design for this form, the line number referenced must contain only digits, so if you want to reference line 20a of Schedule C, for example, you must enter only 20.)*** **TIP:** If the answer to "ITEMIZED DEDUCTIONS REQUIRED" is No, any support you provide for this line will be ignored and will not be made a part of the official printout of Form 6765.

**Schedule of reduced deductions is referenced in Section A.** *(auto-calc)* "ITEMIZED DEDUCTIONS REQUIRED" is Yes and you did not elect to use Section B, the total from your "Schedule of reduced deductions" appears here, and the support will be cross-referenced beside the line 17 amount on the official printout of Form 6765. Otherwise, zero will appear here and no cross-reference will be printed beside line 17.

**Schedule of reduced deductions is referenced in Section B.** *(auto-calc)* "ITEMIZED DEDUCTIONS REQUIRED" is Yes and you elected to use

Section B, the total from your "Schedule of reduced deductions" appears here, and the support will be cross-referenced beside the line 34 amount on the official printout of Form 6765. Otherwise, zero will appear here and no cross-reference will be printed beside line 34.

**39 Amount allocated to the beneficiaries of the estate or trust.** *(auto-calc)* Computed as zero because this line not relevant to Form 1040 or Form 1065 returns.

**40 Estates and trusts: subtract line 39 from line 38.** *(auto-calc)* Computed as zero because this line not relevant to Form 1040 or Form 1065 returns.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 6781\* / Gains & Losses from Section 1256 Contracts & Straddles**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition.

**Purpose.** This form is used to report gains and losses from individuals' investment in futures contracts and non-equity options, and from commodity dealers' equity options and security contracts. In the Form 1040 software, Form 6781 is accessible through the Road Map from the Form 6781 lines above lines 4 and 11 of Schedule D. (In the Form 1065 software, Form 6781 is also accessible through the Road Map at the Code C component of line 11 of Schedule K on Form 1065, page 4.)

**Exclusions from section 1256 contracts.** The last title of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (signed into law on July 21, 2010) removes certain agreements from treatment as section 1256 contracts for tax years that start after July 21, 2010. The law excludes from the definition of section 1256 contracts any agreement for an "interest rate swap, currency swap, basis swap, interest rate cap, interest rate floor, commodity swap, equity swap, equity index swap, credit default swap, or similar agreement." It also excludes any securities futures contract (or option thereon) that is not a dealer securities futures contract (or option thereon).

**IRS instructions and IRS Pub. 550 are indispensable.** The regulations for section 1256 contracts and straddles are complex and involve a number of special situations that require special reporting. Furthermore, the IRS has not designed Form 6781 to adequately handle all the reporting requirements, so the IRS instructions for Form 6781 indicate a number of places where separate schedules must be provided in addition to the information provided on the form. It is therefore very important that you read the IRS instructions carefully and provide additional details in supporting statements for the additional lines that we provide, when appropriate. If there are terms in the instructions that you do not understand, we recommend the glossary at the end of IRS Pub. 550 (*Investment Income and Expenses*). We also recommend that publication for helpful examples in reporting straddles and section 1256 contracts.

**Check applicable elections.** You must identify here any elections you make for special treatment.

**A Mixed straddle election.** Answer Yes if you are electing now, or elected in the past, to have the mark-to-market rules not apply to section 1256 contracts that are part of a mixed straddle. Once you make this election it is irrevocable and you must use Part II of Form 6781, not Part I, of this form to report the section 1256 contracts in any mixed straddle. (A mixed straddle is one that includes section 1256 contracts but is not comprised solely of section 1256 contracts.)

**B Straddle-by-straddle identification election.** Answer Yes if you are electing now, or elected in the past, to report mixed straddles by identifying each position by either the close of the day when the

mixed straddle was established or the time the position was disposed of, whichever is earlier. Use Part I of Form 6781 only if the net gain or loss is attributable to any section 1256 positions. (This election is covered by Temporary Regulations section 1.1092(b)3T(d).)

**C Mixed straddle account election.** Answer Yes to establish one or more mixed straddle accounts for the year following the tax year of the return. Once you make the election, the annual net gain or loss from the account is reported in Part II of Form 6781. *CAUTION: You must itemize this line and provide a statement as required by the IRS Temporary Regulations section 1.1092(b)-4T(f), using only the text column of the support for your statement.*

**D Net Section 1256 Contracts Loss Election.** Answer Yes to elect to carry back 3 years any net loss from section 1256 contracts for the tax year. *(Partnerships are not eligible for this election, so the answer will always be No in the Form 1065 software.)*

**Itemize here to supply required foreign currency contract information.** *(Supported by the Foreign Currency Contracts Worksheet, Figure 2-53.)* Special rules apply to certain foreign currency contracts. If you make an election under IRS section 988(a)(1)(B) or 988(c)(1)(D), you must provide information about the contracts covered by the election(s) on the supplied worksheets.

**Foreign Currency Contracts Worksheet.** *(Figure 2-53)* You must complete this worksheet if you have any foreign currency contracts that apply to Form 6781.

- a. **Name of Contract(s).** Identify the contract by name.
- b. **Election Type.** Identify the election you are making and the IRS section under which it is made.

- c. **Gain or Loss.** Enter the gain or loss reported this year for the contract.
- d. **Reference to Form.** Identify the line or lines on Form 6781 where the gain or loss is reflected. Include the Part (I, II, or III), the section (if in Part II), and the line number on the form.

**FOREIGN CURRENCY CONTRACTS**  
Use this worksheet to list  
Contracts for which you made  
an election under section  
988(a)(1)(B) or 988(c)(1)(D).

- a. Names of Contract(s).....:
- b. Election Type.....:
- c. Gain or Loss.....
- d. Reference to Form.....:

0

On line d, identify (by Part, Column, and Line) where the gain or loss is reported.

Figure 2-53. Foreign Currency Contracts Worksheet

**PART I, SECTION 1256 CONTRACTS MARKED TO MARKET.** You must report here gains and losses for all section 1256 contracts open at the end of the year or closed out during the year, unless an election you previously identified exempts you from using Part I.

**1 Itemize to report contracts.** *(Supported by the Section 1256 Contracts Worksheet, Figure 2-54.)* You must identify all accounts in the worksheets that support this line, showing the gain or loss for each.

<p><b>SECTION 1256 CONTRACTS</b></p> <p>a. ID of account :</p> <p>Gain or loss..... 0</p> <p>b. Loss..... 0</p> <p>c. Gain..... 0</p>	<p><b>Section 1256 Contracts Worksheet.</b> <i>(Figure 2-54)</i> This worksheet supports line 1 of Form 6781, for reporting gains and losses, but all other details are entered in a separate supporting statement for the line</p>
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**Figure 2-54. Section 1256 Contracts**

that follows the access to this worksheet.

**a. Identification of account.** If you received a Form 1099-B for the account, enter here "Form 1099-B" and the broker's name. If you are reporting on an amended return a carryback from a year after 2014, enter "Loss carried back from" and the year. Otherwise, identify the account in 30 characters or less.

**Gain or loss.** Enter the net gain or loss for the year. If you received a Form 1099-B, this amount should be shown in box 13 of the form.

**b. Loss.** *(auto-calc)* If your entry was a loss, it is shown here as a positive number. Otherwise, zero.

**c. Gain.** *(auto-calc)* If your entry was a gain, it is shown here. Otherwise, zero.

**2 Add amounts on line 1.** Totals from the worksheets appear here:

**(b) Loss.** *(auto-calc)* Computed as the sum of losses on line b of all worksheets combined.

**(c) Gain.** *(auto-calc)* Computed as the sum of gains on line c of all worksheets combined.

**3 Net gain or loss.** *(auto-calc)* Computed as line 2(c) less line 2(b), this is the net gain or loss for section 1256 contracts before adjustments.

**4 Form 1099-B adjustments.** You may have to make an adjustment if you received a Form 1099-B with a straddle or hedging transaction. See IRS instructions to determine the adjustment to enter. *Itemize your adjustments in a supporting statement for this line with a description and amount for each adjustment.*

**5 Combine lines 3 and 4.** *(auto-calc)* Computed as indicated, this is the adjusted net gain or loss for section 1256 contracts.

**For Form 1065 software only:** Special handling provided for partnership returns. For partnership returns the amount on line 5 is posted to line 11 of Schedule K (Form 1065). (It is one of many components of line 11, labeled on the screen as "Code C – Section 1256 contracts." A partner's share will appear in box 11 of the partner's Schedule K-1 with the letter C beside the dollar amount.) Lines 6 through 9 are not applicable to partnership returns and are therefore always zero for the 1065 software.

**6 If you checked box D, enter amount of loss to be carried back.** (*For Form 1040 returns ONLY*) If have a "net section 1256 contracts loss" for the tax year, the election at line D, above, allows you to carry back all or part of the loss to the previous three tax years. You enter here the amount you choose to carry back, so that it will be removed from the loss used in the current tax year, and file amended returns for the prior years to include the elected carry back. *However, the meaning of the IRS term "net section 1256 contracts loss" is not intuitive.* You might think that it would be the amount on line 5, if a loss, but it is not! Instead, the appropriate loss is the lesser of (a) the loss remaining after adding \$3,000 (\$1,500 if married filing separately) to the net amount on line 5, and (b) the amount you would have figured as your loss carryover to the next tax year if line 6 of Form 6781 were zero. In other words, you cannot carry back *any* amount if the net of all other amounts on Schedule D is a gain that is within \$3,000 of the loss on line 5 (\$1,500 if married filing separately). The software prevents you from entering on line 6 any more than the amount of loss defined in (a), but you must consider (b) as well when making your entry. (*The loss is represented here as a positive number.*)

**7 Combine lines 5 and 6.** (*auto-calc*) Computed as the sum of lines 5 and 6 for Form 1040 returns, *but zero for Form 1065 returns.*

**8 Short-term capital gain or loss.** (*auto-calc*) Computed as 40% of the amount on line 7. *Note that 40% of the net gain or loss is considered short-term gain or loss irrespective of the dates involved.*

**9 Long-term capital gain or loss.** (*auto-calc*) Computed as 60% of the amount on line 7. *Note that 60% of the net gain or loss is considered short-term gain or loss irrespective of the dates involved.*

The amounts on lines 8 and 9 are posted to the appropriate lines of Schedule D (Form 1040), as summarized on the last screen of our Form 6781 for Form 1040 returns. (Lines 8 and 9 are zero for Form 1065 returns.)

**PART II, GAINS AND LOSSES FROM STRADDLES.** You must report here all recognized gains and losses from straddles for positions closed out or sold during the tax year. You will also include section 1256 contracts if they are part of a mixed straddle and you made the election described previously for box C. All results are automatically posted to Schedule D except for the items described in the following shaded paragraph.

**CAUTION:** Do not use the worksheets below for (a) section 988 contracts that are part of a mixed straddle or (b) any gain on termination of any position held as part of a conversion. Instead, report these transactions as follows:

(a) On Form 6781, report a loss in a supporting statement for the line "Itemize losses for 4797..." below line 11b, and report a gain in a supporting statements for line "Itemize gains for 4797..." below line 13b;

(b) On Form 4797, report the gain or loss in a worksheet for line 10; there is no automatic link between Form 6781 and Form 4797.

**Itemize this line to list each straddle and its components.** (*Supported by the Straddle Components Worksheet, Figure 2-55.*) For straddles with separate components, you must define each straddle you report in Part II by listing all components that make up the straddle. The details you provide on the supporting worksheet for this line are used only for purposes of defining each straddle, and not for determining any gain or loss. *Exception for e-file: The worksheet for this line is not supported for e-file. Therefore, if you must define components on this line, you must file a paper return instead.*

<p><b>STRADDLE COMPONENTS</b> Use this worksheet to identify components of complex straddle</p> <p>a. Type of Straddle.....:</p> <p>b. Component.....:</p> <p>c. Gain or loss..... 0</p>	<p><b>Straddle Components Worksheet.</b> (<i>Figure 2-55</i>) This worksheet is used to identify the components of complex straddles.</p> <p><b>a. Type of Straddle.</b> Identify the type of straddle in 30 characters or less.</p>
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Figure 2-55. Straddle Components Worksheet

- a. **Type of Straddle.** Identify the type of straddle in 30 characters or less.
- b. **Component.** Identify the component for which the gain or loss is entered on this worksheet in 30 characters or less.
- c. **Gain or loss.** Enter the net gain or loss for the year for the identified component.

**Section A—Losses from Straddles.** Report in this section only straddles, including mixed straddles, that result in a loss for the tax year.

- 10 Itemize losses from straddles.** (*Supported by the Losses from Straddles Worksheet, Figure 2-56.*) Report on the supporting worksheets all straddles resulting in a loss except those to be reported on Form 4797 (as described previously).
- 11a Short-term portion of losses from line 10(h).** (*auto-calc*) Computed as the sum of line (h) from all worksheets for line 10 identified as short-term losses.
- 11b Long-term portion of losses from line 10(h).** (*auto-calc*) Computed as the sum of line (h) from all worksheets for line 10 identified as Long-term losses, this is the total loss recognized for the tax year.
- 28% rate loss in line 11b.** (*auto-calc*) Computed as the sum of "Loss from collectibles" from all worksheets for line 10 identified as Long-term losses. This loss can offset gains that are taxed at a 28% rate.

**Itemize contracts in lines 11a and 11b.** *(Supported by the Contracts for Straddles Worksheet, Figure 2-57.)* You must separately report here losses that must be reported on Form 4797 instead of Schedule D, as detailed in the shaded paragraph above. **CAUTION:** *You must also report the loss on a worksheet for line 10 of Form 4797; posting to Form 4797 is not automatic.*

**Losses from Straddles Worksheet.** *(Figure 2-56)* This worksheet supports line 10 of Form 6781.

LOSSES FROM STRADDLES	
a.	Description of property..
	(only 18 long if paper return)
b.	Date entered into or acq
c.	Date closed out or sold
	Qualifies as long-term...? No
d.	Gross sales price..... 0
	Cost or other basis.. 0
	Expense of sale..... 0
e.	Cost or other basis plus. 0
	Prior unallowed loss. 0
f.	Loss..... 0
g.	Unrec gain on offset posn 0
h.	Recognized loss..... 0
	Loss from collectibles 0

**Figure 2-56. Losses from Straddles**

*characters here because it is accommodated by the IRS for an e-filed return, the IRS provides space for only 18 characters on a paper Form 6781, so keep your entry short for a paper return.*

- b. Date entered into or acquired.** Enter the date in the standard mo/dy/year format. The software will shorten it to a xx/xx/xx format in order to fit on the printed form.
- c. Date closed out or sold.** Enter the date in the standard mo/dy/year format, as above.
  - Qualifies as long-term?** Qualification for long-term treatment of straddles is not always clear from the dates. See IRS Pub. 550 for details and examples. (Holding periods are defined in Temporary Regulations section 1.1092(b)-2T.)
- d. Gross sales price.** Enter the closing price or sales price.
  - Cost or other basis.** Enter as indicated.
  - Expense of sale.** Enter expenses including commissions paid and nondeductible interest or carrying charges for personal property that is part of a straddle.
- e. Cost or other basis plus expense of sale.** *(auto-calc)* Computed as the sum of the preceding two lines.
  - Prior unallowed loss.** Make an entry here for a loss not allowed in the prior year, *only to the extent of the unrecognized gain for the position.*
- f. Loss.** *(auto-calc)* Computed as (e) less (d), but no less than zero, plus the prior loss on the preceding line.
- g. Unrecognized gain on offsetting positions.** Enter the unrecognized gain on positions offsetting those reported on this worksheet. See IRS instructions for details.

- h. **Recognized loss.** *(auto-calc)* Computed as (f) less (g), but no less than zero.  
**Loss from collectibles.** Enter only the loss for collectibles, gains for which are taxed at a 28% tax rate.

**CONTRACTS FOR STRADDLES**  
 Use this worksheet to report required additional info on gains & losses from straddles.

a. Name of Contract(s).....:  
 b. Description.....:  
 c. Holding Period..

Use next two lines if you are supporting lines 11a&b

d. Short Term Losses..... 0  
 e. Long Term Losses..... 0

Use next two lines if you are supporting lines 13a&b

f. Short Term Gains..... 0  
 g. Long Term Gains..... 0

**Contracts for Straddles Worksheet.** *(Figure 2-57)* One set of worksheets is used to support lines 11a and 11b (for losses from straddles), and a separate set of worksheets is used to support lines 13a and 13b (for gains from straddles).

**a. Name of Contract(s).** Identify the contract in 30 characters or less.

**b. Description.** Describe

Figure 2-57. Contracts for Straddles Worksheet

the contract in 30 characters or less.

- c. **Holding Period.** Enter the holding period in 25 characters or less.
- d. **Short Term Losses.** Enter the short-term loss for the contract, which should be included in line 11a. *If you reached the worksheet from the line "Itemize contracts in 13a & 13b," this entry will be forced to zero.*
- e. **Long Term Losses.** Enter the long-term loss for the contract, which should be included in line 11b. *If you reached the worksheet from the line "Itemize contracts in 13a & 13b," this entry will be forced to zero.*
- f. **Short Term Gains.** Enter the short-term gain for the contract, which should be included in line 13a. *If you reached the worksheet from the line "Itemize contracts in 11a & 11b," this entry will be forced to zero.*
- g. **Long Term Gains.** Enter the long-term gain for the contract, which should be included in line 13b. *If you reached the worksheet from the line "Itemize contracts in 11a & 11b," this entry will be forced to zero.*

**Section B—Gains from Straddles.** Report in this section only straddles, including mixed straddles, that result in a gain for the tax year.

**12 Itemize gains from straddles.** *(Supported by the Gains from Straddles Worksheet, Figure 2-58.)* Report on the supporting worksheets all straddles resulting in a gain except those to be reported on Form 4797 (as described previously).

**13a Short-term portion of gains from line 12(f).** *(auto-calc)* Computed as the sum of line (f) from all worksheets for line 12 identified as short-term gains.

**13b Long-term portion of gains from line 12(f).** *(auto-calc)* Computed as the sum of line (f) from all worksheets for line 12 identified as Long-term gains, this is the total gain recognized for the tax year.

**28% rate gain in line 13b.** *(auto-calc)* Computed as the sum of "Gain from collectibles" from all worksheets for line 12 identified as Long-term gains. This gain is taxed at a 28% rate.

**Itemize contracts in lines 13a and 13b.** *(Supported by the Contracts for Straddles Worksheet, Figure 2-57.)* You must separately report here gains that must be reported on Form 4797 instead of Schedule D, as detailed in the prior shaded paragraph. **CAUTION:** *You must also re-post the gain on a worksheet for line 10 of Form 4797; posting to Form 4797 is not automatic.*

**Gains from Straddles Worksheet.** *(Figure 2-58)* This worksheet supports line 12 of Form 6781.

**a. Description of property.** Describe the property along with the delivery date and whether it is a long or short position.

GAINS FROM STRADDLES	
a.	Description of property..
	(only 18 long if paper return)
b.	Date entered into or acq
c.	Date closed out or sold
	Qualifies as long-term...? No
d.	Gross sales price..... 0
	Cost or other basis.. 0
	Expense of sale..... 0
e.	Cost or other basis plus. 0
f.	Gain..... 0
	Gain from collectibles 0

Figure 2-58. Gains from Straddles

**CAUTION:** *We allow the entry of 30 characters here because it is accommodated by the IRS for an e-filed return. However, the IRS provides space for only 18 characters on a paper Form 6781, so you must keep your entry short for a paper return.*

**b. Date entered into or acquired.** Enter the date in the standard mo/dy/year format. The software will shorten it to a xx/xx/xx format in order to fit on the printed form.

**c. Date closed out or sold.** Enter the date in the standard mo/dy/year format, as above.

**Qualifies as long-term?** Unlike normal sales, qualification for long-term treatment is not always clear from your date entries. You must therefore determine qualification yourself and answer this question appropriately. See IRS Pub. 550 and Temporary Regulations section 1.1092(b)-2T for information on holding periods that qualify for long-term treatment for straddles.

- d. **Gross sales price.** Enter the closing price or sales price.  
**Cost or other basis.** Enter as indicated.  
**Expense of sale.** Enter expenses including commissions paid and nondeductible interest or carrying charges for personal property that is part of a straddle.
- e. **Cost or other basis plus expense of sale.** *(auto-calc)* Computed as the sum of the preceding two lines.
- f. **Gain.** *(auto-calc)* Computed as (d) less (e), but no less than zero.  
**Gain from collectibles.** Enter only the gain for collectibles, which are taxed at a 28% tax rate.

**PART III, UNRECOGNIZED GAINS FROM POSITIONS HELD ON LAST DAY OF TAX YEAR.** The part is used as a memorandum to the IRS, and does not otherwise affect the return. You are required to use this part only if you have a recognized loss on some position (including regulated futures contracts).

- 14 **Itemize unrecognized gains.** *(Supported by the Unrecognized Gains Worksheet, Figure 2-59.)* You must generally list all positions held at the end of the tax year for which the fair market value (FMV) exceeds your adjusted basis. See IRS instructions for exceptions.  
**Itemize here to file additional information.** Itemize this line to provide any other memorandum-type information to the IRS.

<p><b>UNRECOGNIZED GAINS</b></p> <p>a. Description of property..:</p> <p>(only 25 long if paper return)</p> <p>b. Date entered into or acq</p> <p>c. FMV on last bus day of yr</p> <p>d. Cost or other basis adj'd</p> <p>e. Unrecognized gain.....</p>	<p style="text-align: right;">0</p> <p style="text-align: right;">0</p> <p style="text-align: right;">0</p>	<p><b>Unrecognized Gains Worksheet.</b> <i>(Figure 2-59)</i> Report only unrecognized gains for positions held at year-end for which the FMV exceeds your basis.</p> <p><b>a. Description of property.</b> Describe the</p>
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**Figure 2-59. Unrecognized Gains**

- a. **Description of property.** Describe the position in 30 characters or less (no more than 25 characters for a paper return because of the limited space on the printed form) .
- b. **Date entered into or acquired.** Enter the date in the standard mo/dy/year format. The software will shorten it to a xx/xx/xx format in order to fit on the printed form.
- c. **FMV on last business day of tax year.** Enter the fair market value as indicated.
- d. **Cost or other basis as adjusted.** Enter the adjusted basis for the position.
- e. **Unrecognized gain.** *(auto-calc)* Computed as (c) less (d), but no less than zero.

**Posting to Schedule D.** This section summarizes the automatic posting of results on Form 6781 to Schedule D. Posting for Form 1065 returns differs from that for Form 1040 returns because of the special instructions for partnerships in Part I of Form 6781.

**Posting for Form 1040 returns:**

**Amount from Parts I and II for Schedule D, line 4.** *(auto-calc)* Computed as the combination of lines 8, 11a, and 13a, this is the net short-term gain or loss for the entire year.

**Amount from Parts I and II for Schedule D, line 11.** *(auto-calc)* Computed as the combination of lines 9, 11b, and 13b, this is the net long-term gain or loss for the entire year.

**28% rate amount for Schedule D, Part II.** *(auto-calc)* Computed as the "28% rate gain in line 13b" less "28% rate loss in line 11b," this is the net 28% rate gain or loss (collectibles gain or loss).

**Posting for Form 1065 returns:**

**Amounts from Part I do not appear here.** Part I, line 5 is posted directly to line 11 of Schedule K (Form 1065), and is therefore not shown here.

**Amount from Part II for Schedule D, line 4.** *(auto-calc)* Computed as the combination of lines 11a and 13a, this is the net short-term gain or loss for the entire year reported in Part II.

**Amount from Part II for Schedule D, line 11.** *(auto-calc)* Computed as the combination of lines 11b and 13b, this is the net long-term gain or loss for the entire year reported in Part II.

**28% rate amount for Schedule D, Part II.** *(auto-calc)* Computed as the "28% rate gain in line 13b" less "28% rate loss in line 11b," this is the net 28% rate gain or loss (collectibles gain or loss).

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8283 / Noncash Charitable Contributions

**Who is it for?** This form is used to report information that the IRS requires when your deduction for all noncash gifts combined exceeds \$500. The form is not computational, and has no results for Schedule A, where noncash gifts are reported on line 17. Rather, it is a form to help the IRS in auditing non-cash transactions and assessing the validity of claims for charitable deductions. If you have questions about what is deductible and how much detail you should provide on this form, see IRS Pub. 526 (*Charitable Contributions*), IRS Pub. 561 (*Determining the Value of Donated Property*), and the IRS instructions for Form 8283. Form 8283 is accessible through the Road Map below line 17 of Schedule A.

**SECTION A. DONATED PROPERTY OF \$5,000 OR LESS AND CERTAIN PUBLICLY TRADED SECURITIES.** Report all smaller contributions here – those valued less than \$5,000 per item or group of similar items – and certain publicly traded securities of any value. Securities that must be reported here include most stocks, bonds, and mutual funds that are traded in the open market – specifically, **(a)** those listed on an exchange that has daily published quotes, **(b)** those regularly traded in an over-the-counter market that has published quotes, and **(c)** those that are shares of a mutual fund that has daily published quotes in a general circulation newspaper.

**Some items must be figured as a group.** When deciding whether to report a donated item in Section A or Section B, you must combine similar items into groups. Furthermore, similar items are considered to be part of the same group even when individual members of the group are donated to different donees. (Groups specifically cited by the IRS include *coin collections, paintings, books, clothing, jewelry, nonpublicly traded stock, land, and buildings.*) For example, if you donate one \$3,000 painting to one church and another \$3,000 painting to another church, you must use Section B (for donated property over \$5,000) even though each individual donation is less than \$5,000.

**PART I – INFORMATION ON DONATED PROPERTY.** In this part you must provide details about each and every donated property reported in Section A, using the worksheets that support line 1, which is the only numbered line in this part.

**1 Itemize required information here.** (*Supported by the Section A Donated Property Worksheet, Figures 2-60 and 2-61.*) Complete a separate worksheet for each separate property. You can group together similar items only if acquired on the same date and donated on the same date, even if they are in the same group for the purposes of deciding whether to report them in Section A or Section B.

**If either of these is Yes:**

**Required to reduce FMV?** *(auto-calc)* The answer will be Yes if any of the worksheets that support line 1 have a Yes for the corresponding question below line i of the worksheet. Otherwise, No.

**Qualified conservation contribution?** *(auto-calc)* The answer will be Yes if any of the worksheets that support line 1 have a Yes for the corresponding question below line i of the worksheet. Otherwise, No.

... **detail in a supporting statement here.** If either answer above is Yes, provide required information in a supporting statement for this line as detailed below our details for line i of the *Section A Donated Property Worksheet*. ***Restriction for e-file:*** *If a supporting statement is required here, you will not be able to e-file the return. Instead, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

**If either of these is Yes:**

**Form 1098-C received?** *(auto-calc)* The answer will be Yes if any of the worksheets that support line 1 have a Yes for the corresponding question below line b of the worksheet. Otherwise, No.

**Equivalent statement received?** *(auto-calc)* The answer will be Yes if any of the worksheets that support line 1 have a Yes for the corresponding question below line b of the worksheet. Otherwise, No.

... **detail in a supporting statement here.** If either answer above is Yes, you must attach a copy of the indicated document to the return and so indicate in a supporting statement for this line. ***Additional steps for e-file:*** *If a supporting statement is required here, you must mail Form 8453 to the IRS with a copy of the indicated document attached within 3 business days after receiving acknowledgement that the IRS has accepted the e-filed return. See the shaded box that follows our details for line b for more information.*

**ITEMIZE any other information HERE (for paper returns).** Provide any other information you need to give the IRS relative to line 1 in a supporting statement for this line. ***CAUTION for e-file:*** *Any support you provide here is not made a part of the e-file output, so this line is relevant only to paper returns.*

**PART II – PARTIAL INTERESTS AND RESTRICTED USE PROPERTY.** In this part of *Section A* you must provide additional information about those properties reported in Part I for which you donated only a partial interest or upon which you placed restrictions. This information is entered on the same worksheets that you access at line 1.

**Line 3a through 3b.** The questions on lines 3a through 3c of the *Section A Donated Property Worksheets* are special because a Yes answer to any of them generally requires a supporting explanation. This section of the form (screen 2 of Form 8283) is intended for this purpose. Your answers are entered on the worksheets, using a separate worksheet for each property. If any of the work-

sheets has a Yes answer to a question, a Yes answer will appear below for that question and you should explain by itemizing the line below that question:

**3a Is there a restriction, either temporary or permanent, on the donee's right to use or dispose of the donated property?** *(auto-calc, supported by the Section A Partial Interest Worksheet, Figure 2-61)* An example of such a restriction would be that the property must not be sold within 5 years after the donation.

**If Yes, ITEMIZE statement here.** See the IRS instructions for lines 3a through 3c for the information that must be included in a supporting statement for this line.

**3b Did you give to anyone else the right to income from or possession of the property?** *(auto-calc, supported by the Section A Partial Interest Worksheet, Figure 2-61)* An example of such a right is giving the right to vote donated securities or to purchase or otherwise acquire the property.

**If Yes, ITEMIZE statement here.** See the IRS instructions for lines 3a through 3c for the information that must be included in a supporting statement for this line.

**3c Is there a restriction limiting the donated property to a particular use?** *(auto-calc, supported by the Section A Partial Interest Worksheet, Figure 2-61)* An example of this restriction would be that the property must be used for a particular project or in a particular division of the donee organization.

**If Yes, ITEMIZE statement here.** See the IRS instructions for lines 3a through 3c for the information that must be included in a supporting statement for this line.

**Section A Donated Property Worksheet.** *(Figures 2-60 and 2-61)* These worksheets support lines 1 through 3 of Form 8283, which is all of page 1 of the form. You must provide the details on this worksheet for all property reported in Section A.

## **PART I INFORMATION ON DONATED PROPERTY**

**PROPERTY LETTER IDENTIFIER.** *(auto-calc)* Each worksheet is identified by a letter that corresponds with the page number. For example, letters A, B, C, etc., correspond to worksheet pages 1, 2, 3, etc. 2-character identifiers are used, so letters A through Z identify pages 1 through 26, AA through AZ identify pages 27 through 52, BA through BZ identify pages 53 through 78, etc. The identifier is used in line 2a of Form 8283 (Section A, Part II) to identify the property to which lines 2a through 3c apply.

**1a Name of the donee organization.** Enter the name of the organization to which you donated the property in 25 characters or less.

**Address of the donee organization.** Only U.S. addresses are supported by the software for e-file. *If you must enter a foreign address, you must file a paper return including Form 8948, citing the limitation in an explanation for line 6c of Form 8948.*

**Street address.** Enter the U.S. street address in 25 characters or less.

**City.** Enter the U.S. city in 22 characters or less.

**State.** Enter the standard 2-letter code for the state.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**1b Is the donated property a vehicle?** If Yes, you must complete line b, below.

**Vehicle VIN.** If your answer to the preceding question is Yes, enter the vehicle's VIN (Vehicle Identification

Number) in 17 characters or less. It will generally be a 17-character combination of letters and numbers. You can generally find the vehicle's VIN on the vehicle itself, its registration, its title,

or its insurance. *TIP:* You do not have to complete this line if you received and are attaching a Form 1098-C for this vehicle from the donee.

**Form 1098-C received?** If Yes, you must attach a copy of the Form 1098-C to the return, and so indicate in a supporting statement for the appropriate line below line 1 of our on-screen Form 8283. For an e-file return, see the following shaded box.

**Equivalent statement received?** If Yes, you must attach a copy of the statement to the return, and so indicate in a supporting statement for the appropriate line below line 1 of our on-screen Form 8283. For an e-file return, see the following shaded box.

```

I INFO ON DONATED PROPERTY
PROPERTY LETTER IDENTIFIER... A
1a Name donee org'n
Street address..
City.....
State.....
ZIP code.....
1b Is donated propy a vehicle? No
If Y, include model, cond'n
& mileage above, & enter:
Vehicle VIN.....
Form 1098-C received.....? No
Equiv. stmt. received.....? No
If Yes to either, attach to rtn
1c Description.....
[Press PageDown for 1d to 1i.]

PART I continued
d. Date of contribn mo/dy/yr
e. Date acqd by donor (mo/yr)
f. Donor's cost/adj. basis... 0
h. Fair market value..... 0
i. Method used.....
Required to reduce FMV...? No
Qlfd conservation contribn? No
If Yes to either, attach stmt.
[Press PageUp for 1a to 1c.]
[Press PageDown for 2a-e,3a-c]
    
```

Figure 2-60. Section A Donated Property Worksheet, Screens 1 & 2

**Form 8453 required if either answer above is Yes.** If you *e-file* the return and you answered Yes to either of the preceding two questions, a Yes will automatically appear in the *Paper Attachments* section of our *e-file Form* (on the line labeled "1098-C or equiv., Donated Vehicle") and the appropriate box on the printed Form 8453 will be checked. You must mail Form 8453 to the IRS with a copy of the document attached within 3 business days after receiving acknowledgement that the IRS has accepted the e-filed return. See the details for our *e-file Form* (at the end of this chapter) for information on Form 8453.

**CAUTION: Supporting statement below line 1 on screen 1 of Form 8283 also required.** Due to a defect in the IRS e-file specifications, you must itemize the appropriate line below line 1 of our on-screen Form 8283 to explain that you are sending the document(s) with Form 8453. *Otherwise, the return will be rejected by the IRS* even though the e-file output already contains the information on Form 8453 that the document will be sent.

**1c Description.** Describe the property in 30 characters or less. If a vehicle, include the model, condition, and mileage.

**1d Date of contribution (mo/dy/year).** Enter the date in the standard mo/dy/year format. The software will shorten it to a xx/xx/xx format in order to fit on the printed form.

**1e Date acquired by donor (mo/year).** Enter the approximate date the property was actually acquired by the donor, entering only the month and year (not the day). If acquired in more than one month, enter VARIOUS.

**1f How acquired by donor.** Indicate how you acquired the property, such as purchase, gift, or exchange, in 10 characters or less.

**1g Donor's cost or adjusted basis.** You need not make an entry for publicly traded securities or for any property held at least 1 year.

**1h Fair market value.** Enter the fair market value (FMV) of the property on the date you donated it.

**1i Method used.** Indicate how you determined the FMV, such as appraisal, catalog, comparable, or store value, in 25 characters or less.

**Required to reduce FMV?** Answer Yes only if you were required to reduce the FMV you entered for line h to conform with the IRS instructions on page 2 of the IRS *2013 Instructions for Form 8283*. You must also show how you figured the reduction in a supporting statement for the appropriate line below line 1 of our on-screen Form 8283. *For an e-file return, see the following shaded box.*

**Qualified conservation contribution?** Answer Yes only if you donated the property exclusively for certain conservation purposes as described on page 2 of the IRS *2013 Instructions for Form 8283*. You must also provide certain details in a supporting statement for the appropriate line below line 1 of our on-screen Form 8283. *For an e-file return, see the following shaded box.*

**Paper return required if you answered Yes to either question.** The software does not support the special e-file formats for the statements required when you answer Yes to either of the preceding two questions. Instead, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.

**PART II PARTIAL INTERESTS AND RESTRICTED USE PROPERTY.**

**Does Part II apply to this property?** Answer Yes only if you are completing lines 2a through 2e and/or lines 3a through 3c. *If the answer is No, none of the information you enter on the following lines will appear on an official printout.*

**2a Letter from Part I. (auto-calc)** If you answered Yes above, the letter on screen 1 of this worksheet will appear here. Otherwise, the entry is blank.

**2b Total amount claimed as a deduction for the property:**

**b(1) Amount for this tax year.** Enter only the amount deducted for the tax year of the return.

**b(2) Amount for any prior tax years.** Enter the total of amounts deducted in all prior years combined.

**2c Name any prior donee or organization.**

You must identify any other donee to whom you donated a partial interest in the property in a prior year. Enter the name here (in 25 characters or less) and the address in the following lines. *Do not complete these lines if the prior donee is the same as the current donee.*

```

II PARTIAL OR RESTRICTED
Does Part II apply to property?
2a Letter from Part I.....
2b(1) Amount claimed this year           0
2b(2) Amount claimed prior yrs          0
2c If prior donee different:
    Name prior donee
    Street address..
    City.....
    State.....
    ZIP code.....
2d If tangible, place kept...
2e Possessor other than donee
3a Restriction on donee right
    to use/dispose of property? No
3b Gave to anyone else right
    to inc/posseasn of property? No
3a Restriction limiting pro-
    perty for a particular use? No
If Yes to any, see instructions
    
```

Figure 2-61. Section A Donated Property Worksheet, Screen 3

**Street address.** Enter the street address in 2530 characters or less.

**City.** Enter the city in 22 characters or less.

**State.** Enter the standard 2-letter code for the state.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**2d If tangible property, enter the place the property is located or kept.** For tangible property only, enter the physical location of the property in 15 characters or less.

**2e Name of actual possessor of the property.** Only for property not possessed by the donee, enter the name of the person who has actual possession of the property (in 15 characters or less).

**3a Is there a restriction on donee's right to use or dispose of the property?** See IRS instructions for examples.

**3b Did you give to anyone (other than the donee) the right to income from the property or possession of the property?** See IRS instructions for examples.

**3c Is there a restriction limiting the property for a particular use?** See IRS instructions for examples.

If your answer to line 3a, 3b, or 3c is Yes, you may have to explain in a supporting statement. When you return from the worksheets, see screen 2 of Form 8283 for access to the support that may be required.

**SECTION B. DONATED PROPERTY OVER \$5,000 (EXCEPT CERTAIN PUBLICLY TRADED SECURITIES).** Report all larger contributions here – those valued at more than \$5,000 per item or group of similar items – except certain publicly traded securities, which are reported in Section A. The property in this section must usually be supported by a written appraisal, and the appraiser must sign a legal statement on this form. Section B is designed by the IRS for a single donor, so you will have to prepare additional copies of Form 8283, Section B, if you contributed to more than one donor in 2014 for which Section B must be used. (The IRS also instructs you to prepare a separate Section B for separate groups of dissimilar property.) *TIP: Since the software only supports one copy of Form 8283, you will have to do this using a separate mock return with only name(s) and SSN(s) completed on Form 1040 for each additional Form 8283 that you need to prepare. No additional steps are required because the form is a stand-alone form that does not affect any other form in the return. Restriction for e-file: The software does not support additional copies of Form 8283 for e-file, so if you need to prepare an additional copy of Form 8283, Section B, you will have to file a paper return. Be sure to include Form 8948 with the return, citing this limitation at line 6c of Form 8948.*

**PART I – INFORMATION ON DONATED PROPERTY.** In this part you must provide details about each and every donated property reported in Section B, using the worksheets that support line 5.

**4 Type of property.** You should check only one box since the IRS instructs you to prepare a separate Form 8283, Section B, for each type of property donated. See the preceding *TIP* and *Restriction for e-file* if you donated more than one type of property for Section B.

**α Art (contribution of \$20,000 or more).** Answer Yes only if the art totals \$20,000 or more. Use line d for art totalling less than \$20,000. The IRS definition of “Art” is quite broad. It includes paintings, sculptures, watercolors, prints, drawings, ceramics, antiques, decorative

arts, textiles, carpets, silver, rare manuscripts, or historical memorabilia.

- b Qualified Conservation Contribution.** Answer Yes only if you donated the property exclusively for certain conservation purposes as described on page 2 of the *IRS 2014 Instructions for Form 8283*. You must also provide certain details in a supporting statement for the line "ITEMIZE any other info here" below line 5 of our on-screen Form 8283. *For an e-file return, see the following shaded box.*

**Paper return required if you answered Yes to line 4b.** The software does not support the special e-file formats for the statements required when you answer Yes to line 4b (Qualified Conservation Contribution). Instead, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.

- c Equipment.** Includes office equipment and industrial machinery.
- d Art (contribution of less than \$20,000).** Answer Yes only if the art totals less than \$20,000. Use line a for art totalling \$20,000 or more. The IRS definition of "Art" is quite broad. It includes paintings, sculptures, watercolors, prints, drawings, ceramics, antiques, decorative arts, textiles, carpets, silver, rare manuscripts, or historical memorabilia.
- e Other Real Estate.** Answer Yes only for real estate for which line b does not apply.
- f Securities.** Answer Yes only for securities not reportable in Section A of Form 8283. Most stocks, bonds, and mutual funds that are traded in the open market are reported in Section A, not here, irrespective of total value.
- g Collectibles.** Includes coins, stamps, books, gems, jewelry, sports memorabilia, and dolls that are not reportable in line a or d as "Art."
- h Intellectual property.** This is intangible property that has a value.
- i Vehicles.** If Yes, you must generally attach a copy of Form 1098-C or equivalent statement to the return and so indicate on a worksheet for line 5. See details of the *Section B Donated Property Worksheet* for more information and requirements.
- j Other.** Answer Yes only if the contributed property does not fit into categories a through i.

- 5 Itemize required information here.** *(Supported by the Section B Donated Property Worksheet, Figure 2-62.)* Complete a separate worksheet for each separate property. You can group together similar items only if donated on the same date, even if they are in the same group for the purposes of deciding whether to report them in Section A or Section B.

**If either of these is Yes:**

**Form 1098-C received?** *(auto-calc)* The answer will be Yes if any of the worksheets that support line 1 have a Yes for the corresponding question below line b of the worksheet. Otherwise, No.

**Equivalent statement received?** *(auto-calc)* The answer will be Yes if any of the worksheets that support line 1 have a Yes for the corresponding question below line b of the worksheet. Otherwise, No.

**... detail in a supporting statement here.** If either answer above is Yes, you must attach a copy of the indicated document to the return and so indicate in a supporting statement for this line. *Additional steps for e-file:* If a supporting statement is required here, you must mail Form 8453 to the IRS with a copy of the indicated document attached within 3 business days after receiving acknowledgement that the IRS has accepted the e-filed return. See the shaded box that follows our details for line b for more information.

**ITEMIZE any other information HERE (for paper returns).** Provide any other information you need to give the IRS relative to line 5 in a supporting statement for this line. *CAUTION for e-file:* Any support you provide here is not made a part of the e-file output, so this line is relevant only to paper returns.

**Section B Donated Property Worksheet.** *(Figure 2-62)* These worksheets support line 5 of Form 8283, where the details of individual donated items are entered.

**PROPERTY LETTER IDENTIFIER.** *(auto-calc)* Each worksheet is identified by a letter that corresponds with the page number. For example, letters A, B, C, etc., correspond to worksheet pages 1, 2, 3, etc. 2-character identifiers are used, so letters A through Z identify pages 1 through 26, AA through AZ identify pages 27 through 52, BA through BZ identify pages 53 through 78, etc.

```

SECTION B DONATED PROPERTY
PROPERTY LETTER IDENTIFIER
If vehicle, enter model/yr.
in a, mileage in b, & answer
Form 1098-C received.....? No
Equiv. stmt. Received.....? No
If Yes to either, attach
it to the tax return.
a. Description :
b. If tangible, condition....:
c. Appraised fair mkt value.. 0
d. Date donor acq'd (mo.yr)
e. How acquired by donor....
f. Donor's cost/adj. basis.. 0
g. For bargain sales, $ rcvd.. 0
h. Deduction claimed..... 0
i. Date of contribution.....

```

**If a vehicle:**  
**Form 1098-C received?** If Yes, you must attach a copy of the Form 1098-C to the return, and so indicate in a supporting statement for the appropriate line below line 5 of our

Figure 2-62. Section B Donated Property Worksheet

on-screen Form 8283. *For an e-file return, see the following shaded box.*

**Equivalent statement received?** If Yes, you must attach a copy of the statement to the return, and so indicate in a supporting statement for the appropriate line below line 5 of our on-screen Form 8283. *For an e-file return, see the following shaded box.*

**Form 8453 required if either answer above is Yes.** If you *e-file* the return and you answered Yes to either of the preceding two questions, a Yes will automatically appear in the *Paper Attachments* section of our *e-file Form* (on the line labeled "1098-C or equiv., Donated Vehicle") and the appropriate box on the printed Form 8453 will be checked. You must mail Form 8453 to the IRS with a copy of the document attached within 3 business days after receiving acknowledgement that the IRS has accepted the e-filed return. See the details for our *e-file Form* (at the end of this chapter) for information on Form 8453.

**CAUTION: Supporting statement below line 5 on screen 5 of Form 8283 also required.** Due to a defect in the IRS e-file specifications, you must itemize the appropriate line below line 5 of our on-screen Form 8283 to explain that you are sending the document(s) with Form 8453. *Otherwise, the return will be rejected by the IRS* even though the e-file output already contains the information on Form 8453 that the document will be sent.

- a Description.** Describe the property in 30 characters or less. If a vehicle, enter the make, model, and year.
- b If tangible property, condition.** Describe the condition of the property in 30 characters or less. If a vehicle, include the mileage.
- c Appraisal fair market value.** If you have an appraisal, use the FMV in the appraisal. Otherwise, make your own reasonable estimate.
- d Date acquired by donor (mo/yr).** Enter the approximate date the property was actually acquired by the donor, entering only the month and year (not the day). If acquired in more than one month, enter VARIOUS.  
*CAUTION: If you have a good reason for not completing lines d through f, explain in a supporting statement for the line "ITEMIZE any other info" on screen 5 of Form 8283. However, you will not be able to e-file the return in this case. You must instead file a paper return including Form 8948 with an explanation on line 6c of Form 8948.*
- e How acquired by donor.** Explain how you transferred the property to the donor in 11 characters or less (such as delivered, picked up, etc.)
- f Donor's cost or adjusted basis.** Enter the basis that the donor would report if the donor sold the property acquired.
- g For bargain sales, enter amount received.** In this context, a "bargain sale" is a transfer that is a mixture of a sale and a contribution.
- h Deduction claimed.** Enter zero if you were required to get an appraisal. Otherwise, enter the amount you will claim on Schedule A as an itemized deduction.
- i Date of contribution.** Leave blank if you were required to get an appraisal. Otherwise, enter the date in the mm/dd/yyyy format.

**PART II – TAXPAYER (DONOR) STATEMENT.** Part II contains a statement that the taxpayer (donor) must sign concerning items in Part I that have a value of \$500 or less:

I declare that the following item(s) in Part I above has to the best of my knowledge and belief an appraised value of not more than \$500 (per item). The donor must sign and date this statement on the official printout of Form 8283.

**Identifying letter(s) from Part I.** Enter all identifying letters on the worksheets that support line 5 for which the FMV is no more than \$400 separated by spaces. If you need to enter more than 2 letters, you should do so in a supporting statement for this line because any entry longer than four characters will be overwritten by your entry on the following line. *Exception for e-file: For e-file, only one or two letters are allowed because of restrictions in the IRS e-file format. If you need to enter more than 2 letters you must file a paper return including Form 8948, citing this restriction in line 6c of Form 8948.*

**Describe.** Describe the identified item(s) in 25 characters or less. For a paper return, use a supporting statement for this line if you need more room. (The IRS does not support a supporting statement at this line in its e-file specifications.)

**PART III – DECLARATION OF APPRAISER.** You must generally get a written appraisal from a qualified appraiser for property that you must report in Section B. Exceptions include certain securities with readily available market quotations, nonpublicly traded stock of \$10,000 or less, and intellectual property. See the IRS instructions for Section B, Part I, for other exceptions. If an appraisal is required, the appraiser must sign and date the statement in Part III of the official printout of Form 8283. The information collected on the following lines will appear below the signature.

**Name (first & last).** Enter the name of the appraiser in 25 characters or less. *Special format for e-file: In order to conform with IRS e-file requirements, you must restrict the first name to the first 10 characters of the entry and the last name to the last 15 characters of the entry.*

**Title.** Enter the professional title of the appraiser in 15 characters or less.

**Date Signed.** Enter the date in the standard mo/dy/year format.

**Identifying Number (SSN or EIN).** Enter the taxpayer identification number of the appraiser in the standard xxx-xx-xxxx or xx-xxxxxxx format.

**Business Address.** Enter the street address of the appraiser in 35 characters or less.

**City or town.** Enter the city in 22 characters or less.

**State.** Enter the standard 2-letter code for the state.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

Additional instructions for e-file: If an appraisal applies and you e-file the return, you must so indicate by a Yes answer to "Form 8283, Appraisal Summa-

ry" in the *Paper Attachments* section of our *e-file Form*. You must mail Form 8453 to the IRS with a copy of the document attached within 3 business days after receiving acknowledgement that the IRS has accepted the e-filed return. Include an official printout of Form 8283, page 2, bearing the appraiser's signature in Part III. See the details for our *e-file Form* (at the end of this chapter) for information on Form 8453.

**PART IV – DONEE ACKNOWLEDGMENT.** The donee must affirm that it is a qualified organization and will comply with IRS regulations concerning the donation. The donee must sign and date the statement in Part IV of the official printout of Form 8283. The information collected on the following lines will appear above the signature.

**Organization received the property on (date).** Enter the date of the donation in the standard mo/dy/year format.

**Does the organization intend to use the property for an unrelated use?**

This question applies only to tangible property. *If Yes, your deduction may be limited.* In addition, there may be a recapture of part of your prior deduction if the donee sells the property within 3 years of receiving it. See IRS instructions for details.

**Name of charitable organization (donee).** Enter the name of the business name of the donee in 35 characters or less.

**Address.** Enter the street address of the donee in 35 characters or less.

**City or town.** Enter the city in 22 characters or less.

**State.** Enter the standard 2-letter code for the state.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**Employer identification Number.** Enter the EIN of the donee in the standard xx-xxxxxxx format.

Additional instructions for e-file: If and you *e-file* the return, you must indicate that the donee has signed Part IV by a Yes answer to "*Form 8283, Appraisal Summary*" in the *Paper Attachments* section of our *e-file Form*. You must mail Form 8453 to the IRS with a copy of the document attached within 3 business days after receiving acknowledgement that the IRS has accepted the e-filed return. Include an official printout of Form 8283, page 2, bearing the donee's signature in Part IV along with a contemporaneous written acknowledgement. See the details for our *e-file Form* (at the end of this chapter) for information on Form 8453.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 8332\* / Release/Revocation of Claim to Exemption for Child by Custodial Parent

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to support a claim for a dependent exemption (at line 6c of Form 1040) for a child of divorced or separated parents when the either the noncustodial parent is claiming the exemption or the custodial parent who previously released his or her claim is now claiming the exemption. (By the IRS definition for this form, separated parents *includes parents who never married* if the parents lived apart for the entire second half of the tax year.) This multipurpose form must be signed by the custodial parent and

- (a) attached to the tax return of the noncustodial parent who claims the child for the year(s) specified in Part I and/or Part II of the form, or
- (b) attached to the tax return of the custodial parent who claims the child, but previously released his or her claim for an exemption, for the year(s) specified on the form in Part III (and must give a copy of the form to the noncustodial parent a year in advance of the first applicable tax year).

The parent who claims the exemption must still meet all other requirements for an exemption; *only the custody requirement is excepted or reinstated by this signed release*. A separate Form 8332 must be prepared for each child. Five copies of Form 8332 are built into the software for this purpose. Form 8332 is *accessible through the Road Map below line 6d of our Form 1040*.

**Special filing for e-file: Paper Form 8453 with Form 8332 attached.** Because Form 8332 often requires a signature other than the taxpayer's signature, it cannot be filed electronically. For any return that requires the attachment of Form 8332, you must use the following procedure involving our *e-file Form* (form 90 on the Forms Menu):

- (1) On screen 6 of our e-file form, answer Yes to "Form 8332, Exempt Non-cust Parent?" in the *Paper attachments* section.
- (2) On screen 5 of our e-file form, answer No to "Omit Form 8453?" in the *Paper Printout Options* section.
- (3) If you do not already have a signed copy of the applicable Form 8332, you can complete it with this software. You should then generate an official printout of the form and have it signed by the custodial parent sign it (which would be you if you are using Part III of Form 8332).
- (4) Once the return is complete, print an official paper copy of Form 8453 from our *PRINT Official Returns* option.
- (5) After you e-file the return and receive acknowledgement of its acceptance by the IRS, you must mail the paper Form 8332 (or other accepted documentation) along with Form 8453 as a cover page to the address listed in the Form 8453 instructions. *You must do this within 3 business days of acceptance of the e-file return by the IRS.*

**Exceptions to filing Form 8332.** If the divorce decree or separation agreement went into effect prior to 2009, the parent who is claiming an exemption for the child may be able to attach certain pages of the decree or agreement in lieu of Form 8332. To qualify, the decree or agreement must have gone into effect after 1984 and the pages submitted are substantially similar to Form 8332. (The use of Form 8332 is *mandatory* for a decree or agreement after 2008.)

**IDENTIFY CHILD AND PARENTS.** For each copy of Form 8332 you must identify the child, the custodial parent, and the noncustodial parent.

**Copy number (1 through 5).** *(auto-calc)* This is the copy you selected when you entered the form. You must file a separate Form 8332 for each separate child.

**Name of child for this copy.** The child must be the child of divorced or separated (whether or not married) parents.

**First name.** Enter the child's first name in 10 characters or less.

**Last name.** Enter the child's last name in 15 characters or less.

**Filing status on return.** *(auto-calc)* Taken from screen 4 of Form 1040, page 1, certain automation on the form differs when married filing jointly (filing status 2).

**If 2 (MFJ), is spouse the parent?.** You can answer Yes here only if married filing jointly. You must indicate only the parent who is a party to the divorce or separation decree that relates to the child. The name and SSN of the proper parent is then taken from Form 1040 for use in printouts of this form.

**Information on other parent.** You must supply here information on the parent who is *not* a party to the tax return being prepared.

**Is this the custodial parent?** The custodial parent is generally the parent with whom the child lived for the most nights during the tax year. If the child lived with each parent for the same number of nights, it is the parent with the higher adjusted gross income (AGI).

**First name.** Enter the child's first name in 10 characters or less.

**Last name.** Enter the child's last name in 15 characters or less.

**SSN.** Enter the social security number of the other parent in the standard xxx-xx-xxxx format. This is a required entry.

**Noncustodial parent.** The other parent is identified here if the answer is No to "Is this the custodial parent?" Otherwise, the spouse is identified here if the answer is Yes to "If 2 (MFJ), is spouse the parent?" Otherwise, the taxpayer for the return being prepared is identified here. The information for these lines is taken from Form 1040 if you or spouse are the noncustodial parent. Otherwise, taken from the above entries for the other parent.

**First name.** *(auto-calc)* Taken from Form 1040 or the above entries.

**Last name.** *(auto-calc)* Taken from Form 1040 or the above entries.

**SSN.** *(auto-calc)* Taken from Form 1040 or the above entries.

The name and SSN of the noncustodial parent is printed at the top of the printed Form 8332.

**Signing custodial parent.** For all parts of the form, the custodial parent must sign. The other parent is identified here if the answer is Yes to "Is this the custodial parent?" Otherwise, the spouse is identified here if the answer is Yes to "If 2 (MFJ), is spouse the parent?" Otherwise, the taxpayer for the return being prepared is identified here. The information for these lines is taken from Form 1040 if you or spouse are the custodial parent. Otherwise, taken from the above entries for the other parent.

**First name.** *[auto-calc]* Taken from Form 1040 or the above entries.

**Last name.** *[auto-calc]* Taken from Form 1040 or the above entries.

**SSN.** *[auto-calc]* Taken from Form 1040 or the above entries.

**Date signed.** You can leave this entry blank if the other parent is signing or you do not know when you will sign. The signer will then write the date next to his or her signature.

The name and SSN of the custodial parent is printed in Parts I, II, or III, whichever applies, and the custodial parent must sign the applicable part and deliver a copy to the noncustodial parent.

**Custodial parent's statements.** In signing the form, the custodial parent is affirming one of the following three statements, corresponding to the three parts of the form.

**I – I agree not to claim an exemption for the tax year \_\_\_\_ for the child.**

Answer Yes only if the custodial parent is releasing his or her claim for the current tax year (which is *shown on the screen at this line*). If you are preparing the form for the custodial parent to use in some other year, use II, below, instead.

**II – I agree not to claim an exemption for the child for the below future year(s).** If Yes, this form must be signed by the custodial parent and given to the noncustodial parent *one year in advance of the first tax year listed*. The years are specified in the section after this one titled "For II or III."

**III – I revoke the release of claim to an exemption for the child for the below future year(s).** Answer Yes only if the custodial parent previously released the claim for a year in which the custodial parent is now claiming the exemption for the child. If Yes, the custodial parent must include the signed form with his or her return for the affected year, and must give a copy of the form to the noncustodial parent *one year in advance of the first tax year listed*. (Note that you cannot answer Yes here if you answered Yes to I or II because Part III requires that a Form 8332 was already prepared using Part I and/or Part II for a prior year.)

**For II or III.** If you answered Yes to II or III above, you must *specify the years here* in 25 characters or less. The years you enter *must be after the year when you are preparing the form* because the custodial parent is required to give a signed copy to the noncustodial parent *one year in advance of the first tax year listed*. To give an open-ended release, you can enter "ALL FUTURE YEARS" rather than listing specific years.

**Copy must be filed with...** The form must be filed with the tax return of the appropriate parent *only for the tax years indicated on the form.*

**custodial parent's tax return.** *(auto-calc)* Answered Yes only if Statement III is answered Yes. In addition to filing the form with his or her tax return, *the custodial parent must also deliver the form to the noncustodial parent and retain evidence of that delivery (or evidence of reasonable effort to deliver it).*

**Noncustodial parent's tax return.** *(auto-calc)* Answered Yes only if Statement I and/or II is answered Yes. The noncustodial parent must file the signed form with his or her return every year that he or she claims and exemption for the child.

For *special filing information for an e-file return*, see the shaded box on the first page of these details for Form 8332.

**Remainder of form is automatically completed for you.** The body of the form is completed automatically based on your prior entries. There are no user entries.

**PART I, RELEASE OF CLAIM TO EXEMPTION FOR CURRENT YEAR.** Information that will be printed in this part of the form is shown here. *No entries will be shown here and no information will be printed on the form if you did not answer Yes to Statement I on screen 2.*

**I agree not to claim an exemption for:**

**First name.** *(auto-calc)* Taken from your entry for the child on screen 1 when Part I applies.

**Last name.** *(auto-calc)* Taken from your entry for the child on screen 1 when Part I applies.

**for tax year.** *(auto-calc)* Taken from the year shown at Statement I when Part I applies.

**Signing custodial parent:**

**First name.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332 when Part I applies.

**Last name.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332 when Part I applies.

**SSN.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332.

**Date signed.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332 when Part I applies.

**PART II, RELEASE OF CLAIM TO EXEMPTION FOR FUTURE YEARS.** Information that will be printed in this part of the form is shown here. *No entries will be shown here and no information will be printed on the form if you did not answer Yes to Statement II on screen 2.*

**I agree not to claim an exemption for:**

**First name.** *(auto-calc)* Taken from your entry for the child on screen 1 when Part II applies.

**Last name.** *(auto-calc)* Taken from your entry for the child on screen 1 when Part II applies.

**for tax year(s).** *(auto-calc)* Taken from the year or years you entered for II or III at the bottom of screen 2.

**Signing custodial parent:**

**First name.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332 when Part II applies.

**Last name.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332 when Part II applies.

**SSN.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332.

**Date signed.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332 when Part II applies.

**PART III, REVOCATION OF RELEASE OF CLAIM TO EXEMPTION FOR FUTURE YEAR(S).** Information that will be printed in this part of the form is shown here. *No entries will be shown here and no information will be printed on the form if you did not answer Yes to Statement III on screen 2.*

**I agree not to claim an exemption for:**

**First name.** *(auto-calc)* Taken from your entry for the child on screen 1 when Part III applies.

**Last name.** *(auto-calc)* Taken from your entry for the child on screen 1 when Part III applies.

**for tax year(s).** *(auto-calc)* Taken from the year or years you entered for II or III at the bottom of screen 2.

**Signing custodial parent:**

**First name.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332 when Part III applies.

**Last name.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332 when Part III applies.

**SSN.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332.

**Date signed.** *(auto-calc)* Taken from the bottom of screen 1 of Form 8332 when Part III applies.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8379\* / Injured Spouse Allocation**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used by joint filers so that one of the filers can ensure that his or her part of an expected refund is not applied to certain liabilities of the other spouse. Liabilities that apply include past-due Federal debt (such as student loans), child support, alimony, federal or state income tax, and state unemployment compensation. Form 8379 is accessible only from the Forms Menu, and does not affect any results on the return, but is printed with the return when you are qualified to use this form.

**When do you file Form 8379.** For quickest relief, file Form 8379 with the original return to which it applies. If you file it with a paper return, write "Injured Spouse" on the upper-left corner of the Form 1040. (No special indicator is required if you file it with an e-file return.) You should also file Form 8379 anytime you file an amended return, so that any revised refund is properly reallocated among the spouses. You can also file Form 8379 by itself after filing your return, sending it to the IRS Service Center that applied when you filed the return. (The most common reason for filing Form 8379 by itself is that the injured spouse was not aware until after the applicable return was filed that the other spouse had liabilities that are subject to payment from the refund resulting on the return.) *If you will file Form 8379 by itself, be sure to so indicate in the first entry of our on-screen form; required information will then be printed in the signature block, which the injured spouse must sign.*

**What is an injured spouse?** In the context of this form the injured spouse is the spouse whose refund would be applied (or expected to be applied) by the IRS to reduce the other spouse's past-due debt if this form were not filed. However, unless you live in a community property state, at least some of the net income and tax payments on the return must be attributable to you in order for any of the refund to be allocated to you. The portion of the refund that is allocable to you is not offset by the other spouse's past-due amounts if you file a properly completed Form 8379 with the return.

**CAUTION: Do not prepare Form 8379 until the return is complete.** The amounts on Form 8379 depend on the final amounts for nearly all lines of Form 1040, so you cannot properly allocate these amounts until they are accurate. If any amounts on Form 1040 change after you have entered allocations on this form, you must return to this form to reallocate the changed amounts. Furthermore, *if any amounts on lines 7 through 22 of Form 1040 change, you must return to all of the worksheets you created to support any income shown on line 13b of this form in order to reallocate the amounts, even for the worksheets for the four predefined categories that get all their entries from the return automatically.*

**PART I, SHOULD YOU FILE THIS FORM?** You will identify the injured spouse later, but you must first determine your qualification to use this form.

**Are you filing this form by itself?** If you need to file Form 8379 by itself (that is, not with the Form 1040 return), you must answer Yes here so that required identifying information is printed in the signature block on page 2 of the form, *which the injured spouse must sign (and the paid preparer, if any)*.

**1 Tax year for which you are filing this form.** *(auto-calc)* Taken from Form 1040, this is the tax year for Form 1040 return you are filing.

**2 Did you (or will you) file a joint return?** *(auto-calc)* Answered Yes only if the filing status you entered on Form 1040 is married filing jointly. *If No, you cannot file this form and all totals used on printouts will be zero.*

**3 Did (or will) the IRS use the joint overpayment to pay any of the listed legally enforceable past-due debt(s) owed only by your spouse?** In the context of this line, the listed debts are federal tax, state income tax, state unemployment compensation, child support, spousal support, and federal nontax debt (such as a student loan). Answer Yes only if you have good reason to believe that the IRS will do so. *If No, you are not considered an injured spouse and you cannot file this form.*

**4 Are you legally obligated to pay this past-due amount?** Answer Yes if you are legally obligated to pay the debt. *If Yes, you cannot file this form.*

**5a State where you resided at any time during the year entered on line 1.**

Answer Yes for all states that apply for the tax year indicated in line 1:

Arizona, AZ?	Louisiana, LA?	Texas, TX?
California, CA?	Nevada, NV?	Washington, WA?
Idaho, ID?	New Mexico, NM?	Wisconsin, WI?

**Were you a resident of a community property state at any time during the tax year entered on line 1?** *(auto-calc)* Answered Yes if you answered Yes for any of the above community property states. If No, you can skip line 5b.

**5b If you answered "Yes" on line 5a, was your marriage recognized under the laws of the community property state(s)?** To answer Yes to this question, you must be able to answer Yes for all states that you entered in line 5a. (If you did not identify any state in line 5a, you will not be allowed to answer Yes here.) If Yes, you can skip the rest of Part I because your answers for lines 6 through 9 are irrelevant in this case and neither the Yes nor the No boxes will be checked on the official printout of Form 8379 for these lines. *If Yes, see the instructions for line 5a in the IRS Instructions for Form 8379 (Rev. February 2015) for restrictions on your allocation of certain amounts among spouses.*

**Payments reported on return (for line 6).** The set of payments that apply to line 6 is rather narrow. Only the following lines in the *Payments* section of Form 1040 are used in line 6. Other payments in the *Payments*

section of Form 1040 (lines 64 through 74) are used at lines 8 and 9 instead.

**Withholding (Form 1040, line 64).** *(auto-calc)* Taken from Form 1040 as indicated, including payments shown on Forms 1099, Schedules K, and Forms W-2.

**Estimated tax payments (Form 1040, line 65).** *(auto-calc)* Taken from Form 1040 as indicated, including payments applied from an overpayment on the prior-year return.

**Extension payments (Form 1040, line 70).** *(auto-calc)* Taken from Form 1040 as indicated, including payments made with both Form 2350 and Form 4868.

**Excess social security (Form 1040, line 71).** *(auto-calc)* Taken from Form 1040 as indicated, including tier 1 RRTA tax withheld.

**Tax paid payments in Form 1040, line 73.** *(auto-calc)* Taken from Form 1040, this is the tax paid for you by a REIT or RIC (Form 1040, line 73a) plus the amount you entered for "Other payment of tax" at Form 1040, line 73d.

**Other payments (Form 1040, line 74 write-ins).** *(auto-calc)* Taken from Form 1040, this line includes tax paid to Virgin Islands and any other special payments you reported on the line above line 74.

**6 Did you make and report payments?** *(auto-calc)* Answered Yes only if the sum of the preceding six payments is nonzero. *Exception: If the answer to line 5b is Yes, then the answer to line 6 will be No but neither the Yes box nor the No box will be checked on the official printout of Form 8379.*

**7 Did you have earned income on the return?** *(auto-calc)* Automatically determined based on all information on Form 1040, the answer will be Yes if your net earned income (wages plus net self-employment income) is greater than zero. *Exception: If the answer to line 5b or 6 is Yes, then the answer to line 7 will be No but neither the Yes box nor the No box will be checked on the official printout of Form 8379.*

**EIC and additional child tax credit:**

**Earned income credit (Form 1040, line 66a).** *(auto-calc)* Taken from Form 1040 as indicated.

**Additional child tax credit (Form 1040, line 67).** *(auto-calc)* Taken from Form 1040 as indicated.

**8 Did you claim the earned income credit or additional child tax credit?** *(auto-calc)* Answered Yes only if the sum of the preceding two amount is nonzero. *Exception: If the answer to line 5b or 6 is Yes, or the answer to line 7 is No, then the answer to line 8 will be No but neither the Yes box nor the No box will be checked on the official printout of Form 8379.*

**Refundable tax credits for line 9.** The IRS label for line 9 is misleading because the refundable credits for this line do not include the two credits used for line 8, which are also refundable credits. In addition, the IRS instructions for line 9 fail to mention the credit allowed in line 73d of Form 1040 for repayment of amounts you previously included

in income that were later determined not to be your income, which is also a refundable credit.

**Education credit (Form 1040, line 68).** *(auto-calc)* Taken from Form 1040 as indicated, this is the refundable part of the credit figured on Form 8863.

**Premium tax credit (Form 1040, line 69).** *(auto-calc)* Taken from Form 1040 as indicated, this is the net credit figured on Form 8962 that subsidizes your purchase of health insurance through the Health Insurance marketplace, after deducting advance payments received in the form of reduced premiums.

**Credit for federal tax paid on fuels (Form 1040, line 72).** *(auto-calc)* Taken from Form 1040 as indicated, this is the credit claimed on Form 4136.

**IRC 1341 credit (Form 1040, line 73d).** *(auto-calc)* Taken from Form 1040 as indicated, this is the amount you entered for "Credit per IRC 1341" at Form 1040, line 73d.

**9 Did you claim a refundable tax credit?** *(auto-calc)* Answered Yes only if the sum of the preceding four credits is nonzero. (Although the earned income credit and the additional child tax credit are refundable credits as well, they are not included in this line because they are separately considered in line 8). *Exception: If the answer to line 5b, 6, or 8 is Yes, or the answer to line 7 is No, then the answer to line 9 will be No, and neither the Yes box nor the No box will be checked on the official printout of Form 8379.*

**QUALIFICATION.** All answers in Part I are taken into account in determining your qualification to claim an injured spouse refund.

**QUALIFIED to use file form?** *(auto-calc)* Joint filing is always required for qualification, so the answer to line 2 must be Yes. In addition, the answer to line 3 must be Yes and the answer to line 4 must be No. Once you have met the requirements for questions 2, 3, and 4, you are qualified if:

- ◆ Line 5b is Yes, or
- ◆ Line 6 is Yes, or
- ◆ Line 7 is Yes and either line 8 is Yes or line 9 is Yes, or
- ◆ Line 7 is No and line 9 is Yes.

If the result of this determination is No, no allocations will be computed for columns (b) and (c) in Part III, and the form will not print when you choose to print a complete return.

**PART II, INFORMATION ABOUT THE JOINT TAX RETURN FOR WHICH THIS FORM IS FILED.** You must identify the injured spouse here and indicate how and where you want any refund sent.

### **10 Identify Injured Spouse**

**Phone number (optional).** Your entry here is printed in the signature block on page 2 of Form 8379 only if you answered Yes to "Filing this form by itself?" (the first entry on screen 1 of Form 8379). Otherwise, this entry is not used on the form.

**Name of 1st spouse.** *(auto-calc)* Taken from Form 1040, this is the name of the primary taxpayer (the spouse listed first on Form 1040).

**Is this the injured spouse?** Answer Yes if the *primary* taxpayer is the injured spouse. *Your answer to this question is critical because it controls whether or not amounts identified throughout the return as spouse's amounts are associated with the injured spouse or the other spouse.* If Yes, the primary taxpayer is identified as "injured spouse" throughout Form 8379. If No, the primary taxpayer is identified as "other spouse."

**Name of 2nd spouse.** *(auto-calc)* Taken from Form 1040, this is the name of the secondary taxpayer (the spouse listed second on Form 1040).

**Is this the injured spouse?** *(auto-calc)* Automatically the opposite of the answer for the first spouse. If Yes, the secondary taxpayer is identified as "injured spouse" on Form 8379. If No, the secondary taxpayer is identified as "other spouse" on Form 8379.

**11 Do you want your refund issued in both names?** If you answer Yes, the IRS will issue a single refund check in both names. Otherwise, separate refunds will be issued to each spouse. *CAUTION: The sense of this question is reversed from prior versions of Form 8379! The former IRS wording of the question required you to answer No here if you wanted the refund check issued in both names.*

**12 Do you want any injured spouse refund mailed to an address different from the one on your joint return?** If you answer No, the address on Form 1040 will be used by the IRS to mail any refund. If Yes, you must supply the address on the following lines:

**If "Yes," enter the U.S. address:**

**Number and street.** If you choose a U.S. address, enter the number street or rural route here in 35 characters or less. Enter a P. O. Box instead *only* if the post office does not deliver mail to your street address. *Do not enter both a U.S. and foreign address; the IRS allows only one or the other.*

**City.** Enter the city, town, or post office in 22 characters or less.

**State.** Enter the standard two-letter state code.

**ZIP code.** Enter ZIP code in the standard five-number (00000) or nine-number (00000-0000) format.

**OR foreign address:**

**Street address.** If you did not enter a U.S. address, enter the foreign street address in 35 characters or less.

**City.** Enter the foreign city in 35 characters or less.

**Province/state.** Enter the province or state in 15 characters or less.

**Country.** Enter the standard 2-letter country code shown in Table 2-6 on page 2-22.

**Postal code.** Enter the postal code in 15 characters or less.

**PART III, ALLOCATION BETWEEN SPOUSES OF ITEMS ON THE JOINT TAX RETURN.** To determine the portion of each amount on Form 1040 that is attributable to each spouse, follow the rules for returns that are filed as married filing separately. For line items related to joint accounts, such as bank and brokerage accounts, and lines for which the allocation is not clear, split the item equally between the two spouses. For lines for which a separate supporting form is prepared for each spouse (such as Schedules C and Schedule F), attribute amounts from each form to only one spouse, and use any reasonable allocation for other items. Exception: Allocation in community property states must conform with the rules for those states. **IMPORTANT:** *In your data entry for this section, keep in mind that the "2nd spouse" is always the spouse listed second on Form 1040 (and line 10 of this form). The software will automatically print amounts in the proper columns of Form 8332 ("injured spouse" vs. "other spouse") depending on which spouse (1<sup>st</sup> or 2<sup>nd</sup>) you identified in line 10 as the injured spouse.*

**Form 8379 line labels not consistent with Form 1040!** Form 8379 can be especially confusing because the IRS lines in Part III of Form 8379 (lines 13 through 20) do not always match Form 1040 sections that have the same title. The IRS attempts to guide you through this debacle in a table in the IRS instructions, but their table is neither explicit enough nor accurate enough to be of practical use. We therefore provide *our own table of cross-references between lines on the two forms in Table 2-16 in accordance with IRS intent.*

**Table 2-16. Form 1040 / Form 8379 Cross-Reference**

<b>Form 8379 line</b>	<b>Form 1040 lines</b>
13 Income	7 to 22 Income group
14 Adjustments to Income	23 to 36 Adjusted Gross Income group
15 Standard or itemized deduction	40 Itemized or standard deduction
16 Number of exemptions	42 Exemptions
17 Credits	48 to 55 Tax and Credits (partial)
18 Other taxes	67,68,69,72,(73d)IRC1341 Payments(part)
19 Federal income tax withheld	46 Tax and 57 to 62 Other Taxes group
20 Payments	64 Federal income tax withheld
	71 Excess social security tax withheld
	65,70,73tax,74write-in Payments (part)
<b>Form 1040 lines</b>	<b>Form 8379 line</b>
7 wages, salaries, tips, etc.:	13 Income:
7a & 7b Wages on W-2s	13a Income on Form W-2(s)
Remainder of line 7	13b All other income
8a,9a,10 to 14,15b,16b,17 to 19,20b,21	13b All other income
23 to 30,31a,32 to 35,other in 36	14 Adjustments to income
40	15 Standard or itemized deduc'n
42	16 Number of exemptions
46	18 Other taxes
48, 49, 50, 51, 52, 53, 54	17 Credits
57, 58, 59, 60a, 60b, 61, 62	18 Other taxes
64	19 Federal income tax withheld
65	20 Payments
67, 68, 69	17 Credits
70	20 Payments
71	19 Federal income tax withheld
72, IRC 1341 part of 73d	17 Credits
73a, tax part of 73d, 74 write-ins	20 Payments

*NOTE: Form 1040 line 66a excluded because IRS will allocate that line.*

**13 Income.** You must allocate all income you reported on lines 7 through 22 of Form 1040 in lines 13a and 13b. Line 13a is used for W-2 wages only, and line 13b is used for all other taxable income on Form 1040. The allocation for wages is automatic, but YOU must separately allocate all other income between spouses on the *Line 13b Allocation Worksheets*, which are accessed from the bottom of screen 5 of Form 8379.

**a Income reported on Form W-2.** *(auto-calc)* Taken from lines 7a and 7b of the on-screen Form 1040, page 1, this is the wages for you and spouse reported on Forms W-2.

**b All other income.** *(auto-calc)* Taken from Form 1040, this is the total income on line 22 of Form 1040 less the income in line 13a, above. **CAUTION:** *If this total is nonzero, you must itemize the allocation between spouses for each separate item of income. Use of the worksheets that we provide for this purpose is mandatory.*

**Components of line 13b.** If any amount appears on line 13b, you must complete the mandatory worksheets for line 13b. As an aid to completing these worksheets, the following auto-calc lines are provided and used on the worksheets. For all but the last component, the allocation between spouses is known from the return, so the worksheets you create for those components automatically show the proper allocation. But for the last component (*Balance for all other income*), you must provide the proper allocation on the worksheets yourself.

**Form 1040, line 7 income NOT reported on a Form W-2.** *(auto-calc)* Taken from Form 1040 as Form 1040, line 7, less the wages shown on lines 7a and 7b of the on-screen Form 1040, this is the income that the IRS requires you to include in Form 1040, line 7, even though it was not reported to you on a Form W-2. Examples of such income include taxable scholarships not reported to you on a Form W-2, reimbursements from your employer that exceed your employee business expenses, etc. See our details for Form 1040, line 7, in this *Tax Forms Guide* for more information.

**Business income (Form 1040, line 12).** *(auto-calc)* Taken from Form 1040 as indicated, this is the taxable income from all copies of Schedule C combined.

**Farm income (Form 1040, line 18).** *(auto-calc)* Taken from Form 1040 as indicated, this is the taxable income from all copies of Schedule F combined.

**IRA distributions (Form 1040, line 15b).** *(auto-calc)* Taken from Form 1040 as indicated, this is the taxable income from IRAs for both taxpayers combined.

**Pensions and annuities (Form 1040, line 16b).** *(auto-calc)* Taken from Form 1040 as indicated, this is the taxable income from pensions and annuities for both taxpayers combined.

**Balance for all other income.** *(auto-calc)* Computed as line 13b less the totals for both taxpayers combined for the above four categories, this is the balance that you must allocate between spouses category-by-category on the provided worksheets.

**Worksheets REQUIRED for line 13b.** If any amount appears on line 13b, you must complete the mandatory worksheets accessed in this section:

**MINIMUM number of worksheets.** *(auto-calc)* This is the number of categories in the preceding section that have nonzero amounts. If the total for "Balance for all other income" is zero, then this is exactly the number of worksheets that you must create (one for each of the five predefined categories that have income). But if the total for "Balance for all other income" is nonzero, then you must create the computed number of worksheets or more, depending on the number of income categories that make up "Balance for all other income." *If the result on this line is zero, you are not required to (and should not) complete any worksheets.*

**CURRENT number of worksheets.** *(auto-calc)* Computed as the number of worksheets created for the next line that have nonzero amounts on line a or line b of the worksheet. If this number is less than the preceding number, you have *not* create enough worksheets to properly allocate the total in line 13b. But if this number is exactly the same as the preceding number, you may still have to create more worksheets, as indicated on the below "DISCREPANCY" line.

**ITEMIZE allocation for line 13b.** *(Supported by the Line 13b Allocation Worksheet, Figure 2-63.)* These worksheets are mandatory if the number on the preceding line is greater than zero.

→ **DISCREPANCY with line 13b.** *(auto-calc)* Computed as the preceding amount (*Amount allocated on worksheets*) less the total for line 13b (*All other income*) at the top of the screen, the result will be zero when the proper amount of income is reported on line a of the worksheets. If greater than zero, the amount reported on worksheet line a for all worksheets combined is too high. If less than zero, the amount reported on worksheet line a for all worksheets combined is too low. *In either case, the worksheets must be corrected so that the result on this line is zero.*

**CAUTION:** If any amounts on 7 through 22 of Form 1040 change after you have completed these worksheets, you will have view all of the worksheets anew so that they are recomputed using the proper amounts. You may also have to reenter the data for some allocations of other income on these worksheets.

**13B ALLOCATION WORKSHEET**

2nd spouse is injured spouse? Yes

1	1040,ln7 income NOT on W-2	0
2	Business income in 13b...	0
3	Farm income in 13b.....	0
4	IRA distributions in 13b..	0
5	Pensions/annuities in 13b.	0
6	Balance all others in 13b.	0
	Line to allocate for THIS page	0

If 1,2,3,4, or 5, go to NEXT page;THIS page is automatic.  
If 6, use as many pages as you need to list components of balance shown for line 6.\*

Type of income allocated :

a.	Amt. for the type.....	0
b.	Allocated to injured spouse	0
c.	Allocated to other spouse	0
*	Additional worksheets req'd?	0

**Line 13b Allocation Worksheet, Figure 2-63.** This worksheet is used to allocate all income between spouses other than wages on Form 1040, line 7. It is *mandatory* when line 13b of Form 8379 is nonzero.

**2nd spouse is injured spouse?**  
*(auto-calc)*  
Determined from your answers on line 10 of Form 8379,

**Figure 2-63. Line 13b Allocation Worksheet**

if Yes, the amount on line b of this worksheet is attributed to the 2<sup>nd</sup> spouse and the amount on line c is attributed to the 1<sup>st</sup> spouse (the primary taxpayer). If No, the attributions are reversed.

- 1 Income in Form 1040, line 7 that is NOT on a Form W-2.** *(auto-calc lines)*  
Taken from the corresponding total on screen 5 of Form 8379, this is the first potential component of line 13b.
- 2 Business income in line 13b.** *(auto-calc lines)* Taken from the corresponding total on screen 5 of Form 8379, this is the second potential component of line 13b.
- 3 Farm income in line 13b.** *(auto-calc lines)* Taken from the corresponding total on screen 5 of Form 8379, this is the third potential component of line 13b.
- 4 IRA distributions in line 13b.** *(auto-calc lines)* Taken from the corresponding total on screen 5 of Form 8379, this is the fourth potential component of line 13b.
- 5 Pensions and annuities in line 13b.** *(auto-calc lines)* Taken from the corresponding total on screen 5 of Form 8379, this is the fifth potential component of line 13b.
- 6 Balance for all others in line 13b.** *(auto-calc lines)* Taken from the corresponding total on screen 5 of Form 8379 ("Balance for all other"), this is the remainder of other income in line 13b that must be allocated between spouses.

**Line to allocate for THIS page.** *(auto-calc lines)* The result for this line depends on the page number of the support (shown in the upper right corner of the main window) and the number of nonzero lines for lines 1 through 5. It is the category number for the first nonzero category above that has *not* been allocated on a previous worksheet. However, once the result is 6, all subsequent worksheets also have 6 as the result,

meaning that as many worksheets as you need can be used to separately allocate components of all income other than wages and the income in categories 1 through 5. For example, if category 1 is zero, categories 2 and 3 are nonzero, and categories 4 and 5 are zero, then the result on this line for the first two worksheets will be 2 and 3, and the result for all subsequent worksheets will be 6. When the result is 1, 2, 3, 4, or 5, the following lines are automatically completed for you based on the amounts on screen 5 of Form 8379. On the other hand, *when the result for this line is 6, you must make entries on all but the last line below.*

**Type of income allocated.** If "Line to allocate for THIS page" is 1, 2, 3, 4, or 5, this entry is completed for you based on the corresponding line label above. Otherwise, you must identify the component of the balance (line 6) that you are allocating on this worksheet (in 30 characters or less).

**a. Amount for the type.** If "Line to allocate for THIS page" is 1, 2, 3, 4, or 5, this entry is completed for you based on the corresponding total shown on screen 5 of Form 8379. Otherwise, you must enter the total for the component of the balance that you are allocating on this worksheet.

**b. Allocated to injured spouse.** If "Line to allocate for THIS page" is 1, 2, 3, 4, or 5, this entry is completed for you based on the amount on line a, above, the identification of the injured spouse, and the secondary taxpayer's part of line a shown elsewhere on the return. Otherwise, you must enter the part of line a that you are allocating to the injured spouse.

**c. Allocated to other spouse.** *(auto-calc)* Computed as line a less line b.

**\* Additional worksheets required?** *(auto-calc)* The answer will be Yes as long as the sum of amounts on line a of all worksheets combined differs from the amount shown for line 13b on screen 5 of Form 8379. In this case, the line "DISCREPANCY with line 13b" on screen 5 of Form 8379 will show an amount as well.

Any worksheet for which there are no amounts on line a or b is *not counted* and is *not printed* with the return. Otherwise, the worksheets will be printed in a supporting statement for line 13b. **CAUTION:** *If any amounts on lines 7 through 22 of Form 1040 change after you have completed these worksheets, you will have view all of the worksheets anew so that they are recomputed using the proper amounts. You will also have to reenter the data for allocations of line 6 if the number of predefined categories (1 through 5) changes.*

**14 Adjustments to Income.** You must allocate all adjustments you included in line 36 of Form 1040. The software automatically allocates adjustments for which spouse's part has already been identified on the return, but you must allocate all other adjustments in the sole data entry line for this section.

**Self-employment tax deduction (Form 1040, line 27).** *(auto-calc)* Taken from Form 1040 as indicated, this is the self-employment deduction for you and spouse, which is half the self-employment tax for 2014.

**Allocated to 2nd spouse.** *(auto-calc)* This is the part of Form 1040, line 27, identified as "spouse's" based on the Schedule(s) SE for the return.

**Self-employed SEP, SIMPLE, etc. (Form 1040, line 28).** *(auto-calc)* Taken from Form 1040 as indicated, this is the total deduction for contributions to self-employed SEPs, SIMPLEs, and qualified plans for you and spouse.

**Allocated to 2nd spouse.** *(auto-calc)* This is the part of Form 1040, line 28, identified as "spouse's" on the return.

**IRA deduction (Form 1040, line 32).** *(auto-calc)* Taken from Form 1040 as indicated, this is the total IRA deduction for you and spouse.

**Allocated to 2nd spouse.** *(auto-calc)* This is the part of Form 1040, line 32, identified as "spouse's" on the return.

**Other adjustments in Form 1040, line 36.** *(auto-calc)* Taken from Form 1040, this is the total on line 36 of Form 1040 less the totals for lines 27, 28, and 32, which were allocated above.

**Allocated to 2nd spouse.** Enter the part of Form 1040 lines 23 through 26, 29 through 31a, 33 through 35, and the "write-in" amounts for line 36 attributable to the 2nd spouse.

**TOTAL ADJUSTMENTS FOR LINE 14.** *(auto-calc)* Computed as the sum of the preceding four totals, this is the total onorm 1040, line 36.

**15 Standard or itemized deduction.** *(auto-calc)* Taken from Form 1040, line 40. If the standard deduction is used, the allocation is automatic, as shown below. But if itemized deductions are used you must provide the allocation between spouses below:

**Itemized deductions used.** *(auto-calc)* Answered Yes only if deductions from Schedule A are used for Form 1040, line 40.

**If Yes, 2nd spouse's part.** If itemized deductions are used, you must enter here the part of line 15 that is attributable to the 2nd spouse.

**Is spouse 65 or older?** *(auto-calc)* Taken from Form 1040.

**Is spouse blind?** *(auto-calc)* Taken from Form 1040.

**Allocated to 2nd spouse.** *(auto-calc)* If itemized deductions are used, your entry above for "If Yes, 2nd spouse's part" is used here. Otherwise the 2<sup>nd</sup> spouse's part of the standard deduction is computed as half of the \$12,400 base standard deduction (resulting in \$6,200 for 2014) plus \$1,200 each for any age or blind exemption for the 2<sup>nd</sup> spouse (shown on the preceding two lines).

**16 Number of exemptions.** *(auto-calc)* Taken from Form 1040, line 6d, this is the total number of exemptions claimed.

**Allocated to 2nd spouse.** You must enter here *as a whole number* the part of line 16 that is attributable to the 2nd spouse. Fractional amounts are not allowed, even when a child is parented by both spouses. *TIP: Enter the number that would apply if the 2<sup>nd</sup> spouse had filed a separate return rather than a joint return. An exemption for a child with divorced parents would generally be attributed to the 2<sup>nd</sup> spouse only if that spouse was one of the divorced parents.*

**17 Credits.** You must allocate here the credits included in line 55 of Form 1040 and certain refundable credits included in line 74 of Form 1040. *TIP: The earned income credit (Form 1040, line 66a) is specifically excluded. The IRS will allocate that credit based on each spouse's income.*

**Credit for child and dependent care expenses.** *(auto-calc)* Taken from Form 1040, line 49.

**Allocated to 2nd spouse.** You must enter here only the amount attributable to dependents for whom the 2nd spouse claimed the exemption in line 16.

**Education credit -- nonrefundable.** *(auto-calc)* Taken from Form 1040, line 50.

**Allocated to 2nd spouse.** You must enter here only the amount attributable to dependents for whom the 2nd spouse claimed the exemption in line 16 and, if the 2nd spouse is one of the claimed students, the amount stemming from that spouse.

**Child tax credit.** *(auto-calc)* Taken from Form 1040, line 52.

**Allocated to 2nd spouse.** You must enter here only the part of the preceding total that is attributable to children for whom the 2nd spouse claimed the exemption in line 16.

**Credits in Form 1040, line 54.** *(auto-calc)* Taken from Form 1040, line 54, this line includes business credits and some others.

**Allocated to 2nd spouse.** Enter the part of Form 1040, line 54, attributable to businesses (and other) of the 2nd spouse.

**Other credits on Form 1040, lines 48, 51, and 53.** *(auto-calc)* Computed as Form 1040, line 55, less the totals for lines 49, 50, 52, and 54.

**Allocated to 2nd spouse.** You must enter here the part of the preceding balance attributable to the 2nd spouse.

**Additional child tax credit.** *(auto-calc)* Taken from Form 1040, line 67.

**Allocated to 2nd spouse.** You must enter here only the part of the preceding total that is attributable to children for whom the 2nd spouse claimed the exemption in line 16.

**Education credit -- refundable.** *(auto-calc)* Taken from Form 1040, line 68.

**Allocated to 2nd spouse.** You must enter here only the amount attributable to dependents for whom the 2nd spouse claimed the exemption in line 16 and, if the 2nd spouse is one of the claimed students, the amount stemming from that spouse.

**Net premium tax credit.** *(auto-calc)* Taken from Form 1040, line 69.

**Allocated to 2nd spouse.** You must enter here only the amount attributable to insurance for the 2nd spouse and 2nd spouse's dependents.

**Credit for federal tax on fuels.** *(auto-calc)* Taken from Form 1040, line 72.

**Allocated to 2nd spouse.** You must enter here the part of the preceding amount attributable to the 2nd spouse.

**TOTAL CREDITS FOR LINE 17.** *(auto-calc, but not shown on the screen)*

Computed as the sum of all preceding totals for line 17.

**18 Other taxes.** You must allocate here all taxes other than the regular tax and the alternative minimum tax.

**Excess advance premium credit repayment.** *(auto-calc)* Taken from Form 1040, line 46.

**Allocated to 2nd spouse.** Enter the part of Form 1040, line 46, stemming from insurance for the 2nd spouse's and 2nd spouse's dependents.

**Self-employment tax.** *(auto-calc)* Taken from Form 1040, line 57.

**Allocated to 2nd spouse.** Enter the part of Form 1040, line 57, stemming from the "spouse's" copies of Schedule SE (*Self-Employment Tax*).

**Unreported social security and Medicare tax.** *(auto-calc)* Taken from Form 1040, line 58, this is the sum of amounts from Form 4137 and 8919.

**Allocated to 2nd spouse.** You must enter here the part of the preceding tax from copies of Forms 4137 and 8919 that were prepared for the 2nd spouse.

**Additional tax on IRAs, et al.** *(auto-calc)* Taken from Form 1040, line 59, this is the amount from Forms 5329.

**Allocated to 2nd spouse.** You must enter here the part of the preceding tax from copies of Form 5329 that were prepared for the 2nd spouse.

**Household employment taxes.** *(auto-calc)* Taken from Form 1040, line 60a, this is the amount from Schedule H.

**Allocated to 2nd spouse.** You must enter here the part of the preceding tax from the copy of Schedule H prepared for the 2nd spouse.

**Repayment of homebuyer credit.** *(auto-calc)* Taken from Form 1040, line 60b, this is the amount from Form 5405.

**Allocated to 2nd spouse.** You must enter here the part of the preceding tax attributable to the 2nd spouse.

**Health care: individual responsibility payment.** *(auto-calc)* Taken from Form 1040, line 61.

**Allocated to 2nd spouse.** Enter the part of Form 1040, line 61, stemming from lack of insurance coverage for the 2nd spouse's and 2nd spouse's dependents.

**Other taxes.** *(auto-calc)* Taken from Form 1040, line 62, which is comprised of numerous other taxes.

**Allocated to 2nd spouse.** Enter here the part of the preceding total that is attributable to the 2nd spouse.

**TOTAL CREDITS FOR LINE 18.** *(auto-calc)* Computed as the sum of the preceding taxes, which is line 63 of Form 1040.

**19 Federal income tax withheld.** You must allocate here withholding reported throughout the return and any excess social security or tier 1 Railroad Retirement (RRTA) tax withheld. *TIP: The table that the IRS provides in the instructions implies that this amount should be included in line 20 rather than line 19. However, the IRS instructions for line 19 make it clear that it should be included in line 19.*

**Withholding on Forms W-2.** *(auto-calc)* Taken from the W-2 Worksheets for lines 7a and 7b of Form 1040.

**Allocated to 2nd spouse.** *(auto-calc)* Taken from the W-2 Worksheets for line 7b of Form 1040.

**Other withholding in Form 1040, line 64.** *(auto-calc)* Taken from Form 1040 and computed as Form 1040, line 64, less the preceding "Withholding on Forms W-2." This amount includes withholding shown on Forms W-2G, 1099-R, 1099-DIV, 1099-INT, 1099-G, and SSA-1099 plus amounts shown on Schedules K-1 from partnerships, S corporations, etc., of which the taxpayers are members.

**Allocated to 2nd spouse.** Enter the part of the preceding total attributable to the 2nd spouse.

**Excess social security or RRTA tax.** *(auto-calc)* Taken from Form 1040, line 71. *CLARIFICATION: The table that the IRS provides in the instructions implies that this amount should be included in line 20 rather than line 19. However, the IRS instructions for line 19 state "Also include on this line any excess social security or tier 1 Railroad Retirement (RRTA) tax withheld," with which we have conformed.*

**Allocated to 2nd spouse.** Enter the part of excess withholding for social security or tier 1 RRTA tax attributable to the 2nd spouse.

**TOTAL WITHHOLDING FOR LINE 19.** *(auto-calc)* Computed as the sum of all preceding withholding (the sum of lines 64 and 71 of Form 1040).

**20 Payments.** You must allocate here payments in line 74 of Form 1040 that have not been allocated in any preceding lines.

**Estimated tax payments (Form 1040, line 65).** *(auto-calc)* Taken from Form 1040, line 65, as indicated.

**Allocated to 2nd spouse.** Enter the part of estimated tax payments attributable to the 2nd spouse based the earlier income allocations.

**Extension payments (Form 1040, line 70).** *(auto-calc)* Taken from Form 1040, line 70, as indicated.

**Allocated to 2nd spouse.** Enter the part of tax payments that accompanied an extension form attributable to the 2nd spouse based the earlier income allocations.

**Tax payments in Form 1040, lines 73a and 73d.** *(auto-calc)* Taken from Form 1040, line 71a, and the tax payment part of line 73d.

**Allocated to 2nd spouse.** Enter the part of the preceding amount attributable to Forms 2439 for the 2nd spouse and other tax payments for the 2nd spouse.

**Other payments (Form 1040, line 74 write-in).** *(auto-calc)* Taken from Form 1040, computed as the sum of the two on-screen lines above line 74 of our Form 1040, page 2, which are the lines labeled "Tax

paid to Virgin Islands (8689)" and "Other special payments (itemize)."

**Allocated to 2nd spouse.** Enter the part of the preceding total attributable to the 2nd spouse.

**TOTAL PAYMENTS FOR LINE 20.** *(auto-calc)* Computed as the sum of the preceding four total lines.

**Injured Spouse Allocation.** The final screen of Form 8379 shows how the preceding amounts for lines 13 through 20 are separately attributed to the "injured spouse" and the "other spouse." The top half of the screen shows the amounts that will be printed in column (b) in Part III of the official Form 8379 (for the "injured spouse"):

**13 Income:**

**α Income reported on Form W-2.** *(auto-calc)* If the 2<sup>nd</sup> spouse is the injured spouse, computed as the amount for "Allocated to 2nd spouse" below line 13a on screen 5. Otherwise, computed as line 13a less that amount.

**β All other income.** *(auto-calc)* If the 2<sup>nd</sup> spouse is the injured spouse, computed as the sum of amounts on line b of all *Line 13b Allocation Worksheets* combined. Otherwise, computed as the sum of amounts on line c of the worksheets.

**14 Adjustments to income.** *(auto-calc)* If the 2<sup>nd</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 14 categories on screen 6. Otherwise, computed as "TOTAL ADJUSTMENTS FOR LINE 14" less that sum.

**15 Standard deduction or itemized deductions.** *(auto-calc)* If the 2<sup>nd</sup> spouse is the injured spouse, computed as "Allocated to 2nd spouse" below line 15 on screen 6. Otherwise, computed as the amount for line 15 less that amount.

**16 Number of exemptions.** *(auto-calc)* If the 2<sup>nd</sup> spouse is the injured spouse, computed as "Allocated to 2nd spouse" below the line 16 on screen 6. Otherwise, computed as the amount for line 16 less that amount.

**17 Credits.** *(auto-calc)* If the 2<sup>nd</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 17 categories on screen 7. Otherwise, computed as "TOTAL CREDITS FOR LINE 17" on screen 7 less that sum.

**18 Other taxes.** *(auto-calc)* If the 2<sup>nd</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 18 categories on screen 7. Otherwise, computed as "TOTAL CREDITS FOR LINE 18" on screen 7 less that sum.

**19 Federal income tax withheld.** *(auto-calc)* If the 2<sup>nd</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 19 categories on screen 8. Otherwise, computed as "TOTAL CREDITS FOR LINE 19" on screen 8 less that sum.

**20 Payments.** *(auto-calc)* If the 2<sup>nd</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 20 categories on screen 9. Otherwise, computed as "TOTAL CREDITS FOR LINE 20" on screen 9 less that sum.

**Other Spouse Allocation.** The bottom half of the screen shows the amounts that will be printed in column (c) in Part III of the official Form 8379 (for the "other spouse"):

**13 Income:**

- a Income reported on Form W-2.** *(auto-calc)* If the 1<sup>st</sup> spouse (the primary taxpayer) is the injured spouse, computed as the amount for "Allocated to 2nd spouse" below line 13a on screen 5. Otherwise, computed as the amount for line 13a less that amount.
- b All other income.** *(auto-calc)* If the 1<sup>st</sup> spouse is the injured spouse, computed as the sum of amounts on line b of all *Line 13b Allocation Worksheets* combined. Otherwise, computed as the sum of amounts on line c of the worksheets.
- 14 Adjustments to income.** *(auto-calc)* If the 1<sup>st</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 14 categories on screen 6. Otherwise, computed as "TOTAL ADJUSTMENTS FOR LINE 14" less that sum.
- 15 Standard deduction or itemized deductions.** *(auto-calc)* If the 1<sup>st</sup> spouse is the injured spouse, computed as "Allocated to 2nd spouse" below line 15 on screen 6. Otherwise, computed as the amount for line 15 less that amount.
- 16 Number of exemptions.** *(auto-calc)* If the 1<sup>st</sup> spouse is the injured spouse, computed as "Allocated to 2nd spouse" below the line 16 on screen 6. Otherwise, computed as the amount for line 16 less that amount.
- 17 Credits.** *(auto-calc)* If the 1<sup>st</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 17 categories on screen 7. Otherwise, computed as "TOTAL CREDITS FOR LINE 17" on screen 7 less that sum.
- 18 Other taxes.** *(auto-calc)* If the 1<sup>st</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 18 categories on screen 7. Otherwise, computed as "TOTAL CREDITS FOR LINE 18" on screen 7 less that sum.
- 19 Federal income tax withheld.** *(auto-calc)* If the 1<sup>st</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 19 categories on screen 8. Otherwise, computed as "TOTAL CREDITS FOR LINE 19" on screen 8 less that sum.
- 20 Payments.** *(auto-calc)* If the 1<sup>st</sup> spouse is the injured spouse, computed as the sum of amounts for "Allocated to 2nd spouse" below the line 20 categories on screen 9. Otherwise, computed as "TOTAL CREDITS FOR LINE 20" on screen 9 less that sum.

**PART IV, SIGNATURE.** The injured spouse (and paid preparer, if any) must sign the official printed Form 8379 only if the form is being filed by itself (that is, not with the joint return to which it relates). Paid preparer information is printed in this part *only* if you answered Yes to “Filing this form by itself?” (the first entry on screen 1 of Form 8379).

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8396\* / Mortgage Interest Credit

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to figure a credit for mortgage interest for those who were issued a qualified Mortgage Credit Certificate (MCC) by their state or local government agency. The certificate is issued to low-income homebuyers under a program to help them afford home ownership. The federal credit is a form of mortgage subsidy, which gives the homebuyer a substantial credit for interest paid during the year. The credit is nominally the credit rate on the certificate (from 10% to 50%) times the interest paid for the tax year. However, the credit is limited to \$2,000 if the rate on the certificate exceeds 20%. (You are subject to a recapture of the credit when you sell the home. The recapture is figured on Form 8828, which is also built into the software.) Form 8396 is accessible through the Road Map at the Form 8396 component of line 54c of Form 1040 and our special line above line 10 of Schedule A.

**CAUTION: Federal certificates do not qualify.** This credit is only for taxpayers who were issued a qualified Mortgage Credit Certificate (MCC) by their state or local government agency. Certificates issued by the Federal Housing Administration, Department of Veteran Affairs, or Farmers Home Administration do not qualify you for the credit, nor do Homestead Staff Exemption Certificates.

**ADDRESS AND MORTGAGE CREDIT CERTIFICATE.** To qualify, the home must be your main home and must be located in the jurisdiction of the state or local government that issued the Mortgage Credit Certificate. If the address you entered on Form 1040 is a street address for the same home, you do not need to enter it again here. However, if the address on Form 1040 is a P.O. box or a different location from the home to which the certificate applies, you must enter the street address for the home below.

**Address on Form 1040:**

**Mailing address** *(auto-calc)* Taken from your entry on Form 1040.

**City, State.** *(auto-calc)* Taken from your entry on Form 1040.

**ZIP code.** *(auto-calc)* Taken from your entry on Form 1040.

**Enter below the address of your main home to which the qualified mortgage certificate relates ONLY if different from ABOVE:**

**Street address.** If different from the address on Form 1040, enter the street address for the property here in 35 characters or less.

**City.** Enter the city in 22 characters or less.

**State.** Enter the 2-character state code.

**ZIP code.** Enter the ZIP code in the standard xxxxx-xxxx format.

**Mortgage Credit Certificate.** You cannot claim the credit without having been issued a qualified Mortgage Credit Certificate (MCC) by a state or local government unit or agency under a qualified mortgage credit certificate program. As a result, all of the following entries are mandatory in order to prove your qualification:

**Name of Issuer.** Identify the issuing agency in 35 characters or less.

**Certificate number.** Enter the number on the Mortgage Credit Certificate, which should be no more than 22 characters in length.

**Issue Date (mm-dd-yyyy).** Enter the date of issue in the standard format for dates.

**PART I, CURRENT YEAR MORTGAGE INTEREST CREDIT.** The credit available for the current tax year is computed here, including carryovers from prior years. (Only carryovers from the prior 3 years are allowable.)

**1 Interest paid on certified indebtedness amount.** You will generally enter the interest shown in box 1 of the 2014 Form 1098 or similar statement you receive from the lender. However, if someone else (other than spouse, if filing jointly) holds an interest in the property, you must enter only your share of interest paid, and if the loan amount on your MCC is less than the loan amount of your current mortgage, you must enter only the part of interest paid that relates to the lesser amount. See IRS Pub. 530 for details. **CAUTION:** *You cannot claim the credit if you paid the interest to a related person.*

**2 Certificate credit rate shown on your mortgage credit certificate.** Enter the rate shown on your MCC. This is the credit rate for which you are eligible, not an interest rate, and will be no less than 10% and no more than 50%.

**Special procedure for refinanced mortgage.** If you refinanced the mortgage and were reissued an MCC that still qualifies you for the mortgage interest credit (as detailed in the IRS Instructions for Form 8396), you must follow the special procedures outlined here:

**For the year of the refinancing.** If the reissued MCC carries a different certificate rate than the original MCC, you must leave lines 1 and 2 blank and instead, in a supporting statement for our line "Explain special calc for line 3," compute line 3 as the sum of two calculations: one for the part of the year to which the original certificate applies and the other for the part of the year to which the reissued certificate applies. The total you show in the supporting statement is carried back to Form 8396 and appears at line 3 in place of any calculation using lines 1 and 2 of the form.

**For all years.** Even though the reissued MCC cannot have a credit rate higher than the original rate in order for you to still qualify for the credit, and even if the interest rate on the refinanced mortgage is less than the interest rate on the original mortgage, it is possible that the credit you compute at line 3 using the new rates could be higher than the credit you would have received under the original MCC. When this is the case you must override line 3 and enter the lesser amount.

**Explain special calc for line 3.** Use this line *only* to provide a supporting statement in a year of refinancing, as detailed in the preceding shaded box. *You must explain your calculation in the text column of the support, and enter the result of your calculation in the amount column.* The result you enter is used for line 3 in place of the normal calculation for that line.

**Interest held by others (%)**. If someone else (other than spouse, if filing jointly) holds an interest in the property, you must enter here the percentage interest held by all others. Your entry here is used only to apply the proper limitation at line 3 when the credit rate on line 2 exceeds 20%.

**3 If line 2 is 20% or less, multiply line 1 by line 2. (auto-calc)** Normally computed as indicated as long as line 2 is 20% or less. If line 2 is more than 20%, the same computation is used but is limited to no more than \$2,000, or a prorated lesser amount if you made an entry on the line "Interest held by others (%)." However, if you itemized the special line "Explain special calc for line 3," neither computation is used and the result here is taken from your supporting statement for the special line. The amount of mortgage interest you claim as an itemized deduction on Schedule A cannot include the amount claimed here. Therefore, the amount on this line is automatically posted above line 10 of Schedule A so that *the amount you report on Schedule A, line 10 from box 1 of Form 1098 is automatically reduced by this amount. However, if you deduct the interest you paid on Schedule A, line 11 instead of Schedule A, line 10, you must enter the amount from line 3 of Form 8396 on the line above Schedule A, line 11 (labeled "Amount exceeding limit") yourself.*

**4 2011 credit carryforward from line 16 of your Form 2013 Form 8396.** Enter as indicated from your prior-year Form 8396.

**5 2012 credit carryforward from line 14 of your Form 2013 Form 8396.** Enter as indicated from your prior-year Form 8396.

**6 2013 credit carryforward from line 17 of your Form 2013 Form 8396.** Enter as indicated from your prior-year Form 8396.

**7 Add lines 3 through 6. (auto-calc)** Computed as indicated.

**Credit Limit Worksheet.** The IRS provides a 3-line worksheet in their *2014 Instructions for Form 8396* to determine the amount for line 8. The calculations on the worksheet are shown on the screen as follows:

**1-Amount from Form 1040, line 47. (auto-calc)** Taken from Form 1040 as indicated, this is your total tax before credits.

**Form 1040, lines 48 through 51. (auto-calc)** Taken from Form 1040 as indicated, this is the sum of nonrefundable personal credits that precede Form 8396 on Form 1040 except for the child tax credit (which is handled below).

**From Line 11 Worksheet in IRS Pub. 972.** In addition to the above personal credits, the nonrefundable part of child tax credit is taken into account by using the IRS's *Line 11 Worksheet* on pages 6 and 7 of IRS Pub. 972 (*Child Tax Credit*) for 2014. If there is no child tax

credit for the return (line 52 of Form 1040), the worksheet does not apply and no amount will appear on line 12 of the worksheet, below:

**Line 1 of worksheet.** *(auto-calc)* This is the nominal child tax credit (\$1,000 per child) less a phaseout amount for high income.

**Line 11 of worksheet.** *(auto-calc)* This is a fraction of earned income subject to several adjustments.

**Line 12 (credit).** *(auto-calc)* Computed as "line 1 of worksheet" less "line 11 of worksheet," but no less than zero, this is line 12 of the worksheet in IRS Pub. 972. It is the amount of child tax credit that must be taken into account in the tax liability limitation.

**Form 8936, line 23.** *(auto-calc)* Taken from the component of Form 1040, line 54c, labeled "Line 23 ONLY of Form 8936."

**Form 5695, line 30; Form 8910, line 15; & Schedule R, line 22.** *(auto-calc)* Taken from the component of Form 1040, line 53, labeled "Line 30 of Form 5695," the component of Form 1040, line 52c labeled "Line 15 ONLY of Form 8910," and "Elderly/disabled: Schedule R."

**2-Total of above credits.** *(auto-calc)* Computed as the sum amounts on Form 1040, lines 48 through 51, plus the amount on line 12 of the Line 11 Worksheet in Pub. 972, plus the personal credits on Forms 5695, 8910, 8936, and Schedule R. This is the sum of credits that must be applied before the credit on Form 8396 can be claimed.

**3-Subtract line 2 from line 1.** *(auto-calc)* Computed as indicated, this is the net tax available for reduction by the Form 8396 credit.

**8 Limitation based on tax liability.** *(auto-calc)* Computed as line 3 of the *Credit Limitation Worksheet*, above.

**9 CURRENT YEAR MORTGAGE INTEREST CREDIT.** *(auto-calc)* Computed as the lesser of line 7 or line 8.

The result on line 9 is the total credit available this year and is automatically posted to the Form 8396 component of line 54c of Form 1040.

**PART II, MORTGAGE INTEREST CREDIT CARRYFORWARD TO 2015.** If line 9 is less than line 7, you may have a carryforward to 2015.

**Carryforward limit (if nonzero).** *(auto-calc)* If the credit rate on line 2 is more than 20%, you are subject to the same \$2,000 limit (or prorated lesser amount) on carryforwards as you are for line 3. If so, the limit will appear here automatically, and the sum of carryovers resulting at lines 14, 16, and 17 is limited to this amount. If zero appears here you are not subject to a limit. **EXCEPTION:** *If you itemized the special line "Explain special calc for line 3," no amount will appear here and you must override this line to enter any limit that applies.*

**10 Add lines 3 and 4.** *(auto-calc)* Computed as indicated.

**11 Amount from line 7.** *(auto-calc)* Computed as indicated.

**12 Larger of line 9 or line 10.** *(auto-calc)* Computed as indicated.

**13 Subtract line 12 from line 11.** *(auto-calc)* Computed as indicated.

**14 2013 CREDIT CARRYFORWARD TO 2015.** *(auto-calc)* Computed as the smaller of line 6 or line 13, but no more than any limit shown on the line "Carryforward limit (if nonzero)."

**15 Subtract line 14 from line 13.** *(auto-calc)* Computed as indicated.

**16 2012 CREDIT CARRYFORWARD TO 2015.** *(auto-calc)* Computed as the smaller of line 5 or line 15, but no more than any limit shown on the line "Carryforward limit (if nonzero)" less the amount on line 14.

**17 2014 CREDIT CARRYFORWARD TO 2015.** *(auto-calc)* Computed as line 3 less line 9, but no less than zero, but no more than any limit shown on the line "Carryforward limit (if nonzero)" less the amounts on lines 14 and 16.

The sum of lines 14, 16, and 17 is the total carryforward to 2015, to be entered on lines 5, 4, and 6, respectively, of the 2015 Form 8396.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8582 / Passive Activity Loss Limitations

**Passive loss limitations.** The passive loss limitations created by the *Tax Reform Act of 1986* apply to income and loss from a number of popular investments, including rental property and limited partnerships. They prevent you from deducting losses from passive activities to the extent that they exceed gains from passive activities in the same year. You eventually get to deduct the unallowed losses, however, through carryforward to years with passive gains or reclassification as nonpassive losses in the year of sale.

**Fully automatic for most liable taxpayers.** This form is automatically generated and completed upon final recalculation when any passive losses are reported on the return, unless you chose to block its auto-creation. This means that returns that have a Schedule C, D, E, F, or Form 4797 will have a Form 8582 if ANY passive losses are claimed. Although the form is automatic, you will have to access this form yourself to supply additional information on passive activities reported on forms that are NOT built into the software.

**Material vs. significant participation.** You are required to classify your activities on most income and loss worksheets throughout the return as passive or nonpassive. The instructions for making the determination, however, have never been clear, and have changed in subtle ways over the years as the IRS has tried to clarify the rules in a number of temporary regulations. You can classify certain activities as nonpassive activities only if you "materially participate" in the operation of the business. You generally qualify if you participate more than 500 hours in the year, but you should refer to IRS Pub. 925 (*Passive Activity and At-Risk Rules*) for details. If you cannot satisfy the requirements for material participation, you may fall under the rules for "significant participation." You are tentatively considered to be a significant participant if you participated in the activity for more than 100 hours but no more than 500 hours during the tax year. If the net of ALL significant participation activities throughout the return taken together is a gain, no amounts from these activities should be used in Form 8582, so the benefit of offsetting passive gains against passive losses from other activities is not available. If the net is a loss, all amounts will be used in Form 8582, so the limitations on passive losses apply. As a result, significant participation has all the limitations on losses that no participation has, but none of the benefits that allow passive gains to offset losses from other passive activities. However, an escape clause introduced in 1988 makes this classification relatively rare in practice: If the aggregate number of hours of participation for ALL significant participation activities on the return COMBINED is more than 500 hours, then the participation will be considered as material participation for ALL such activities rather than significant participation. See IRS Pub. 925 (*Passive Activity and At-Risk Rules*) for further details and restrictions.

**How unallowed losses are carried over to future years.** The passive loss rules effectively block you from deducting passive losses that exceed passive gains as they arise. They instead defer the deductions until passive gains are realized or you sell the property. The carryovers of unallowed losses to future years is automated by the software through its "translate" feature. But if you enter the

carryovers yourself instead of using the "translate" feature, you must make the entries on the forms to which they apply, NOT directly on Form 8582. (For example, you would enter prior unallowed loss for active rental real estate directly on Schedule E on the line labeled "Prior loss for 8582 line 1c.") Form 8582 is accessible through the Road Map at the lines for "loss unallowed in 2014" that appear on all forms and schedules that it supports (including Schedules C, D, E, F, and Forms 4797 and 6252). TIP: Even though the software does not require you to complete any of the IRS Worksheets for Form 8582, you may want to keep a property-by-property record of losses allowed and unallowed over the years by producing "Quick Print" printouts of the various worksheets that the software provides in support of Schedules D, E, Form 4797, etc., because this type of printout shows both all your entries and the unallowed loss attributed to each property. For an accurate record, however, you must produce the printouts only after the return is complete.

**How unallowed losses are allowed when you sell.** If your sale does not constitute an entire disposition of the property, the handling of the gains and losses for the year is the same as if you had not sold any portion of the property. But if your sale does represent an entire disposition, the previously unallowed losses are then allowed in one of two ways:

**If the net of all gain and loss for the activity is an overall gain** for the year, all gains and losses retain their passive classification and you must report them as you normally would. Accordingly, you report unallowed losses on the forms and schedules from which they arose, as "prior passive unallowed loss." The losses will be allowed through Form 8582, however, because they are offset by passive gains from the same activity.

**If the net of all gain and loss for the activity is an overall loss** for the year, all gains and losses are reclassified as nonpassive and you must report all gains and losses as nonpassive gains and losses on the same forms and schedules as you normally would use. The losses will be allowed without involving Form 8582 because they are nonpassive. However, you must generally change several entries to effect the reclassification, as follows. Remove any remaining unallowed losses for the activity from the "prior unallowed loss" lines on the forms and schedules themselves. Reenter those losses as nonpassive losses on the worksheets that support them. Identify amounts on all worksheets for the activity as nonpassive, either through changing the answer to the relevant question or actually moving entries to different lines.

For Gain/Loss Worksheets that support Schedule D and Form 4797, you must remove this activity's contribution to the "prior unallowed" entries on those forms, then return to the worksheets themselves and change your entry for "Entire interest sold" to Yes.

For Rental/Royalty Worksheets for Part I of Schedule E, you must remove this activity's contribution to the "prior unallowed" entries above line 22 of Schedule E, then return to the worksheets themselves and change your entry for "Qualifies as nonpassive" to Yes

and move the amounts on the "PRIOR-year unallowed" line to line 19. Now return to Schedule E again and enter, for line 19 (19 Describe other:), "Sale (prior loss)."

*For the Partnership and S Corps Worksheets* for Part II of Schedule E, you must remove this activity's contribution to the "prior unallowed" entries between lines 29a and 29b of Schedule E, then return to the worksheets themselves and move your entries for "PASSIVE loss on K-1" and "PRIOR-year unallowed loss" to line i ("NONPASSIVE loss"), and move your entries for line h ("PASSIVE income") to line k (NONPASSIVE income).

*For the Estates and Trusts Worksheets* for Part III of Schedule E, you must remove this activity's contribution to the "prior unallowed" entries between lines 34a and 34b of Schedule E, then return to the worksheets themselves and move your entries for "PASSIVE loss on K-1" and "PRIOR-year unallowed loss" to line e ("NONPASSIVE loss"), and move your entries for line d ("PASSIVE income") to line f (NONPASSIVE income).

**Grouping of activities.** In order to simplify reporting, you can generally group activities that make up a meaningful economic unit for the purpose of applying passive activity rule. However, *for tax years that begin after January 24, 2010, you are subject to special disclosure requirements.* See the *IRS 2014 Instructions for Form 8582* for detailed guidance on grouping activities and the disclosure requirements that must be made with your calendar year 2014 return.

**SIGNIFICANT PARTICIPATION SUMMARY.** The appropriate handling of significant participation activities cannot be determined until ALL such activities in the return have been reported, because the handling depends on the result for the final question in this section: "Net gain for ALL significant participation activities?" If the answer is Yes, then all significant participation activities must be reported as nonpassive throughout the return. But if the answer is No, all significant participation activities must be reported as passive, and the losses will therefore be limited by the passive loss rules.

**Significant participation net on Schedules C, D, E, and F, and Forms 4797, 4835, and 6252.** *(auto-calc lines)* Posted automatically from the indicated forms and schedules.

**Other significant participation net.** Enter any significant participation net for forms *NOT* built into the software and for Part III of Form 4797 (for which the significant participation rules are not automated).

**Significant participation net on entire return.** *(auto-calc)* Computed as the sum of the above eight lines.

**Net gain for ALL significant participation activities?** *(auto-calc)* Automatically Yes unless the above result is a loss.

The answer to the last question is posted to all of the above forms and schedules so that the significant participation amounts are properly handled, including their posting back to Form 8582 as passive activity amounts when appropriate.

**ACTIVE RENTAL REAL ESTATE.** Entries from forms and schedules that are built into the software are posted here automatically, but you must enter any applicable gains and losses from other forms here yourself:

**Transfers from Schedule E, Form, Form 4835, and Form 6252 for lines 1a, 1b, and 1c.** *(auto-calc lines)* Gains and losses and passive loss carryovers throughout the return identified as related to active rental real estate are posted to these lines.

**Other Active Rental Real Estate.** *(Supported by the Passive Activity Worksheet, Figure 2-64.)* The first two lines are supported by the same set of worksheets, described next. You must enter any carryover of prior unallowed loss for this property on the third line as well as the worksheet.

The automatic entries are summed with the worksheet entries and carried to lines 1a through 1d of Part I of this form (described later).

**PASSIVE ACTIVITIES.** All other passive activities are reported here. Most of the entries are automatic, from numerous sources, but you must enter yourself any gains and losses and prior unallowed loss from passive activities on forms not built into this software:

**Transfers from Schedules C, D, E, and F, and Forms 4797, 4835, and 6252 for lines 3a, 3b, 3c.** *(auto-calc lines)* Several screens full of passive amounts appear here from the forms and schedules that are built into the software.

**Other Passive Activities.** *(Supported by the Passive Activity Worksheet, Figure 2-64.)* The first two lines are supported by the same set of worksheets, described next. You must enter any carryover of prior unallowed loss for this property on the third line as well as the worksheet.

The automatic entries are summed with the above manual entries and carried to lines 3a through 3d of Part I of this form.

**Passive Activity Worksheet, Figure 2-64.** This worksheet is used ONLY for reporting passive gains and losses that are NOT reported in the forms built into this software:

PASSIVE ACTIVITY WORKSHEET		
	Name of activity.....	
	Form or Sched to Report On	
	Net income or loss...	0
a.	Gain.....	0
b.	Loss.....	0
	PRIOR-year unallowed loss	0
	Net elsewhere for same activity	
	Total loss subj. to limitation	0
	Unallowed THIS yr on 8582	0

Figure 2-64. Passive Activity Worksheet

**Name of activity.** Identify the activity in 25 characters or less.

**Form or Schedule to Report On.** Identify the form to which this worksheet applies (for record-keeping, not automatic transfers).

**Net income or loss.** Enter income as a positive and loss as a negative.

Enter here only amounts for the current year's transactions. Unused carryovers from prior years are NOT entered on the worksheet.

**a Gain.** *(auto-calc)* The same as the above entry for net income when that entry is positive; otherwise, zero.

**b Loss.** *(auto-calc)* The above entry for net income (expressed as a positive number) when that entry is negative; otherwise, zero.

**PRIOR-year unallowed loss.** Enter the unallowed loss last year for this activity. If more than one activity is reported directly on these Form 8582 worksheets, you must allocate that total unallowed loss among all activities in these worksheets. CAUTION: You must also enter, on Form 8582 itself, the total of this entry for all worksheets combined on the line "Prior unallowed for 1c" or "Prior unallowed for 3c" (depending on whether you accessed the worksheet from screen 3 or screen 6 of Form 8582).

**Net elsewhere for the same activity.** If other transactions for the same passive activity appear elsewhere on the return, you must enter the net gain or loss from all such other transactions here in order for the allocation of unallowed losses among the various worksheets to be performed in strict conformance with the IRS rules. If the sum of the net on this line plus the net shown above for this particular transaction is an overall gain, all losses for this worksheet are allowed in full (and more of the total disallowance on Form 8582 is allocated to other passive activities).

**Total loss subject to limitation.** *(auto-calc)* If the sum of the net on this worksheet (before disallowances) plus the net elsewhere for the same activity is an overall gain, or the net on this worksheet is not a loss, the result here is zero. Otherwise the net loss on this worksheet (before disallowances) appears here as a positive amount, for use in Form 8582 to allocate unallowed losses among activities.

**Unallowed THIS year on Form 8582.** *(auto-calc lines)* Computed using the math on the IRS worksheets without requiring you to complete any IRS worksheets yourself, this result is assured of full accuracy *ONLY* when you view the worksheet after the final recalculation of the return.

CAUTION: Because the forms to which these worksheets relate are not built into the software, you must reflect the amounts "Unallowed THIS year" on those forms yourself.

**PART I, 2014 PASSIVE ACTIVITY LOSSES.** The entries from all of the preceding sections are consolidated here into two sections.

**Rental Real Estate (Active).** Gains and losses for rental real estate in which you actively participated are summarized first. :

- 1a Activities with net income.** *(auto-calc)* The sum of all gains for line 1a from all sources.
- 1b Activities with net loss.** *(auto-calc)* The sum of all losses for line 1b from all sources.
- 1c Prior year unallowed losses.** *(auto-calc)* The sum of all prior unallowed losses for line 1c from all sources.
- 1d Combine lines 1a, 1b, and 1c.** *(auto-calc)* Computed as the gain on line 1a less the losses on lines 1b and 1c. If a loss, up to \$25,000 of the loss is deductible in the current year, depending on AGI, as computed in Part II.

**Commercial Revitalization Deductions From Rental Real Estate Activities.** Deductions in this category are treated more favorably than rental real estate net losses in line 1d. However, only buildings placed in service before 2010 qualify. Nevertheless, you could have current-year deductions and/or carryforwards:

- 2a Commercial revitalization deductions.** Enter the total of all current-year deductions that are qualified. You could have a current-year deduction only if you previously elected to ratably take the deduction over a 10-year period that included 2014, since buildings placed in service after 2009 do not qualify.
- 2b Prior year unallowed commercial revitalization deductions.** Enter the deductions disallowed in the prior year.
- 2c Add lines 2a and 3b.** *(auto-calc)* Computed as indicated. \$25,000 of this deduction is deductible in the current year, irrespective of AGI, as computed in Part III.

**Other Passive Activities.** Gains and losses for all other passive activities are summarized next:

- 3a Activities with net income.** *(auto-calc)* The sum of all gains for line 3a from all sources.
- 3b Activities with net loss.** *(auto-calc)* The sum of all losses for line 3b from all sources.
- 3c Prior year unallowed losses.** *(auto-calc)* The sum of all prior unallowed losses for line 3c from all sources.
- 3d Combine lines 3a, 3b, and 3c.** *(auto-calc)* Computed as the gain on line 3a less the losses on lines 3b and 3c.

**4 Combine lines 1d, 2c, and 3d.** *(auto-calc)* Computed as indicated, this is the combined net gain or loss from all passive activities throughout the return.

**PART II, SPECIAL ALLOWANCE FOR RENTAL REAL ESTATE.** A special exception to the passive loss rules is provided for rental real estate in which you actively participate. However, married taxpayers filing separately who lived together anytime during the year are *NOT* eligible. (Be sure to properly answer the "Lived apart?" question in the first screen of our Form 1040 for proper treatment if married filing separately.) Up to \$25,000 of rental losses are exempt from the limitations, but the amount exempted decreases as AGI increases, as detailed below:

**5 Smaller of loss on line 1d or loss on line 4.** *(auto-calc)* As indicated.

**6 Enter \$150,000 (unless married filing separately).** *(auto-calc)* \$150,000 for most filers, but \$75,000 for MFS filers if answered Yes to "Lived apart from spouse all year" on Form 1040, and zero otherwise.

**Modified AGI as computed.** *(auto-calc)* Computed from Form 1040 as AGI (line 38) with the following modifications:

plus passive net losses included in the above AGI,

less taxable social security benefits (Form 1040, line 20b),

plus deductible part of self-employment tax (Form 1040, line 27),

plus your and spouse's IRA deductions (Form 1040, line 32),

plus any exclusion of interest for Series EE U.S. Savings Bonds (Schedule B, line 3),

plus exclusion of adoption benefits (Form 8829, line 30),

plus student loan interest deduction (Form 1040, line 33),

plus tuition and fees deduction (included in Form 1040, line 35),

plus domestic production activities deduction (included in Form 1040, line 35).

**Other adjustment to AGI.** Enter any other adjustments described in the IRS instructions, such as an overall loss from a publicly traded partnership (PTP), nonpassive real estate loss for real estate professionals, and deductions for plans other than IRAs.

**7 Modified adjusted gross income.** *(auto-calc)* Computed as the modified AGI as computed plus the above adjustment.

**8 Subtract line 7 from line 6.** *(auto-calc)* As indicated.

**9 Multiply line 8 by 50%.** *(auto-calc)* Computed as half of line 7, but no more than \$25,000 for most taxpayers. For MFS filers the limit is \$12,500 if you lived apart the entire year and zero otherwise.

**10 Smaller of line 5 or line 9.** *(auto-calc)* As indicated.

The effect of the special allowance for most taxpayers is to exempt the first \$25,000 of losses from the passive loss rule, subject to a reduction of the allowance to zero as income rises from \$100,000 to \$150,000. But the allowance is halved for MFS filers who lived apart the whole year, and NO allowance is allowed for MFS files who lived together anytime during the year. ***CAUTION: The software is unusually sophisticated in automating this form; if you think you need to override a calculation, it is probably because you are unaware of a subtlety of the law that the software takes into account.***

**PART III, SPECIAL ALLOWANCE FOR COMMERCIAL REVITALIZATION DEDUCTIONS FROM RENTAL REAL ESTATE ACTIVITIES.** Commercial revitalization deductions are eligible for the same kind of allowance as given in Part II, but without the phaseout of the allowance as AGI increases. However, it is integrated with Part II so that no more than \$25,000 is allowed for the two parts combined.

- 11 \$25,000 reduced by line 10.** *(auto-calc)* Computed as indicated for most filers, but the \$25,000 figure is reduced to \$12,500 for MFS filers who answered Yes to "Lived apart from spouse all year" on Form 1040, and zero otherwise.
- 12 Enter the loss from line 4.** *(auto-calc)* Taken from line 4 as indicated.
- 13 Reduce line 12 by the amount on line 10.** *(auto-calc)* Computed as line 12 less line 10.
- 14 Smallest of line 2c, line 11, or line 13.** *(auto-calc)* As indicated.

**PART IV, TOTAL LOSSES ALLOWED.** This section is fully automatic, based on the results in Parts I, II, and III.

- 15 Income on lines 1a and 3a.** *(auto-calc)* If line 4 shows a net loss, then the income on lines 1a and 3a appears here, because these gains offset a corresponding amount of losses.
- 16 TOTAL LOSSES ALLOWED from all passive activities for 2014.** *(auto-calc)* If line 4 shows a loss, then the sum of lines 10, 14, and 15 appears here. Otherwise all losses reported here appear (the sum of lines 1b, 1c, 2a, 2b, 3b, and 3c) because all losses are offset by gains and therefore allowed. (The IRS form states that this line is always the sum of lines 10, 14, and 15, but that result would overstate the amount of losses claimed and allowed when gains exceed losses.)

The result on line 16 is the amount of loss allowed for the year from all passive activities combined.

**Total of unallowed losses.** *(auto-calc)* If line 4 is less than zero (that is, shows an overall passive loss throughout the return), then this line is computed by adding line 4 and line 15, setting it to zero if it is greater than zero, then entering the resulting loss here as a positive amount. *This is the sum of all unallowed amounts for 2014 that must be allocated among the various forms and schedules that have passive activity losses,* which is done in the next section.

**SUMMARY OF LOSS ALLOCATION.** Losses that are unallowed because of the passive loss limitations are not applied arbitrarily among your activities. The IRS requires that you apply them in a particular pro rata manner, and has designed a set of worksheets to help you do this. The software, however, performs the allocations for you by implementing the worksheets internally. You can see how the allocation was applied by viewing this last section of Form 8582 on the screen. *All lines in this section are posted automatically to the proper forms and schedules* except for the following:

- Unallowed commercial revitalization deductions.** *(auto-calc)* This is the amount of disallowance attributable to deductions you entered on

lines 2a and 2b of Form 8582. You should use this disallowance to determine the amount to enter on the appropriate form.

**Unallowed elsewhere, active rental real estate.** *(auto-calc)* This is the amount of disallowance attributable to activities for which you entered data directly on the Passive Activity Worksheets in the "Other Active Rental Real Estate" section of Form 8582 yourself, and are therefore destined for forms NOT built into the software.

**Unallowed elsewhere, all others.** *(auto-calc)* This is the amount of disallowance attributable to activities for which you entered data directly on the Passive Activity Worksheets in the "Other Passive Activities" section of Form 8582 yourself, for forms *not* built into the software.

**CAUTION-W/S ERROR on return is.** *(auto-calc)* Any remaining amount here indicates that somewhere in the return the worksheets do not agree with the totals on Form 8582. The usual error is a failure to enter a prior unallowed loss on a worksheet. All prior unallowed losses appearing on lines 1c and 3c of Form 8582 must be properly allocated among all the worksheets in the return. This means that you must create worksheets yourself for any prior unallowed loss for an activity with no current income or loss on the same form, so that the sum of all prior unallowed losses on all worksheets throughout the return matches the totals on Form 8582.

**IRS WORKSHEETS 1 THROUGH 7.** The IRS provides these worksheets to help you determine the proper allocation of unallowed losses among activities. However, Tax Preparer performs accurate allocations without using these manually-prepared worksheets through its sophisticated mathematical approach to the passive activity regulations. Therefore, these worksheets are totally unnecessary for an accurate return with this software unless you report the amounts on forms not built into the software or claim commercial revitalization deductions. Although the IRS now instructs you to file these worksheets with your return, they are still not required for an e-file return and must therefore still be considered optional. Nevertheless, we have built the manually-prepared worksheets into the software so that you can complete them for the IRS if you choose to do so. If you do, you must complete them in order because totals from some worksheets are used on subsequent worksheets.

**Omit worksheets from printouts?** You can control whether or not these worksheets are included with the official printout or e-file output of the complete return through your answer to this question, which appears on screen 10 of our Form 8582, above the access to Worksheet 1. *You should answer No only if you have taken the time to complete all worksheets that apply to your Form 8582.*

**Extra line for personal memos.** The supporting statement you create for this line (at the bottom of the last screen of Form 8582) will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8586\* / Low-Income Housing Credit

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition. See the separate Partnership Edition manual for details on the version of Form 8586 that is built into the Partnership Edition software.

**Purpose.** This form is used to claim credit for placing in service a new qualified low-income housing building. Form 8586 is accessible through the Road Map from screens 3 and 4 of Form 3800, to which its results are posted. These results are then posted to lines 1d and 4d of the appropriate copy of Form 3800, Part III.

**CAUTION:** Additional entries may be required on Form 3800. Unless you make additional entries on screen 3 or 4 of the main Form 3800, the credit is initially assumed to be a Category A credit (General Business Credit from a Non-passive Activity) and posted to line 1d or 4d of Copy 2 of Form 3800, Part III. (Copy 2 of Form 3800, Part III, is reserved for the General Business Credit from a Non-passive Activity.) If the credit stems from a passive activity, or you have any carryforwards or carrybacks, you must indicate on Form 3800 screen 3 or 4 that it is not a Category A credit and manually enter the credit on line 1d or line 4d of the appropriate copy of Form 3800, Part III. Also, if the credit originated from a pass-through entity, you must enter the EIN of the entity on the copy of Form 3800, Part III, that you use.

**Filing of form not always required.** If the only entry you have for Form 8586 is on line 4, you do not have to file Form 8586 but can instead enter directly on line 1d or 4d of the appropriate copy of Form 3800 the amount of credit and the EIN of the pass-through entity from which you received the credit you would have entered on line 4 of Form 8586.

**Recapture.** You may have to pay a recapture tax in the future if, within 15 years of the date placed in service, your ownership in the building changes, the basis of the building decreases, or the building fails to meet the minimum set-aside requirements. Recapture is reported on Form 8611, which is also built into the software at the Premium Level.

**e-file restricted.** Because a copy of Form 8609-A, *Annual Statement for Low-Income Housing Credit*, must be attached to the return for each property claimed in lines 1 through 3 or 8 through 10 of Form 8586, and *Form 8609-A is not built into the software*, e-file is not allowed if there is any entry on lines 1 through 3 or 8 through 10. If you must use lines 1 through 3 or 8 through 10 then you must file a paper return instead and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.

**PART I, BUILDINGS PLACED IN SERVICE BEFORE 2008.** The full credit is reported here for buildings placed in service before January 1, 2008. Tax liability limitations are then applied on Form 3800. Buildings placed in service on January 1, 2008 or later are reported in Part II, not here, for more favorable treatment, thanks to tax legislation in 2008.

**1 Number of Forms 8609-A attached.** If you use lines 1 through 3 you *must* attach copies of the associated Form 8609-A for each building. You must have a Form 8609 signed by an authorized housing credit agency official, which you must keep with your records for 3 years after the 15-year compliance period ends. *Enter here only the number of Forms 8609-A applicable to buildings placed in service before 2008.* (Buildings reported here could have been placed in service as long as 10 years ago because the credit is generally taken over a 10-year period.)

**Itemize if multi-building projects.** If any Form 8609-A you counted in line 1 is for buildings that are part of a multiple building project, you *must* supply certain information in a supporting statement for *this* line (not line 1). For each multiple building project you must provide the name and address of the project and the total credit claimed for the project. For each building within the project you must enter its name and address, building identification number (BIN), and the amount of credit allocated to the building.

**2 Has there been a decrease in the qualified basis of any buildings accounted for in line 1 since the close of the preceding tax year?** If Yes, you must enter the building identification numbers (BINs) of any such buildings on the following lines:

(i), (ii), (iii), (iv). Use these lines to supply the 9-digit BIN for up to four buildings. If you make an entry on any of these lines, the answer to line 2 is forced to be Yes.

**Itemize if 5 or more BINs.** If more than four buildings had a decreased basis, itemize this line to supply the BINs for the buildings.

**3 Current year credit from attached Form(s) 8609-A.** Enter here the sum of credit on all Form(s) 8609-A *completed for buildings placed in service before January 1, 2008*, which you must attach to the return. (A separate copy of Form 8609-A is prepared for each building, and the credit for that building is computed on that form.)

**4 Low-income housing credits from pass-through entities.** Enter here any low-income housing credit for buildings *placed in service before January 1, 2008*, from a pass-through entity (S corporation, partnership, estate, or trust). The appropriate amounts are shown as codes A and B in box 13 of Schedule K-1 (Form 1120S), and codes A and B in box 15 of Schedule K-1 (Form 1065). For Schedule K-1 (Form 1065-B), if a monetary entry appears in box 8, that amount applies only to buildings placed in service before 2008 and is reported here; otherwise, the amount for this line is identified in a supporting statement for box 8. For Schedule K-1 (Form 1041), the amount for this line is identified in a supporting statement for code C in box 13. *(The distinction between entities subject to section 42(j)(5) and those that are not is not relevant for a Form 1040 return, so the sum of the two amounts shown on Schedules K-1 from partnership and S corporations is reported here.)*

**CAUTION: Additional entry on Form 3800 always required if you have an amount on line 4.** Thanks to the IRS's complex new design of Form 3800, manual entries are now required on Part III of that form when you have credit from a pass-through entity. You must now enter the EIN of the entity in column (b) of line 1d of the copy of Form 3800, Part III, that applies to this credit. (There are 10 copies available to handle the 8 unique IRS categories plus a consolidated copy and an unattached copy.)

**5 Add lines 3 and 4. (*auto-calc*)** Computed as indicated, this is the total credit for Part I before any passive activity or tax limitations are applied.

**CAUTION: Additional entries may be required on Form 3800.** If this is a general business credit from a non-passive activity, you're done (unless you have to enter an EIN as noted above). The credit will be automatically posted to screen 3 of Form 3800, and copy 2 of Form 3800, Part III (for category A) will be automatically created with the result from line 5, above, posted to line 1d of Form 3800, Part III. But if the credit is from a passive activity, you must indicate this fact by an entry on screen 3 of Form 3800 and then enter the result from line 5 of Form 8586 on the copy of Form 3800, Part III that applies to your credit.

*Lines 6 and 7 apply only to estates and trusts, not Form 1040 returns:*

**6 Amount allocated to beneficiaries of the estate or trust. (*auto-calc*)** Always zero because it applies only to estates and trusts, not individuals.

**7 Estates and trusts. Subtract line 6 from line 5. (*auto-calc*)** Always zero because it applies only to estates and trusts, not individuals.

**PART II, BUILDINGS PLACED IN SERVICE AFTER 2007.** Credit is reported here for buildings placed in service after December 31, 2007. Passive activity limitations are applied here, and the limited credit is reported on line 29d of Form 3800. Tax liability limitations are then applied on Form 3800, but *without the usual reduction by the tentative minimum tax. Buildings placed in service before January 1, 2008 are reported in Part I, not here,* and are subject on Form 3800 to reduction by the tentative minimum tax.

**8 Number of Forms 8609-A attached.** If you use lines 8 through 10 you must attach copies of the associated Form 8609-A for each building. You must have a Form 8609 signed by an authorized housing credit agency official, which you must keep with your records for 3 years after the 15-year compliance period ends. Enter here only the number of Forms 8609-A applicable to buildings placed in service after December 31, 2007.

**Itemize if multi-building projects.** If any Form 8609-A you counted in line 8 is for buildings that are part of a multiple building project, you must supply certain information in a supporting statement for this line (not line 8). For each multiple building project you must provide the name and address of the project and the total credit claimed for the project. For each building within the project you must enter its name and address, building identification number (BIN), and the amount of credit allocated to the building.

**9 Has there been a decrease in the qualified basis of any buildings accounted for in line 8 since the close of the preceding tax year?** If Yes, you must enter the building identification numbers (BINs) of any such buildings on the following lines:

(i), (ii), (iii), (iv). Use these lines to supply the 9-digit BIN for up to four buildings. If you make an entry on any of these lines, the answer to line 9 is forced to be Yes.

**Itemize if 5 or more BINs.** If more than four buildings had a decreased basis, itemize this line to supply the BINs for the buildings.

**10 Current year credit from attached Form(s) 8609-A.** Enter here the sum of credit on all Form(s) 8609-A completed for buildings placed in service after December 31, 2007, which you must attach to the return. (A separate copy of Form 8609-A is prepared for each building, and the credit for that building is computed on that form.)

**11 Low-income housing credits from pass-through entities.** Enter here any low-income housing credit for buildings placed in service after December 31, 2007, from a pass-through entity (S corporation, partnership, estate, or trust). The appropriate amounts are shown as codes C and D in box 13 of Schedule K-1 (Form 1120S), and codes C and D in box 15 of Schedule K-1 (Form 1065). For Schedule K-1 (Form 1065-B), the amount for this line is identified in a supporting statement for box 8. For Schedule K-1 (Form 1041), the amount for this line is identified in a supporting statement for code C in box 13. *(The distinction between entities subject to section 42(j)(5) and those that are not is not relevant for a Form 1040 return, so the sum of the two amounts is reported here.)*

**CAUTION: Additional entry on Form 3800 always required if you have an amount on line 11.** Thanks to the IRS's complex new design of Form 3800, manual entries are now required on Part III of that form when you have credit from a pass-through entity. You must now enter the EIN of the entity in column (b) of line 4d of the copy of Form 3800, Part III, that applies to this credit. (There are 10 copies available to handle the 8 unique IRS categories plus a consolidated copy and an unattached copy.)

**12 Add lines 10 and 11. (auto-calc)** Computed as indicated, *this is the total credit for Part II before any passive activity or tax limitations are applied.*

**CAUTION: Additional entries may be required on Form 3800.** If this is a general business credit from a non-passive activity, you're done (unless you have to enter an EIN as noted above). The credit will be automatically posted to screen 4 of Form 3800, and copy 2 of Form 3800, Part III (for category A) will be automatically created with the result from line 12, above, posted to line 4d of Form 3800, Part III. *But if the credit is from a passive activity, you must indicate this fact by an entry on screen 4 of Form 3800 and then enter the result from line 12 of Form 8586 on the copy of Form 3800, Part III that applies to your credit.*

*Lines 13 and 14 apply only to estates and trusts, not Form 1040 returns:*

**13 Amount allocated to beneficiaries of the estate or trust.** *(auto-calc)* Always zero because it applies only to estates and trusts, not individuals.

**14 Estates and trusts. Subtract line 13 from line 12.** *(auto-calc)* Always zero because it applies only to estates and trusts, not individuals.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8594\* / Asset Acquisition Statement Under Section 1060**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition.

**Purpose.** This form is used to satisfy a reporting requirement when there is a transfer of a group of assets that make up a trade or business and the purchaser's basis in such assets is determined wholly by the amount paid for the assets. In this context, a group of assets makes up a trade or business if goodwill or going concern value could attach to such assets. Form 8594 must be filed by *both* the purchaser and the seller with their returns for the year in which the sale occurred. It must also be filed in any subsequent year in which there is a change in the purchaser's cost of the assets or a change in the amount realized by the seller. Although Form 8594 is generally filed with the tax return of the individuals or entities involved, it is not tied to any form in the return and does not affect any calculations. It is therefore *accessible only from the Forms Menu* and not through the Road Map.

**Classes of assets.** The assets that comprise the sale are reported in seven IRS-defined classes. Common assets that fall into each class are referenced in our instructions that follow, but you should read the IRS Instructions for Form 8594 for more detailed definitions and examples. For the year of the sale you must report in Part II of Form 8594 the part of the sales price that relates to each class. In any subsequent year you must report in Part III of Form 8594 any subsequent change in these allocations.

**Identify your role.** You must identify your role in the transaction reported on this form. Answer the first question below and the second question is automatically the opposite:

**Are you the purchaser.** Answer Yes if you are the buyer, No if you are the seller.

**Are you the seller.** *(auto-calc)* Automatically the opposite of the preceding answer.

**PART I, GENERAL INFORMATION.** All filers must complete this part. You must identify here the sale and the other party in the transaction:

**1 Name of other party to the transaction.** Enter the name of the other party in 35 characters or less.

**Other party's identifying number.** If an individual, enter the SSN of the individual in the standard xxx-xx-xxxx format. Otherwise enter the EIN in the standard xx-xxxxxxx format.

**Address (number, street, and room or suite no.).** Enter the address of the other party in 35 characters or less.

**City or town.** Enter the city or town in 25 characters or less. *(For e-file, only the first 22 characters are recognized by the IRS.)*

**State.** Enter the 2-character state code.

**ZIP code.** Enter the ZIP code in the standard xxxxx-xxxx format.

**2 Date of sale.** Enter the sale date in the standard mo/dy/year format.

**3 Total sales price.** Enter the total consideration transferred for the assets.

**PART II, ASSETS TRANSFERRED.** Complete this part *only for the first Form 8594 that you file* for this group of assets.

**4 Assets by Class.** For each class of assets you must report both the fair market value (FMV) on the sale date and your "allocation of sales price" (the dollar amount you actually attribute to these assets in arriving at the total sales price on line 3). The total for "allocation of sales price" should match the total you entered on line 3.

**Class I.** This class is comprised solely of cash and deposits, but excludes certificates of deposit.

**Actual amount.** For this class you enter the actual dollar amount because the FMV of cash is always the dollar amount because FMV is measured in dollars.

**Allocation of sales price.** Enter the part of the sales price on line 3 that you attribute to assets in this class.

**Class II.** This class includes actively traded personal property and certificates of deposit. See IRS instructions for examples.

**Aggregate FMV.** Enter the fair market value on the date of sale for all assets in this class combined.

**Allocation of sales price.** Enter the part of the sales price on line 3 that you attribute to assets in this class.

**Class III.** This class is comprised of assets that are periodically (at least annually) marked-to-market by the taxpayer. However, see IRS instructions for details on exclusion of debts to related parties and contingent debt.

**Aggregate FMV.** Enter the fair market value on the date of sale for all assets in this class combined.

**Allocation of sales price.** Enter the part of the sales price on line 3 that you attribute to assets in this class.

**Class IV.** This class is comprised of stock in trade and other property includable in inventory.

**Aggregate FMV.** Enter the fair market value on the date of sale for all assets in this class combined.

**Allocation of sales price.** Enter the part of the sales price on line 3 that you attribute to assets in this class.

**Class V.** The class is comprised of all assets that don't fall into any of the other classes.

**Aggregate FMV.** Enter the fair market value on the date of sale for all assets in this class combined.

**Allocation of sales price.** Enter the part of the sales price on line 3 that you attribute to assets in this class.

**Classes VI and VII.** These classes comprise intangibles – goodwill and going concern value for Class VII and all other intangibles for Class VI.

**Aggregate FMV.** Enter here the fair market value on the date of sale for all intangible assets combined.

**Allocation of sales price.** Enter the part of the sales price on line 3 that you attribute to intangibles.

**Total Aggregate FMV (actual amount for I).** *(auto-calc)* Computed as the sum of aggregate FMV for all seven classes combined.

**Total Allocation of sales price.** *(auto-calc)* Computed as the sum of allocation of sales price or all seven classes combined, this total should match the total you entered for line 3.

**Discrepancy with line 3.** *(auto-calc)* Computed as the preceding result less the amount you entered for "Total sales price" on line 3. A discrepancy means that you failed to allocate all sales in line 3 among the classes in line 4 and must correct this omission.

**5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties?** If you answer Yes, you must also answer the second question for line 5.

If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document? Your answer is printed on the form only if you answered Yes to the first question for line 5.

**6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)?** Both the purchaser and the seller must answer this question on their respective Form 8594. See IRS instructions for details. If you answer Yes, you must itemize the next line.

If "Yes," attach a schedule that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. To provide such a schedule itemize this line and enter (a) in the text column and (b) in the amount column for each type of agreement. *Exception for e-file: The IRS looks only at the text column for this line, so you must enter both (a) and (b) in the text column alone!*

**PART III, SUPPLEMENTAL STATEMENT.** Complete this part only for years AFTER the first Form 8594 that you file in order to amend the last Form 8594 filed for this group of assets because of a change in consideration.

**7 Tax year and tax return form number with which the original Form 8594 and any supplemental statements were filed.** If you filed only one prior Form 8594 for this group of assets, enter the year and form number on this line in the format, such as "1999 Form 1040" or "2004 Form 1065." *If you filed more than one Form 8594 in the past, list the prior years in the same format in a supporting statement for this line, accessing the line with the F10 or ctrl-Y key (since you cannot use the i-key to access support on a text line).*

**8 Assets by Class.** For each class of assets you must show the allocation of sales price last reported, the change to be made, and the resulting new allocation of sales price.

**Class I.**

**Allocation of sales price as previously reported.** Enter the amount shown on the last Form 8594 for filed for this group of assets.

**Increase or decrease.** Enter the change to be reported as a positive or negative amount.

**Redetermined allocation of sales price.** *(auto-calc)* Computed as the previous allocation plus your entry on the preceding line.

**Classes II through VII.** The entries for the other classes follow the same 3-line format as Class I.

**Total Allocation as previously reported.** *(auto-calc)* Computed as the sum of previously reported allocations for all seven classes combined, this total should match the total reported on the last Form 8594 you filed.

**Total Redetermined allocation.** *(auto-calc)* Computed as the sum of redetermined allocation for all seven classes combined.

*Itemize to explain change:*

**9 Reason(s) for increase or decrease.** If you use Part III of Form 8594, you must explain your reasons for the changes in a supporting statement for this line, using only the text column.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8606 / Nondeductible IRAs

**Who is it for?** This form is REQUIRED if any of the following apply for 2014:

- you made any nondeductible IRA contributions during 2014 (or during 2015 for 2014),
- you received IRA distributions and have made nondeductible contributions in the past,
- you converted any traditional, SEP, or SIMPLE IRAs to Roth IRAs,
- you recharacterized any Roth IRAs or Roth IRA contributions,
- you received any distribution from a Roth IRA, or
- any other conditions cited in the IRS *2014 Instructions for Form 8606*.

It is to your benefit to complete Form 8606 even when it is not required in order to keep track of changes in basis, which you will need to know when future distributions are received, and to see the limits on your Roth IRA contributions. (Even if you are not required to file a Form 1040, you may still have to file Form 8606 if you received any distributions during the year.)

**Automatically created for excess IRA contributions.** Unless you chose to block its auto-creation through the Control Form, Form 8606 is automatically created for the relevant spouse based on entries on Form 1040 when:

- A distribution was entered on line 15a and the age at year-end for the corresponding spouse is under 60.5.
- The distribution entered on line 15a exceeds the taxable amount on line 15b.
- The IRA contribution entered above line 32 is more than the allowed deduction included in the total shown at line 32.

Form 5329, where penalties are figured on taxable amounts from Form 8606, is automatically created under similar conditions. (You must complete Form 8606 before you complete Form 5329.) ***CAUTION: Even though this form is automatically generated, you will have to access it to report the current value and past basis of your IRA accounts, and to report transactions related to Roth IRAs. Form 8606 is accessible through the Road Map at line 15b and several special access lines on Form 5329.***

**CHARACTERIZATIONS.** A separate Form 8606 is available for each spouse.

**Social security number for this copy.** *(auto-calc)* The social security entered on Form 1040 for the spouse whose copy you chose when you entered Form 8606.

**Is this spouse's copy (vs. you)?** *(auto-calc)* This answer is also automatic based on your choice when you entered.

**Are you filing this form by itself?** If you do not have to file Form 1040 yet you have to file Form 8606 because you received a relevant distribution in the tax year, answer Yes here so that the form will show the name, address, and social security number of the filer and the name, address, and PTIN of the paid preparer, if any (as entered in the Program Settings of the software). The taxpayer, and paid preparer if any, must sign the bottom of page 2 of this form when filed separately from Form 1040.

**Address, city, state, ZIP (and foreign information, if applies).** *(auto-calc lines)* Entries will appear here ***ONLY*** if you answered Yes to the preceding question because the address block at the top of the printed Form

8606 must remain blank if you are filing Form 8606 with the Form 1040 return. When shown, these entries come from your entries on Form 1040. *TIP for foreign addresses: If you are using a foreign address for a Form 8606 that you are filing alone, you should enter the foreign street address and the foreign city in the entries for U.S. street address and city on Form 1040 because only the entries for foreign city, province or state, and postal code are used on the official print-outs in addition to the complete U.S. address.*

Amounts reported on Form 1040, line 15a, are characterized here so that they are properly treated on or omitted from Form 8606.

**IRA distributions on Form 1040 for THIS copy.** *(auto-calc)* Taken from line 15a of Form 1040 for the proper spouse, this amount is used in applying limitations on line 1 of this form. (Each spouse's amounts are reported in the 1099-R Worksheets that support line 15a.)

**ITEMIZE for any entries below.** There are a number of special distributions that must be reported on Form 1040 line 15a yet are not reportable on Form 8606. However, you must identify them to the IRS so that they do not consider your Form 8606 to be inconsistent with your Form 1040. You must therefore show all exclusions in the following lines. *For each of these exceptions you must report details and the amount to be excluded in a supporting statement for the line.* The amounts will then be excluded from distributions for the purposes of Form 8606 and the explanations will be printed with the return, cross-referenced on the official Form 8606 near the Part I title. *CAUTION for e-file: The IRS ignores the amount column in processing your supporting statement, so you must repeat the amount in the text column if it is integral to your explanation.*

**Prior excess contributions returned.** If the above distributions include the return in 2014 of any excess contributions you made prior to 2014, the returned contributions are treated as if they never made. As long as the conditions listed under "Return of Excess Traditional IRA Contributions" on page 5 of the IRS *2014 Instructions for Form 8606* are met, enter any such returned contributions that are included above in a supporting statement for this line, explaining the distribution. *Reminder for e-file: Include the amount in the text column in addition to the amount column if it is integral to your explanation.*

**Other returned contributions.** If any contributions you made to an IRA in 2014 (or in 2015 for 2014) were returned to you (with any related earnings) by the due date (including extensions) of your return, the returned contributions are treated as if they never made. Enter any such returned contributions that are included above in a supporting statement for this line, explaining the distribution. *Reminder for e-file: Include the amount in the text column in addition to the amount column if it is integral to your explanation.* **Exception:** If a returned contribution stems from an excess contribution in a traditional IRA that was the result of incorrect information from the plan, do not include that distribution here. Instead, enter it above line 7 as a special adjustment to line 7.

**Recharacterizations.** Enter on this line all recharacterizations that make the distribution non-taxable. For example, if you converted a traditional, SEP, or SIMPLE IRA to a Roth IRA in 2014, then later recharacterized any of it back, the part recharacterized back is treated as if it the original conversion and later recharacterization never occurred. Enter the amount included above that is transferred back from the Roth IRA in a supporting statement for this line, explaining the conversion and recharacterization. *Reminder for e-file: Include the amount in the text column in addition to the amount column if it is integral to your explanation.*

**Other exclusions (except rollovers).** Report certain other allowed exclusions from the above distributions here, *but see "Exceptions" at the end of this paragraph*. **Examples:** (1) Qualified Roth IRA distributions are generally non-taxable distributions from your Roth IRA. They include Roth IRA distributions (a) on or after age 59½, (b) upon death, and (c) due to disability. Enter only qualified distributions here; you will enter nonqualified Roth IRA distributions a few entries later. Qualified Roth IRA distributions you enter here will generally be omitted from Part III (*Distributions from Roth IRAs*). (2) The transfer of any or all of your traditional, SEP, or SIMPLE IRA to your spouse under a divorce or separation agreement is not taxable to either of you. Any such distributions you enter here will be excluded from line 7. **CAUTION:** *If the divorce or separation agreement affects your basis, you must also enter the necessary adjustment to basis in a supporting statement above line 2.* (Adjustments to basis for a Roth IRA are entered above line 22 or line 24, whichever applies.) **Exceptions:** (1) Although qualified first-time homebuyer expenses are excluded under certain circumstances, you should not include them here. Instead, include them with nonqualified Roth IRA distributions, later, and enter them above line 20 in Part III. If qualified, they will be reflected in line 20 and excluded from line 21. (2) You should not include rollovers here. They are deducted later.

**Net reportable IRA distributions.** (*auto-calc*) Computed as the "IRA distributions on Form 1040 for THIS copy" less the preceding exclusions, this is the net amount to be considered for Form 8606, which includes distributions from both traditional and Roth IRAs.

**Nonqualified Roth IRA distribution for Part III (including qualified first-time homebuyer distributions).** Nonqualified distributions include those made before age 59½ and those made within 5 years of your first contribution to or conversion to your Roth IRA. (See the above paragraph on "Qualified Roth IRA distributions" for more details.) Your entry is limited to the preceding result for "Net reportable IRA distributions." The amount you enter here will be reflected in Part IV of Form 8606, where the taxable part of the distributions is computed. **CAUTION: You MUST include "Qualified First-time Homebuyer Distributions" on this line.** *Qualification of your First-time Homebuyer Distribution is determined in Part III of the form, where you must enter your first-time homebuyer expenses above line 20 and identify whether the Roth IRA is old enough to have a qualified distribution.*

**Traditional, SEP, and SIMPLE IRA converted to Roth IRA.** Enter the amount of the cited IRAs converted to Roth IRAs in 2014. The taxable part of the conversion is figured in Part II of Form 8606.

**Traditional, SEP, and SIMPLE IRA distribution for Part I.** *(auto-calc)* Computed as the "Net reportable IRA distributions" less "Nonqualified Roth IRA distributions for Part IV" and "Traditional, SEP, and SIMPLE distributions converted to Roth IRA," this amount is used in Part I of Form 8606 as the total distributions from traditional, SEP, and SIMPLE IRAs.

**Rollover on Form 1040 for THIS copy.** *(auto-calc)* Taken from the worksheets that support line 15a, this is the part of the IRA distribution that is not taxable because it was used for a timely rollover into another IRA.

**Roth IRA part of the above.** Enter the part of the total for Roth IRAs.

**Traditional, SEP, and SIMPLE IRA part.** *(auto-calc)* Computed as the total rollover for all IRAs less the Roth IRA part.

**PART I, NONDEDUCTIBLE CONTRIBUTIONS TO TRADITIONAL IRAs AND DISTRIBUTIONS FROM TRADITIONAL, SEP, AND SIMPLE IRAs.** This part is used to figure the nondeductible contributions to, taxable distributions from, and basis in your IRA. *In spite of the IRS label for this part, you must supply all information in this part concerning value and basis in order for the Roth IRA part of the form to be properly computed. In particular, Parts I and II of Form 8606 interact even though the wording on Form 8606 does not make this clear.*

The first few lines are provided to give you some visibility of the calculations when you perform tax planning for future tax years:

**Your and spouse's age at the end of the tax year.** *(auto-calc lines)* Taken from your entries for ages on our Form 1040, age now affects the maximum contribution. For 2014, the maximum contributions is raised by \$1,000 for taxpayers age 50 or more by year-end.

**Your and spouse's initial maximum contribution.** *(auto-calc lines)* The initial maximum (before the \$1,000 bonus for age) is \$5,500 starting 2014, not including the extra \$1,000 increments for age noted above.

**Maximum for THIS Form 8606 copy.** *(auto-calc)* Taken as the maximum for the spouse whose Form 8606 is being viewed.

The next few lines summarize the contributions and allowed deduction for those contributions on Form 1040, in order to compute the allowed nondeductible contributions already entered:

**Your earned income limitation.** *(auto-calc)* Wages on Form 1040, plus net self-employment income if a gain, for you.

**Spouse earned income limitation.** *(auto-calc)* Wages on Form 1040, plus net self-employment income if a gain, for spouse.

**IRA contribution entered on Form 1040.** *(auto-calc)* Taken from the contribution you entered on Form 1040 for the spouse you identified for the copy of Form 8606 you are completing.

**IRA deduction claimed on Form 1040.** *(auto-calc)* Taken as the part of line 32 of Form 1040 that applies to the spouse you identified for the copy of Form 8606 you are completing.

**Additional contributed.** Enter here the amount that you voluntarily choose to contribute and not deduct, even though it would be allowed as a deduction on Form 1040. Note that you cannot make contributions to an IRA if you reach age 70-1/2 by year-end, and the software ensures this based on your age entries on our Form 1040. CAUTION: If line 32 of Form 1040 does not increase when you increase the contributions you enter above line 32, no voluntary contributions are allowed and your entry for this line should be zero.

- 1 Nondeductible contributions to traditional IRAs for 2014.** *(auto-calc)* Computed as the contribution on 1040 less the deduction on 1040 plus the additional contributed above (unless you reached age 70-1/2 by year-end), but subject to the usual maximums for traditional IRAs and the limitation to earned income.

**Part made before conversion to a Roth IRA.** Many of the rules involving Roth IRAs depend critically on timing. You must therefore identify the nondeductible contributions made *before* a conversion reported in Part II so that the basis at line 15 properly computed.

**Basis in traditional IRAs.** This is your basis based on 2013 and prior years. Your basis will generally be zero if you made no nondeductible contributions to your traditional IRA in the past. Enter zero if this is the first year you are required to file Form 8606. *TIP: If you filed Form 8606 last year using Tax Preparer and you started the current return by translating the prior-year return with tax year on the Control Form still set to 2013, this entry will already be correct.* Otherwise, if any Form 8606 was filed for the taxpayer after 2000, enter line 14 of the last Form 8606 filed. If none was filed after 2000, but was filed after 1992, enter line 12 of the last Form 8606 filed. If none filed after 1992, but was filed after 1988, enter here line 14 of the last Form 8606 filed. If the last Form 8606 was filed in 1988, enter the sum of lines 7 and 16 of that form. If the last Form 8606 filed was in 1987, enter the sum of lines 4 and 13 of that form. (Amounts from Forms 8606 prior to 1987 are not relevant.) This is the total of all past nondeductible IRA contributions less nontaxable distributions received.

**Divorce/separation adjustment.** If you included a distribution due to divorce or separation in your entry on screen 1 for "Other exclusions (except rollovers)," and that distribution affects your basis your traditional IRA, enter here the corresponding adjustment, which could be positive or negative, in a supporting statement for this line. See the last bullet in the IRS instructions for line 7 (in IRS 2014 *Instructions for Form 8606*) for details on what you must include in the support.

- 2 Total basis in traditional IRAs.** *(auto-calc)* Computed as the sum of the preceding two amounts.

- 3 Add lines 1 and 2.** *(auto-calc)* As indicated.

- 4 Contributions included in line 1 made during January 1, 2015 through April 15, 2015.** If all contributions in excess of your deductible amount were made in 2015, line 4 could be the same as line 1.

**5 Subtract line 4 from line 3. (*auto-calc*)** As indicated if there are any IRA distributions this year for this spouse. Otherwise, zero.

**Distributions pre-rollovers. (*auto-calc*)** Taken from "Traditional, SEP, and SIMPLE IRA distribution for Part I" on screen 1.

**Rollover part of the above. (*auto-calc*)** Taken from the "Traditional, SEP, and SIMPLE part" of "Rollovers on Form 1040 of THIS copy" shown on screen 1.

**Outstanding rollovers.** Enter here all remaining rollovers in the above distributions that were *NOT* yet rolled over by the end of the tax year, yet *ARE* rolled over within the maximum allowed 60-day period to another traditional IRA. This amount is included in line 6, below.

**Part rolled over by 12/31/2014. (*auto-calc*)** Taken as the total rollover less the outstanding rollovers, this is the part of the rollover that *WAS* rolled over by the end of the tax year.

**Distributions without rollovers. (*auto-calc*)** Computed as "Distributions for THIS copy" less "Rollover part of the above," this amount is used for line 7, below.

**Value of traditional, SEP, and SIMPLE IRAs on 12/31/2014 (after all recharacterizations).** Enter the year-end value of all traditional, SEP, and SIMPLE IRAs combined, after any recharacterizations, for the spouse to whom this copy of Form 8606 applies. If you have more than one traditional IRA account you should list the separate accounts in a supporting statement for this line. You should receive the information you need for this line from your trustees by 1/31/2015.

**Special calculations if contributions and distributions in same year.** If net contributions on line 5 exceed the nontaxable portion of distributions taken in the same year, complex instructions in IRS Pub. 590-B (*Distributions from IRAs*) apply. In this case, calculations for lines 6 through 15 may differ from the labels on the form and the IRS Instructions for Form 8606. If you see zero on lines 6 through 9 when the normal computations would produce nonzero results, the special calculations are most likely being performed by the software. For details, see IRS Pub. 590-B (*Distributions from IRAs*) for 2014 returns.

- 6 Value of ALL your traditional, SEP, and SIMPLE IRAs plus outstanding rollovers.** *(auto-calc)* Normally computed as "Value of traditional, SEP, and SIMPLE IRAs on 12/31/2014" *plus* "Outstanding rollovers," but zero if the special calculations noted in the preceding shaded paragraph apply.
- 7 Distributions from traditional, SEP, and SIMPLE IRAs in 2014.** *(auto-calc)* Normally computed as "Distributions without rollovers," but zero if the special calculations noted in the preceding shaded paragraph apply.
- 8 Conversions from traditional, SEP, and SIMPLE IRAs to Roth in 2014.** *(auto-calc)* Unless the special calculations apply, taken from line 16 of Part II of this form (total conversions to Roth in 2014 after any recharacterizations).
- 9 Add lines 6, 7, and 8.** *(auto-calc)* Computed as indicated unless the special calculations apply.
- 10 Divide line 5 by line 9 (to 5 places).** *(auto-calc)* Computed as indicated to 5 decimal places, unless the special calculations apply.
- 11 Multiply line 8 by line 10.** *(auto-calc)* Computed as indicated, unless the special calculations apply. This is the nontaxable part of distributions you converted to Roth IRAs.
- 12 Multiply line 7 by line 10.** *(auto-calc)* Computed as indicated, unless the special calculations apply. This is the nontaxable part of distributions you did *NOT* convert to Roth IRAs.
- 13 Add lines 11 and 12.** *(auto-calc)* Normally computed as indicated, this is the nontaxable part of all of the distributions.
- 14 TOTAL BASIS IN TRADITIONAL IRAs.** *(auto-calc)* Normally computed as line 3 less line 13, this is your basis in traditional IRAs for 2014 and earlier years.
- 15 TAXABLE AMOUNT.** *(auto-calc)* Normally computed as line 7 less line 12, this is the amount taxable this year.

The result on line 15 is reflected in line 15b of Form 1040. Any amount that appears on line 15b of Form 1040 based on the 1099-R Worksheets that support it is overridden by the taxable amounts computed here and on lines 18 and 25 of this form, for both spouses combined.

**PART II, 2014 CONVERSIONS FROM TRADITIONAL, SEP, or SIMPLE IRAs TO ROTH IRAs.** This part is used to figure the taxable conversions from traditional (and SEP and SIMPLE) IRAs to Roth IRAs.

**Distributions converted in 2014.** *(auto-calc)* Taken from your earlier entry for "Traditional/SEP/SIMPLE converted to Roth."

**Recharacterizations (itemize).** You are generally allowed to correct a disallowed conversion by making a transfer back to the traditional IRA before the due date of your return (including extensions). Enter the amount you want to recharacterize in a supporting statement for this line, explaining the details of the recharacterization by breaking your entry into its components: the part that is the original contribution and the part that is earnings, and identify any part that is now deductible. Introduced last year: The former rule that prevented you from making a rollover or conversion to Roth if your modified AGI exceeded \$100,000 no longer applies (starting with tax year 2010). In addition, married taxpayers filing separately are no longer prohibited from these transactions. Recharacterizations are therefore now seldom required.

**16 Conversions to Roth IRAs in 2014.** *(auto-calc)* Computed as the distributions converted less the above recharacterizations, this is the net converted to Roth IRAs during the tax year.

**17 Basis in amount in line 16.** *(auto-calc)* Unless you converted all of your traditional, SEP, and SIMPLE IRAs to Roth IRAs, this is generally a prorated share of the basis you have in these IRAs.

**18 TAXABLE AMOUNT.** *(auto-calc)* Computed as line 16 less line 17, but no less than zero.

The result on line 18 is reflected in line 15b of Form 1040 for 2014. *Any amount that appears on line 15b of Form 1040 based on the 1099-R Worksheets that support it is overridden by the taxable amounts computed here and on lines 15 and 25 of this form, for both spouses combined.*

**INFORMATION FOR PART III (Distributions from Roth IRAs).** Parts III of Form 8606 requires historical information about your Roth IRAs and designated Roth accounts as far back as 1998. If you filed Forms 8606 in the past, much of the information may be available from those forms. Because the data required from 2013 and earlier years can be extensive, we provide a special worksheet for entering the data. If you have any historical data to report, you **MUST** use this worksheet, which is accessible on the next line.

**ITEMIZE to enter pre-2014 amounts.** *(Road Map line, supported by our Roth Worksheet)* The form you access by itemizing this line provides several screens for entering historical data on your Roth IRAs and designated Roth accounts. This data is required for the software to complete several lines on the 2014 Form 8606 and the early distribution for Form 5329, line 1. However, if you started the return by translating the prior-year return, and you had a Form 8606 for that return, MOST of the required information is already entered for you. Otherwise, you must provide any information requested yourself.

**ROTH WORKSHEET.** (*Accessible from all lines on our on-screen Form 8606 labeled "ITEMIZE to enter pre-2014 amounts."*) This multi-screen worksheet is used to collect information from prior Forms 8606 as well as information not reported on Forms 8606 relating to transactions involving Roth IRAs and designated Roth accounts prior to 2014. *This worksheet is critical to the automation of Part III of the 2014 Form 8606, and MUST be completed.* Although most of the entries on this worksheet are translated from the prior-year Form 8606 (provided you started the return by translating the prior-year return as filed, with the tax year retained at 2013), *you must check all entries for omissions because not all amounts are available from the prior-year Form 8606.*

**Is this spouse's copy (vs. you)?** (*auto-calc*) This answer is also automatic based on your choice when you entered.

**Forms 8606 for 1998 through 2013.** Part IV of the current Form 8606 and certain parts of Form 5329 depend on a number of amounts from your prior Forms 8606, so those amounts are entered here. *TIP: Almost all of the amounts from prior Forms 8606 are automatically translated from the prior-year return as long as the prior-year return had a Form 8606 and the tax year for the return was retained at 2013. Otherwise, you must enter the amounts yourself.*

**From your 1998 Form 8606.** Unless already translated, enter the following:

**1998 Form 8606, line 14c.** This is the amount converted to Roth in 1998.

**1998 Form 8606, line 15.** (*auto-calc*) Computed as line 14c, above, less line 16, below. This is your basis in the amount on line 14c.

**1998 Form 8606, line 16.** This is the taxable amount of conversions in 1998, which was eligible for a 4-year spread.

**1998 Form 8606, line 18.** This is the total Roth distributions received in 1998. *CAUTION: This amount is NOT translated from the prior-year Form 8606 because the line did not exist on our on-screen form last year. You must make this entry yourself.*

**1998 Form 8606, line 19c.** This is the amount of Roth contributions (after characterizations) made for 1998. *CAUTION: This amount is translated from the prior-year Form 8606 because the line did not exist on our on-screen form last year. You must make this entry yourself.*

**1998 Form 8606, line 20.** This is the net distribution after deducting contributions.

**From your 1999 Form 8606.** Unless already translated, enter the following:

**1999 Form 8606, line 15.**

**1999 Form 8606, line 16.**

**1999 Form 8606, line 17.**

**1999 Form 8606, line 18d.**

**1999 Form 8606, line 19.** (*auto-calc*) Computed as line 17 less line 18d.

**1999 Form 8606, line 25.**

**From your 2000 Form 8606.** Unless already translated, enter the following:

**2000 Form 8606, line 15.**

**2000 Form 8606, line 16.**

**2000 Form 8606, line 17.**

**2000 Form 8606, line 18d.**

**2000 Form 8606, line 19.** (*auto-calc*) Computed as line 17 less line 18d.

2000 Form 8606, line 25.

From your 2001 Form 8606. Unless already translated, enter the following:

2001 Form 8606, line 17.

2001 Form 8606, line 18.

2001 Form 8606, line 19.

2001 Form 8606, line 20.

2001 Form 8606, line 21. *(auto-calc)* Computed as line 19 less line 20.

2001 Form 8606, line 22.

From your 2002 Form 8606. Unless already translated, enter the following:

2002 Form 8606, line 17.

2002 Form 8606, line 18.

2002 Form 8606, line 19.

2002 Form 8606, line 20.

2002 Form 8606, line 21. *(auto-calc)* Computed as line 19 less line 20.

2002 Form 8606, line 22.

From your 2003 Form 8606. Unless already translated, enter the following:

2003 Form 8606, line 17.

2003 Form 8606, line 18.

2003 Form 8606, line 19.

2003 Form 8606, line 20.

2003 Form 8606, line 21. *(auto-calc)* Computed as line 19 less line 20.

2003 Form 8606, line 22.

From your 2004 Form 8606. Unless already translated, enter the following:

2004 Form 8606, line 17.

2004 Form 8606, line 18.

2004 Form 8606, line 19.

2004 Form 8606, line 22.

2004 Form 8606, line 23 refigured. *(auto-calc)* Computed as line 19 less line 22, this is the 2004 line 23 without any reduction for qualified first-time homebuyer expenses.

2004 Form 8606, line 24.

From your 2005 Form 8606. Unless already translated, enter the following:

2005 Form 8606, line 17.

2005 Form 8606, line 18.

2005 Form 8606, line 19.

2005 Form 8606, line 22.

2005 Form 8606, line 23. *(auto-calc)* Computed as line 19 less line 22, this is the 2005 line 23 without any reduction for qualified first-time home buyer expenses.

2005 Form 8606, line 24.

From your 2006 Form 8606. Unless already translated, enter the following:

2006 Form 8606, line 17.

2006 Form 8606, line 18.

2006 Form 8606, line 19.

2006 Form 8606, line 22.

2006 Form 8606, line 23. *(auto-calc)* Computed as line 19 less line 22, this is the 2006 line 23 without any reduction for qualified first-time home buyer expenses.

**2006 Form 8606, line 24.**

**From your 2007 Form 8606.** Unless already translated, enter the following:

**2007 Form 8606, line 17.**

**2007 Form 8606, line 18.**

**2007 Form 8606, line 19.**

**2007 Form 8606, line 22.**

**2007 Form 8606, line 23.** *(auto-calc)* Computed as line 19 less line 22, this is the 2007 line 23 without any reduction for qualified first-time home buyer expenses.

**2007 Form 8606, line 24.**

**From your 2008 Form 8606.** Unless already translated, enter the following:

**2008 Form 8606, line 17.**

**2008 Form 8606, line 18.**

**2008 Form 8606, line 19.**

**2008 Form 8606, line 22.**

**2008 Form 8606, line 23.** *(auto-calc)* Computed as line 19 less line 22, this is the 2008 line 23 without any reduction for qualified first-time home buyer expenses.

**2008 Form 8606, line 24.**

**From your 2009 Form 8606.** Unless already translated, enter the following:

**2009 Form 8606, line 17.**

**2009 Form 8606, line 18.**

**2009 Form 8606, line 19.**

**2009 Form 8606, line 22.**

**2009 Form 8606, line 23.** *(auto-calc)* Computed as line 19 less line 22, this is the 2009 line 23 without any reduction for qualified first-time home buyer expenses.

**2009 Form 8606, line 24.**

**From your 2010 Form 8606.** Unless already translated, enter the following:

**2010 Form 8606, line 17.**

**2010 Form 8606, line 18.**

**2010 Form 8606, line 20a.** This and the next four lines are unique to the 2010 Form 8606, and represent the taxable amounts deferred from 2010 to 2011 and 2012 (half each year).

**2010 Form 8606, line 20b.**

**2010 Form 8606, line 25a.**

**2010 Form 8606, line 25b.**

**In-plan rollover in lines 25a and 25b.**

**2010 Form 8606, line 26.**

**2010 Form 8606, line 29.**

**2010 Form 8606, line 30.** *(auto-calc)* Computed as line 26 less line 29, this is the 2009 line 30 without any reduction for qualified first-time home buyer expenses.

**2010 Form 8606, line 31.**

**2010 Form 8606, line 33.**

**From your 2011 Form 8606.** Unless already translated, enter the following:

**2011 Form 8606, line 17.**

**2011 Form 8606, line 18.**

2011 Form 8606, line 19.

2011 Form 8606, line 22.

2011 Form 8606, line 23. *(auto-calc)* Computed as line 19 less line 22, this is the 2011 line 23 without any reduction for qualified first-time home buyer expenses.

2011 Form 8606, line 24.

**From your 2012 Form 8606.** Unless already translated, enter the following:

2012 Form 8606, line 17.

2012 Form 8606, line 18.

2012 Form 8606, line 19.

2012 Form 8606, line 22.

2012 Form 8606, line 23. *(auto-calc)* Computed as line 19 less line 22, this is the 2012 line 23 without any reduction for qualified first-time home buyer expenses.

2012 Form 8606, line 24.

**From your 2013 Form 8606.** Unless already translated, enter the following:

2013 Form 8606, line 17.

2013 Form 8606, line 18.

2013 Form 8606, line 19.

2013 Form 8606, line 22.

2013 Form 8606, line 23. *(auto-calc)* Computed as line 19 less line 22, this is the 2013 line 23 without any reduction for qualified first-time home buyer expenses.

2013 Form 8606, line 24.

**Amounts from current Form 8606.** These are not data entry lines but are shown here because they are used in computations or translation from the prior year:

2014 Form 8606, line 17. *(auto-calc)* Taken from the current Form 8606, as indicated.

2014 Form 8606, line 18. *(auto-calc)* Taken from the current Form 8606, as indicated.

2014 Form 8606, line 19. *(auto-calc)* Taken from the current Form 8606, as indicated.

2014 Form 8606, line 22. *(auto-calc)* Taken from the current Form 8606, as indicated.

2014 Form 8606, line 23. *(auto-calc)* Taken from the current Form 8606, as indicated.

2014 Form 8606, line 24. *(auto-calc)* Taken from the current Form 8606, as indicated.

**Basis in Roth IRA contributions.** The entries in this section are used in combination with amounts on the current Form 8606 to determine the basis for line 22 of the current Form 8606. See the IRS worksheet for *Basis in Regular Roth IRA Contributions—Line 22* in the IRS 2014 *Instructions for Form 8606*.

**Basis in contributions reported on prior Forms 8606** *(auto-calc)* This result is computed from the previous entries from 1998 through 2013 Forms 8606. They are used in the middle column of the IRS worksheet for *Basis in Regular Roth IRA Contributions—Line 22*.

**Regular contributions for 1998 through 2013.** The following entries are used in the right column of the IRS worksheet for *Basis in Regular Roth IRA Contributions—Line 22*. **TIP:** While it won't hurt to complete all lines below, you only need to complete lines for years *after* the last year you received a distribution from your Roth IRA. Therefore, if you reported a Roth IRA distribution on Form 8606 for 2013, you don't need to complete any of these lines.

**Regular contributions for 2013.** Enter Roth IRA contributions made in 2013 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2012.** Enter Roth IRA contributions made in 2012 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2011.** Enter Roth IRA contributions made in 2011 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2010.** Enter Roth contributions made in 2010 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2009.** Enter Roth contributions made in 2009 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2008.** Enter Roth contributions made in 2008 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2007.** Enter Roth contributions made in 2007 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2006.** Enter Roth contributions made in 2006 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2005.** Enter Roth contributions made in 2005 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2004.** Enter Roth contributions made in 2004 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2003.** Enter Roth contributions made in 2003 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2002.** Enter Roth contributions made in 2002 excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2001.** Enter Roth contributions made in 2001, excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 2000.** Enter Roth contributions made in 2000, excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Regular contributions for 1999.** Enter Roth contributions made in 1999, excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions..

**Regular contributions for 1998.** Enter Roth contributions made in 1998, excluding rollovers, conversions, recharacterized Roth IRA contributions, and returned contributions.

**Total regular prior contributions.** *(auto-calc)* Rather than the sum of all preceding entries, this is the amount for the right column of the IRS worksheet for the year (the row in the table) that applies to line 22 of the current Form 8606.

**Other amounts for your 2014 Form 8606.** Results from prior Forms 8606 that are used in calculations for other lines of the current Form 8606 are shown here.

**Basis in prior conversions.** *(auto-calc)* This result is computed from the previous entries from 1998 through 2013 Forms 8606. It represents the middle column of the IRS worksheet for *Basis in Roth IRA Conversions and Rollovers From Qualified Retirement Plans to Roth IRAs—Line 24* and is used in the computation of line 24 of the current Form 8606.

**Allocation to 1998 through 2014 basis.** *(auto-calc)* This result is computed from the previous entries from 1998 through 2013 Forms 8606 plus an amount from 2014. The computation of this allocation, however, is quite involved. The procedure is described in general terms in the IRS *2014 Instructions for Form 5329* and in IRS Pub. 590-B (*Distributions from IRAs*). Any part of a Roth IRA distribution that is allocable to your basis in past conversions is exempted from penalty at line 1 of Form 5329. Therefore, this result is used in the summary at the end of our on-screen Form 8606 to determine the amount for line 1 of Form 5329.

**PART III, DISTRIBUTIONS FROM ROTH IRAs.** This part is used to figure the taxable part of 2014 distributions from Roth IRAs. In addition, we have added lines that compute your Contribution Limit and distributions subject to penalty as an aid in automating Form 5329. **CAUTION:** You must complete the Roth Worksheet described on the preceding pages because several calculations in this part depend critically on the data you enter there.

**19 Nonqualified distributions from Roth IRAs in 2014, including any qualified first-time homebuyer distributions and certain qualified distributions.** *(auto-calc)* Computed from amounts shown on screen 1 as “Nonqualified Roth IRA distribution for III” less the Roth IRA part of “Rollover on Form 1040 for THIS copy.”

**Qualified first-time homebuyer expenses.** A qualified first-time homebuyer distribution from your Roth IRA is generally not taxable if you made any contribution (or conversion) to your Roth IRA more than 5 years prior.

**First-time homebuyer expenses.** Enter the amount of any distribution for qualified first-time homebuyer expenses.

**Roth IRA contribution or conversion to Roth for 2007 or any earlier year?**

Answer Yes if you made any contribution or conversion to a Roth IRA in 1998 through 2007, including conversions.

**20 Qualified first-time homebuyer distribution.** *(auto-calc)* Computed as your entry for "First-time homebuyer expenses" if the preceding answer is Yes, but limited to no more than \$10,000. Otherwise, zero.

**21 Subtract line 20 from line 19.** *(auto-calc)* Computed as indicated, but no less than zero. *If zero, there is no taxable amount for Part III.*

**Basis in Roth IRA contributions from prior Forms 8606.** *(auto-calc, supported by the Roth Worksheet)* Taken from the Roth Worksheet described previously, this is amount from the middle column of the IRS worksheet for *Basis in Regular Roth IRA Contributions—Line 22* in the IRS 2014 Instructions for Form 8606.

**Regular prior Roth IRA contributions.** *(auto-calc, supported by the Roth Worksheet)* Taken from the Roth Worksheet described previously, this is amount from the last column of the IRS worksheet for *Basis in Regular Roth IRA Contributions—Line 22* in the IRS 2014 Instructions for Form 8606.

**Roth IRA contributions for 2014.** The amount you can contribute will be limited if your modified AGI for 2014 exceeds \$181,000, \$114,000, or \$10,000, depending on your filing status, and will be zero if it exceeds \$191,000, \$129,000, or \$10,000, as computed here:

**Actual 2014 Roth contributions.** Enter all Roth contributions made in 2014, not including rollovers nor amounts converted from a traditional IRA.

**Modified AGI for Roth IRA.** *(auto-calc)* Computed in accordance with the paragraph titled "Modified AGI for Roth purposes" on page 3 of the IRS 2014 Instructions for Form 8606. **CAUTION:** *If AGI includes any minimum required distributions for conversions, you must use the Override Key to access this line and reduce the automatically-computed result by the amount of those minimum required distributions. (You should wait until the return is complete before overriding this line so that the automatically-computed result is accurate.)*

**Maximum 2014 contributions allowed.** *(auto-calc)* Computed based on the preceding modified AGI using the *Maximum Roth IRA Contribution Worksheet* on page 3 of the IRS 2014 Instructions for Form 8606. This result is used in computing the excess contributions for line 23 of Form 5329, where a penalty is applied.

**Excess withdrawn in time.** If your actual contributions exceeds the amount allowed, you have an excess contribution subject to penalty (via line 23 of Form 5329). However, you can avoid the penalty by withdrawing the excess contribution and any earnings on it within 60 days of the contribution.

**Roth IRA contributions for 2014.** *(auto-calc)* Computed as "Actual 2014 Roth contribution" less "Excess withdrawn in time."

**Recharacterizations.** Instead of withdrawing the excess, you can avoid a penalty by recharacterizing the Roth IRA as a traditional IRA by the due date of your return (including extensions). You can also recharacterize a 2014 contribution to a traditional IRA as a Roth IRA. Enter the first kind of recharacterization as a positive number, and the sec-

ond kind as a negative number. *You should explain any recharacterizations in a supporting statement for this line.*

**Divorce/separation adjustment.** If a distribution due to a divorce or separation agreement affected your basis in Roth IRA contributions, enter here the corresponding adjustment, which could be positive or negative, in a supporting statement for this line. See the last bullet in the IRS instructions for line 7 (in IRS *2014 Instructions for Form 8606*) for the kind of information you must include in the support.

**Other adjustment.** If any other special adjustment for a bulleted item in the IRS instructions for line 7 applies (in IRS *2014 Instructions for Form 8606*), enter that adjustment in a supporting statement for this line.

**22 Basis in Roth IRA contributions.** *(auto-calc)* Computed as the sum of the "Basis in prior Roth IRA contributions from prior Forms 8606," "Regular prior Roth IRA contributions," "Actual 2014 Roth IRA contributions" (less "Excess withdrawn in time"), and "Recharacterizations," in accordance with the IRS worksheet for *Basis in Regular Roth IRA Contributions—Line 22* in the IRS *2014 Instructions for Form 8606*, plus the preceding two adjustments.

**23 Subtract line 22 from line 21.** *(auto-calc)* Computed as indicated, but no less than zero.

**Basis in conversions to Roth IRAs from 1998 through 2013 from prior Forms 8606.** *(auto-calc, supported by the Roth Worksheet)* Taken from the Roth Worksheet described previously, this is the basis in Roth conversions as of the end of tax year 2013 computed in accordance with the IRS 2014 Instructions for line 24 of Form 8606.

**Basis in conversions to Roth IRAs in 2014 (line 16).** *(auto-calc)* Taken from line 16 of the current Form 8606.

**Divorce/separation adjustment.** If a distribution due to a divorce or separation agreement affected your basis in Roth IRA conversions, enter here the corresponding adjustment, which could be positive or negative, in a supporting statement for this line. See the last bullet in the IRS instructions for line 7 (in IRS *2014 Instructions for Form 8606*) for the kind of information you must include in the support.

**24 Basis in Roth IRA conversions.** *(auto-calc)* Computed as the sum of the preceding three amounts, this is the basis in all current and prior conversions, computed in accordance with the IRS worksheet for *Basis in Roth IRA Conversions and Rollovers From Qualified Retirement Plans to Roth IRAs—Line 24* in the IRS *2014 Instructions for Form 8606* plus the preceding adjustment. (TIP: This line will be zero if line 23 is zero, in accordance with IRS instructions.)

**25 TAXABLE AMOUNT.** *(auto-calc)* Computed as line 23 less line 24, but no less than zero. If the result for this line is zero, there is *no taxable amount for Part III that stems from distributions received in 2014. The result on line 25 is reflected in line 15b of Form 1040 for 2014. Any amount that appears on line 15b of Form 1040 based on the 1099-R Worksheets that support it is overridden by the taxable amounts computed here and on lines 15 and 18 of this form, for both spouses combined.*

**SUMMARY (for end of 2014).** This section summarizes the results of Form 8606 and its transfers to Form 1040 and Form 5329.

**Net Roth IRA distribution for 2014.** *(auto-calc)* Taken as line 23 of the current Form 8606, this is generally the amount of nonqualified Roth IRA distributions received in 2014 less the applicable basis. Unless there is a reduction in the following line, this entire amount is subject to the 10% penalty tax on early distributions. Roth IRA distributions are considered early withdrawals if received less than 5 years after their creation. Nonqualified Roth IRA distributions include distributions withdrawn within the required 5-year holding period for Roth IRAs, and distributions withdrawn before age 59-1/2.

**Allocation to 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, or 2014 basis.** *(auto-calc)* Any part of the above distribution that is allocable to the amount on your 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, or 2014 basis is exempted from the penalty because it represents your basis in past conversions. The computation of this allocation, however, is quite involved. The procedure is described in general terms in the IRS *2014 Instructions for Form 5329* and in IRS Pub. 590-B. However, *the software performs this computation automatically based on amounts from your 1998 through 2014 Forms 8606 on the Roth Worksheet described earlier.*

**Early distribution for 5329, line 1.** *(auto-calc)* Computed as the "Net Roth IRA distribution for 2014" less the preceding allocation, this is the part of the distribution that is subject to the penalty on early distributions, and is reflected in Part I of Form 5329. (Because only nonqualified distributions are generally reported in Part III of Form 8606, the taxable amount in Part III is always subject to penalty, unless you qualify for an exception on Form 5329.)

**Excess contributions for 5329 line 23.** *(auto-calc)* Computed from amounts on screen 10 as the amount by which "Actual 2014 Roth contributions" plus "Recharacterizations" exceeds "Excess withdrawn in time" plus "Maximum 2014 contributions allowed." This amount is used at line 23 of Form 5329 for computing the penalty on excess Roth IRA contributions.

**Contributions credit for 5329 line 19.** *(auto-calc)* This is the converse of the preceding line, computed as the amount by which "Excess withdrawn in time" plus "Maximum 2014 contributions allowed" exceeds "Actual 2014 Roth contributions" plus "Recharacterizations." This amount is used at line 19 of Form 5329 for computing the penalty on excess Roth IRA contributions.

**TOTAL TAXABLE for 1040, line 15b.** *(auto-calc)* Computed as the sum of lines 15, 18, and 25, this is the amount posted to line 15b of Form 1040 for this spouse. **CAUTION:** You may have to override this line if you had an amount on line 20b of your 2010 Form 8606. See the shaded box following our details for lines 15a through 16b of Form 1040 for details.

**TOTAL BASIS in Traditional IRAs.** *(auto-calc)* Taken from line 14 of this form.

**Basis in Roth IRA contributions.** *(auto-calc)* Based on the IRS's *Roth IRA Basis Worksheet*, this is the basis in contributions for next year's Form 8606.

**Basis in Roth IRA conversions.** *(auto-calc)* Based on the IRS's *Roth IRA Basis Worksheet*, this is the basis in conversions for next year's Form 8606.

**TOTAL BASIS in Roth IRAs.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8611\* / Recapture of Low-Income Housing Credit

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition. See the separate Partnership Edition manual for details on the version of Form 8611 that is built into the Partnership Edition software.

**Purpose.** This form is used to figure a recapture tax for previously claimed low-income housing credit. The credit is subject to recapture when, within 15 years of the date placed in service, your ownership in the building changes, the basis of the building decreases, or the building fails to meet the minimum set-aside requirements. However, you can often avoid the current payment of the recapture tax by posting a bond through Form 8693. You must complete a separate Form 8611 for each building to which recapture applies, so five separate copies of Form 8611 are built into the software. All copies of Form 8611 are accessible through the Road Map at the LIHCR component of line 62c of Form 1040.

**Information on Form 8609 required.** Much of the information that you must supply on Form 8611 is found on the approved Form 8609 (*Low-Income Housing Credit Allocation Certificate*) for the property and the annual Form 8609-A (*Annual Statement for Low-Income Housing Credit*).

**IDENTITY OF BUILDING.** You must complete a separate Form 8611 for each separate building subject to the recapture tax.

**A & B are taken from Form 1040. (*auto-calc*)** These are the name(s) and primary SSN entered on Form 1040, and are not shown on the screen.

**C Address of building (as shown on Form 8609).** Enter the U.S. or foreign address of the building in the following lines:

**If U.S. address, enter:**

**Street address.** Enter the building's street address in 35 characters or less.

**City.** Enter the city or town in 22 characters or less.

**State.** Enter the 2-character state code.

**ZIP code.** Enter the ZIP code in the standard xxxxx-xxxx format.

**If foreign address, enter:**

**Street address.** Enter the building's street address in 35 characters or less.

**City.** Enter the city or town in 25 characters or less.

**Province or state.** Enter the province or state in 15 characters or less.

**Country.** Enter the 2-character country code shown in Table 2-6 on page 2-22.

**Postal code.** Enter the postal code in 15 characters or less.

**D Building identification number (BIN).** Enter the 9-character BIN for the building.

**E Date placed in service (as shown on Form 8609).** Enter the date shown on Form 8609 in the standard xx/xx/xxxx format.

**F If building is financed in whole or in part with tax-exempt bonds, furnish:**

- (1) **Issuer's name.** Enter the name of the entity that issued the bond in 35 characters or less.
- (2) **Date of issue.** The date of issue is generally the date of physical exchange of the bond for the purchase price. Enter the date in the standard xx/xx/xxxx format.
- (3) **Name of issue.** Enter the name of the issue in 35 characters or less. If not named, enter any other identification of the bond issue.
- (4) **CUSIP number.** Enter the 9-character CUSIP number for the bond. If more than one bond was issued for the property, use the CUSIP number of the bond with the latest maturity date.

**TENTATIVE RECAPTURE.** The recapture is computed here before taking into account prior disallowed amounts and interest on the recapture. *If the recapture for the building to which this copy of Form 8611 applies was passed through to you from a flow-through entity (such as a partnership), skip lines 1 through 7 and enter the recapture passed through to you on line 8.*

- 1 **Enter total credits reported on Form 8586 in prior years for this building.** You must include the credits shown in Part I of all Forms 8586 that you previously filed for the property. These are the tentative credits before reduction by any tax liability limit.
- 2 **Credits included on line 1 attributable to additions to qualified basis.** *(Supported by the Line 2 Worksheet for 8611, Figure 2-65.)* You must complete a separate supporting worksheet for each prior year for which line 7 of Form 8609-A (or its predecessor, Schedule A of Form 8606) was completed. The result on line i of all worksheets combined is posted here.
- 3 **Credits subject to recapture.** *(auto-calc)* Computed as line 1 less line 2.  
**Year recapture event occurs.** Enter the year number when the recapture occurs, where 1 represents the first year in service, 2 the second year, etc. For example, if the bond was issued on July 1, 2005 and the recapture occurred on August 15, 2014, then the recapture occurred during the 10<sup>th</sup> year in service, so 10 would be entered here.  
**% (0-100) that applies.** *(auto-calc)* The IRS-defined percentage is based on the recapture year in accordance with the table in the IRS instructions, expressed here as a percentage.
- 4 **Credit recapture percentage.** *(auto-calc)* Computed as the preceding percentage expressed in decimal form to 4 decimal places (1 more place than the minimum allowed by the IRS). (The IRS erroneously calls this a percentage, but it is really a ratio with 1.0 as the maximum.)
- 5 **Accelerated portion of credit.** *(auto-calc)* Computed as line 3 times line 4.  
**% (0-100) decrease in qualified basis.** Enter the percentage decrease in qualified basis during the tax year. See IRS instructions for details on how to figure the entry for this line.
- 6 **Percentage decrease in qualified basis.** *(auto-calc)* Computed as the preceding percentage expressed in decimal form to 4 decimal places (1 more place than the minimum allowed by the IRS). (The IRS erro-

neously calls this a percentage, but it is really a ratio with 1.0 as the maximum.)

**Line 5 times line 6.** *(auto-calc)* Computed as indicated, this is the accelerated portion recaptured.

**Part for prior recapture.** If there was a prior recapture of accelerated credit on the building, you do not recapture that amount again as a result of the current reduction in basis. However, the computation of the amount to enter here can be involved. See the IRS instructions for details.

**7 Amount of accelerated portion recaptured.** *(auto-calc)* Computed as line 5 times line 6 less the preceding entry.

**8 Enter recapture amount from flow-through entity.** Enter here recapture reported to you from a flow-through entity (partnership, S corporation, estate, or trust). *(This line is not applicable to you if you completed lines 1 through 7 because you are thereby indicating that you alone own the building, not a partnership.)*

**Line 2 Worksheet for 8611.** *(Figure 2-65; supports line 2 of Form 8611)* You must complete a separate worksheet for each prior year for which line 7 of Form 8609 Schedule A was completed. This worksheet is patterned after the IRS's *Line 2 Worksheet* in the IRS Instructions for Form 8611. ALL line numbers on this worksheet refer to Form 8609-A (or Schedule A of Form 8609 prior to 2005).

<b>LINE 2 WORKSHEET for 8611</b>	
Use 1 worksheet for each prior yr. for which line 7 of 8609-A (or 8609,Sch.A) was completed. ALL line numbers refer to Form 8609-A (or Sch. A of Form 8609 prior to 2005)	
a	Amount from line 10..... 0
b	Multiply a by 2..... 0
c	Amount from line 11..... 0
d	Subtract c from b..... 0
From line 14 instructions:	
e	%(0-100) figured in Step 1. 0
f	Multiply d by e..... 0
g	Subtract f from d..... 0
Amount from line 15..... 0	
Amount from line 16..... 0	
h	Divide line 16 by 1b 15 (%) 0
i	Multiply g by h..... 0

**Figure 2-65. Line 2 Worksheet for 8611**

- a. Amount from line 10.** Enter line 10 of the applicable form.
- b. Multiply a by 2.** *(auto-calc)* Computed as indicated.
- c. Amount from line 11.** Enter line 11 of the applicable form.
- d. Subtract c from b.** *(auto-calc)* Computed as indicated.
- e. Enter percentage (0 to 100%) figured in Step 1 of the instructions for line 14 of the applicable form.** Be sure to enter the number as a percentage (which ranges from 0 to 100%) rather than a decimal (which ranges from 0 to 1.0). Enter zero if not applicable.
- f. Multiply d by e.** *(auto-calc)* Computed as indicated.
- g. Subtract f from d.** *(auto-calc)* Computed as indicated.
- Amount from line 15.** Enter line 15 of the applicable form.
- Amount from line 16.** Enter line 16 of the applicable form.

**h. Divide line 16 by line 15.** *(auto-calc)* Computed as the ratio of the preceding two amounts. Although shown on the screen to only 2 decimal places, the result is carried to full accuracy when used to compute line i, below.

**i. Multiply g by h.** *(auto-calc)* Computed as indicated.

The result on line i is posted to line 2 of Form 8611 along with all other worksheets for line 2.

**NET RECAPTURE.** The recapture tax to be paid this year, or the carryforward of credit to next year, is computed here. (Lines a through d, below, correspond to Steps 1 through 4 in the IRS instructions for line 9.)

**a Enter credits for the building that you could not use in prior years.**

This is generally the amount of credit on line 1 of the current Form 8586 less the credits allowed in all prior years combined.

**b Part of line a attributable to additions to qualified basis.** Credits attributable to additions after the first year must be entered here.

**c Line a less line b times the decimal on line 4.** *(auto-calc)* Computed as indicated.

**d Line c times the decimal on line 6.** *(auto-calc)* As indicated.

**9 Unused portion of the accelerated amount from line 7.** *(auto-calc)* Computed as the amount on line d.

**10 Net recapture.** *(auto-calc)* Computed as line 7 or 8, whichever applies, less line 9, but no less than zero.

**Is line 8 from a section 42(j)(5) partnership?** Answer Yes only if the pass-through entity from which the amount on line 8 came is a Section 42(j)(5) partnership. *If you answer Yes, line 11 will be zero because the interest is already figured in the amount reported to you.*

**11 Enter interest on the line 10 recapture amount.** You must enter here interest computed in accordance with IRS tables of interest factors and annual interest rates in effect for each year credit that is now recaptured was claimed. See IRS instructions for details. *(This line will be zero if you answered Yes to the preceding question, and the phrase "Section 42(j)(5)" will appear on the dotted line for line 11. )*

**12 Total amount subject to recapture.** *(auto-calc)* Computed as the sum of lines 10 and 11.

**13 Unused credits attributable to this building reduced by the accelerated portion included on line 9.** *(auto-calc)* Computed as line 9 less the amount you entered on line a above line 9.

**14 Recapture tax.** *(auto-calc)* Computed as line 12 less line 13, but no less than zero, this result is posted to the LIHCR component of Form 1040, line 62c.

**15 Carryforward of the low-income housing credit attributable to this building.** *(auto-calc)* Computed as line 13 less line 12, but no less than zero. If an amount appears here you can report it as a carryforward on line 6 of the Form 3800 for the next tax year.

**Only Section 42(j)(5) partnerships complete lines 16 and 17.** These lines are always zero for Form 1040 returns because they apply only to certain partnerships.

## Form by Form Details (2015 Edition)

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Form 8611

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8615 / Tax for Certain Children Who Have Unearned Income

**Who is it for?** This form is used with a child's tax return to compute tax for children under 19 years of age (24 if a student) who have unearned income (such as taxable interest and dividends) of more than \$2,000 for 2014. Its purpose is to tax the child's unearned income in excess of \$2,000 at the parent's tax rate, in order to counter a favorite tax shelter for parents. It is used at line 44 of Form 1040 in place of any tax calculated from the tax tables or tax rate schedules. (The parent can sometimes avoid filing a return for the child by reporting the child's investment income on the parent's own return through a Form 8814 for each child. However, a higher overall tax may result when Form 8814 is used, as warned in the details in this manual for line 44a of Form 1040.) *Form 8615 is accessible through the Road Map above line 44 of Form 1040 at the line labeled "Form 8615, line 18."*

**You can ESTIMATE amounts in order to file on time.** Because information from the returns of the parent and all other children may not be available to you before the due date of the return, the IRS allows you to estimate some of the entries for this form as long as the estimates are reasonable. All entries for which such an estimate is allowed are followed by the question: "ESTIMATED?" When you are using an estimate for such an entry, you must answer Yes to this question that follows it so that the word "ESTIMATED" will appear next to the estimated entry on the official printout of Form 8615. If you rely on estimated amounts when you file the return, you should file an amended return using Form 1040X after you obtain the correct information.

**PARENT INFORMATION.** Certain information about one parent must be supplied here. If the parents file jointly, you must enter the name and SSN for the first parent listed on the joint Form 1040 and enter income information from the parents joint return. If the parents are married but file separately, you must enter name, SSN, and other data for the parent with the highest income. Otherwise, you must generally enter all information for the parent who had custody of the child for most of the year, but there are exceptions. See IRS Instructions for Form 8615 and IRS Pub. 929 for details.

**Both parents deceased by year-end.** Answer Yes only if *NEITHER* parent was alive at the end of the tax year. *You are not liable for this tax if neither parent was alive.*

**A Parent's first name and initial.** Enter in 15 characters or less.

**Parent's last name.** Enter last name in 25 characters or less.

**Name in e-file format.** *(auto-calc)* The name is displayed here in e-file format, with a < symbol to flag the last name and any suffix like Jr. Suffixes like 3<sup>rd</sup> are changed to Roman numerals and first name is shortened to an initial when necessary to keep the name no longer than 35 characters, all in accordance with IRS e-file specifications.

**Name control (for e-file).** The name control is displayed in accordance with IRS e-file specifications. This is usually the first four characters of the last name.

**B Parent's Social Security Number.** Enter social security number appearing on the parent's Form 1040.

**C Parent's filing status:**

(1=Single, 2=MFJ, 3=MFS, 4=HofH, 5=QW). Enter filing status the parent used for 2014.

**ESTIMATED?** Answer Yes if you are not sure of the parent's filing status, and will not be sure before the due date of this return.

**Is parent dependent of another?** Answer Yes ONLY if the relevant parent was a dependent on someone else's return.

**Parent's taxable income (enter Foreign Tax Worksheet line 3 if applies).**

Normally, you would enter here line 43 of parent's Form 1040, but no less than zero. However, *if the parent files Form 2555 or 2555-EZ, you must enter line 3 of the parent's Foreign Earned Income Tax Worksheet*, which is Form 1040, line 43 raised by any foreign earned income exclusion, housing exclusion, and housing deduction taken.

**ESTIMATED?** Answer Yes if estimating the parent's taxable income because you will not know it before the due date of this return.

**CHILD INFORMATION.** Final liability for Form 8615 is determined once it is completed through line 3, where investment income is compared with the \$2,000 threshold for 2014. However, there are a number of exemptions from Form 8615 irrespective of income. Exemption from Form 8615 is determined here based on certain information about the child:

**Child's age at end of year.** *(auto-calc)* Taken from your entry on Form 1040 for the taxpayer's age.

**Child's filing status.** *(auto-calc)* Taken from your entry on Form 1040, a child who files jointly (filing status 2) is not required to use Form 8615 to figure his or her tax.

**Earned more than half of own support?** A child who earns more than half of his or her own support is not required to use Form 8615 to figure his or her tax if at least age 18 by the end of 2014. See the IRS 2014 Instructions for Form 8615 for the definition of "support" in this context.

**Student 5 months or more during 2014?** *(auto-calc)* Taken from your entry on Form 1040, a student may be required to use Form 8615 until age 24 or more.

**EXEMPT FROM FILING FORM 8615?** *(auto-calc)* Answered Yes if any of the following are true:

Both parents were deceased by year-end, as determined from your answer at the top of screen 1.

Child's age is 24 or more by the end of 2014.

Child's filing status is married filing jointly.

Child's age is 19 or more (and under 24) at year-end and child is either not a student or earned more than half of his or her own support.

Child's age is 18 or more (but under 19) at year-end and earned more than half of his or her own support.

Otherwise, the answer is No.

**PART I, CHILD'S NET INVESTMENT INCOME.** Liability for the tax and the amount of income to be taxed are computed here:

**Income on Form 1040, line 22.** *(auto-calc)* This is total income before adjustments on Form 1040.

+ **Net operating loss deduction.** Enter the amount of NOL deduction you claimed on line 21 of Form 1040.

+ **Exclusions and deductions from Form 2555.** *(auto-calc)* Computed as the foreign earned income exclusion from Form 2555 entered at line 21 of Form 1040, but taken as a positive here, plus the foreign housing deduction from Form 2555 entered above line 36.

- **Child's Form 1040, lines 7, 12, 18, self-employment on Schedule E.** *(auto-calc)* Computed from amounts throughout the return, this is the child's earned income. *(This is the conventional earned income for the child, not the unconventional one used in the IRS worksheet for Form 8615, line 1, in IRS Pub. 929. We use the conventional earned income but modify the IRS worksheet to ensure the same result as the IRS without their unduly complex mathematics.)*

- **Deduction on Form 1040, line 30.** *(auto-calc)* Taken from Form 1040, as indicated, this is the penalty for early withdrawal of savings.

- **Taxable disability trust distribution.** For the purposes of Form 8615, earned income includes any taxable distribution from a qualified disability trust. See IRS instructions for Form 8615, line 1.

- **Other reduction to line 1.** You will rarely need to make an entry here because the software uses the IRS worksheet in IRS Pub. 929 (*Tax Rules for Children and Dependents*) rather than the simplified worksheet that appears in the IRS instructions for Form 8615. Any entry you make here is subtracted from the income on Form 1040, so an increase of income must be entered as a negative number here.

**1 Child's investment income.** *(auto-calc)* Computed as the income on line 22 of Form 1040 plus the NOL deduction and two foreign exclusions, less the above four amounts considered earned income for the purposes of Form 8615. *(This result is identical to that of the IRS's Alternate Worksheet for Form 8615, line 1, in Pub. 929, even though we use a simpler method to get there.)*

**Amount on Schedule A, line 29.** *(auto-calc)* Taken from line 40 of Form 1040 if itemized deductions are used; otherwise zero.

**Part related to investment income.** You must identify the part of the above Schedule A deduction that is directly connected with the production of the investment income shown on the return.

**Part related to capital gains, etc.** You must identify the part of the above Schedule A deduction that is directly connected with the production of the net capital on the return.

**Part related to qualified dividends.** You must identify the part of the above Schedule A deduction that is directly connected with the production of dividend income reported on Form 1040 line 9b.

**2 If DID NOT itemize, \$2,000.** *(auto-calc)* Computed as the greater of \$2,000, or \$1,000 plus the investment part of the Schedule A deduction (which can be no greater than Schedule A, line 29).

**3 Subtract line 2 from line 1.** *(auto-calc)* As indicated.

**Child exempt from screen 1?** *(auto-calc)* Taken from the result for "EXEMPT FROM FILING FORM 8615?" in the Child Information section of the screen.

**Liable for Form 8615 tax?** *(auto-calc)* Answered Yes when the preceding answer is No and the result on line 3 is greater than zero.

**4 Child's taxable income.** *(auto-calc)* Normally taken from line 43 of Form 1040. However, if the child files Form 2555 or 2555-EZ, the amount on line 3 of the child's Foreign Earned Income Tax Worksheet (shown on screen 2 of Form 1040, page 2) is used instead.

**5 Smaller of line 3 or line 4.** *(auto-calc)* Computed as indicated, this is the amount of the child's income that is subject to taxation at the parent's tax rate.

If the result on line 5 is zero, the tax computed on this form will be the same as the regular tax computed without using this form. Nevertheless, the IRS instructs you to attach the form to the return anyway, completed through line 5, to demonstrate that you are not liable for additional tax.

**Information for Capital Gains Tax.** Because the law for capital gains tax is complex, several numbers from the Schedule D of the parent and all children of the parent are required to compute the tax on this form:

**Schedule D, line 7 for child.** *(auto-calc)* Taken from line 7 of the Schedule D for the return you are preparing.

**Schedule D, line 7 for parent.** Enter amount from parent's Schedule D, if any.

**Schedule D, line 7 for others.** Enter the sum of amounts from line 7 of the Schedules D for all other children of the parent.

**Total short-term net income or loss.** *(auto-calc)* Computed as the sum of the preceding three amounts, this is the short-term net income or loss for line 7 of Schedule D for the parent and all children combined.

**Schedule D, line 15 for child.** *(auto-calc)* This is the long-term net income or loss shown on line 15 of the Schedule D for the return you are preparing.

**Schedule D, line 15 for parent.** Enter amount from parent's Schedule D, if any.

**Schedule D, line 15 for others.** Enter the sum of amounts from line 15 of the Schedules D for all other children of the parent.

**Total long-term net income or loss.** *(auto-calc)* Computed as the sum of the preceding three amounts, this is the long-term net income or loss for line 15 of Schedule D for the parent and all children combined.

**Capital gains for child.** *(auto-calc)* Computed as the lesser of line 15 of the child's Schedule D and the sum of lines 7 and 15 of the child's Schedule D, but no less than zero.

**Capital gains for parent.** *(auto-calc)* Computed as the lesser of line 15 of the parent's Schedule D and the sum of lines 7 and 15 of the parent's Schedule D, but no less than zero.

**Capital gains for others.** *(auto-calc)* Computed as the lesser of line 15 of all other children's Schedule D and the sum of lines 7 and 15 of all other children's Schedule D, but no less than zero.

**Total capital gains.** *(auto-calc)* Computed as the sum of the preceding three amounts, this is the net gain taxable at capital gains rates.

**Schedule D, line 18 for child.** *(auto-calc)* Taken from the line "28% rate net for line 18" on screen 10 of the Schedule D for the return you are preparing.

**Schedule D, line 18 for parent.** If line 18 of the parent's Schedule D is zero, you must determine the amount that is analogous to the preceding amount for child and enter that amount instead. This approach is required to ensure the proper combining of amounts from all returns involved here because line 18 will be zero when the 28% rate net is negative or when lines 15 and 16 are not both gains.

**Schedule D, line 18 for others.** If line 18 of any other child's Schedule D is zero, you must determine the amount that is analogous to the preceding amount for child and include that amount in your entry here instead. This approach is required to ensure the proper combining of amounts from all returns involved here because line 18 will be zero when the 28% rate net is negative or when lines 15 and 16 are not both gains.

**Total 28% rate gain.** *(auto-calc)* Computed as the sum of the preceding three amounts, this is actually the combined 28% rate net because it can be negative as well as positive. It represents the combined net income or loss for sales of collectibles, which are subject to the 28% rate rules.

**Schedule D, line 19 for child.** *(auto-calc)* Taken from the line "Unrecaptured section 1250 gain for line 19" on screen 10 of the Schedule D for the return you are preparing.

**Schedule D, line 19 for parent.** If line 19 of the parent's Schedule D is zero, you must determine the amount that is analogous to the preceding amount for child and enter that amount instead. This approach is required to ensure the proper combining of amounts from all returns involved here because line 19 will be zero when lines 15 and 16 are not both gains.

**Schedule D, line 19 for others.** If line 19 of any other child's Schedule D is zero, you must determine the amount that is analogous to the preceding amount for child and include that amount in your entry here instead. This approach is required to ensure the proper combining of amounts from all returns involved here because line 19 will be zero when lines 15 and 16 are not both gains.

**Total unrecaptured section 1250.** *(auto-calc)* Computed as the sum of the preceding three amounts, this is the part of the capital gain on depreciable real property that stems from depreciation, and is subject to up to 25% tax under the law.

**Form 4952 Information for Capital Gains Tax.** Lines 4e\* and 4g of Form 4952 are for those with lump-sum distributions who make elections to

treat some capital gains as regular income so that they can use it in determining deductible investment interest. (\* When an election is made at line 4e of Form 4952, use the lower elected amount printed on the dotted line for Form 4952, line 4e.):

**Form 4952, line 4g for child.** *(auto-calc)* Taken from the line "Form 4952, line 4g" on screen 10 of the Schedule D for the return you are preparing, which comes from the corresponding line on Form 4952.

**Form 4952, line 4g for parent.** Enter line 4g of the parent's Form 4952, if any.

**Form 4952, line 4g for others.** Enter line 4g of Form 4952, if any, for all other children combined..

**Total Form 4952, line 4g.** *(auto-calc)* Computed as the sum of the preceding three amounts.

**Form 4952, line 4e(\*) for child.** *(auto-calc)* Taken from the line "Form 4952, line 4e (or Elec.);" on screen 10 of the Schedule D for the return you are preparing, which is the "Modified line 4e for the Schedule D Tax Worksheet" that we show on-screen below line 4g of Form 4952 (*built into the Standard and Premium Level software*). (\* A modification to line 4e makes sense only when you have a Form 1116 in the return. The modification is to reduce line 4e by the amount amount of line 4g that you attribute to line 4b in order to increase the overall credit on the return.)

**Form 4952, line 4e(\*) for parent.** Enter line 4e (or the elected lower amount) of the parent's Form 4952, if any.

**Form 4952, line 4e(\*) for others.** Enter line 4e (or the elected lower amounts) of Forms 4952, if any, for all other children combined..

**Total Form 4952, line 4 e(\*).** *(auto-calc)* Computed as the sum of the preceding three amounts.

**Qualified Dividends.** Qualified dividends are dividends eligible to be taxed at the lower capital gains tax, and are shown in box 1b of the Form 1099-DIV you receive from payers:

**Form 1040, line 9b for child.** *(auto-calc)* Taken from line 9b of Form 1040, which is the sum of dividends reported on Schedule B that are identified as qualified dividends.

**Form 1040, line 9b for parent.** Enter line 9b of the parent's Form 1040.

**Form 1040, line 9b for others.** Enter line 9b of the Forms 1040 for all other children combined..

**Total qualified dividends.** *(auto-calc)* Computed as the sum of the preceding three amounts, this is the qualified dividends reported on all returns combined.

The application of these amounts in the ensuing tax calculations is not direct because the \$2,000 exclusion makes a complex allocation necessary. IRS Pub. 929 contains worksheets for handling this complexity, but the software handles it automatically based on the above entries and those below line 7.

**PART II, TENTATIVE TAX BASED ON THE TAX RATE OF THE PARENT.** This section uses the previously entered amounts from the parent's return and the returns of all other children of the parent who have to file a Form 8615. As a result, the parent's return must be completed first, then each child's return must be completed through line 43 of their Forms 1040, then each child's Form 8615 must be completed through line 5, then the sum of line 5 amounts from all children's Forms 8615 are entered on each child's Form 8615. Then, and only then, can each child's return be completed.

**6 Parent's taxable income.** *(auto-calc)* Taken from "Parent's taxable income (enter Foreign Tax Worksheet line 3 if applies)" entered previously.

**7 Form 8615, line 5, of all other children.** Enter line 5 of Form 8615 for all other children of the parent who also must file a Form 8615.

**% of others' capital gains in line 7.** Enter the percentage (0 to 100) of net capital gains for all other children combined that is considered, by IRS logic, included in line 7, above. This percentage is 100 times the sum of net capital gains in line 5 for all other children divided by the sum of net capital gains for all other children. (Net capital gain is the lesser of the gain on line 15 or gain on line 16 of Schedule D. It is computed from the previously-entered information from Schedule D as the lesser of line 15 or the sum of lines 7 and 15, but no less than zero.) If you prepare the returns for the other children using *Tax Preparer*, you can determine this ratio by dividing the sum of numbers on the line below line 5 for all other children by the sum of net capital gains. Otherwise you must use the IRS worksheets in Pub. 929 as described here below line 5. *(This and the following percentages are used along with previously entered information from the Schedule D of others in computing the tax at line 9.)*

**% of others' qualified dividends in line 7.** Enter the percentage (0 to 100) of the sum of the referenced amount for all other children combined that is allocable to line 7. If there is only one other child, this percentage is the same as the preceding one. Otherwise you must compute the percentage using the complex procedure described in IRS Pub. 929.

**ESTIMATED?** Answer Yes if you are estimating Form 8615, line 5 of all other children and did not know it before the due date of this return.

**\* Child's capital gains, etc., in line 5.** *(auto-calc)* Based on a percentage computed from the preceding entries from Schedule D and amounts on lines 1 through 5, this is the part of line 5 considered by the IRS to be attributable to capital gains.

**\* Child's qualified dividends, in line 5.** *(auto-calc)* Based on a percentage computed from the preceding entries from Schedule D and amounts on lines 1 through 5, this is the part of line 5 considered by the IRS to be attributable to qualified dividends.

**8 Add lines 5, 6, and 7.** *(auto-calc)* As indicated.

**Parent's tax on line 8 using Schedule D.** *(auto-calc)* If line 8 includes any long-term capital gains, the tax computation on Schedule D is

shown here based on the information supplied from Schedules D of the parent and all children plus the above percentages. Note that the computation using Schedule D is performed in a special way as detailed in IRS Pub. 929, not an obvious way for a normal return. *You may have to adjust this result (using the Override Key to access the line) if the parent or any child had to use the Foreign Earned Income Tax Worksheet to compute their tax and there is a capital gain excess. See items 10, 11, and 12 of the IRS instructions for "Using the Schedule D Tax Worksheet for line 9 tax" on page 20 of IRS Pub. 929 for 2014 returns.*

**Parent's tax on line 8 using Schedule J.** If line 8 includes any farm income and Schedule J is used to compute the tax, enter the resulting tax here. Your entry here will override the tax that is otherwise computed automatically. (You can use *Tax Preparer* to determine this amount by preparing a return reflecting the amounts on line 8 and using Schedule J for that return. However, you will have to have available the returns of everyone involved for the prior 3 years in order to complete Schedule J!)

**9 Tax on line 8 based on parent's filing status.** *(auto-calc)* Computed as the lesser of the result from the tax rate schedules, Schedule D, or your entry for tax using Schedule J.

**Schedule D or J used to figure the tax in line 9?** *(auto-calc)* Answered Yes if the tax from Schedule D or Schedule J was used for line 9.

**Tax on parent's Schedule D.** *(auto-calc)* If the parent's return includes any long-term capital gains or qualified dividends, the tax on the parent's Schedule D is shown here based on the information supplied previously.

**Tax on parent's Schedule J.** If the parent used Schedule J on his or her return, enter the amount of tax from Schedule J here.

**10 Parent's tax from Form 1040, etc.** *(auto-calc)* The tax on the parent's income is computed using the parent's filing status, using the method that gives the lowest tax. *If the parent filed Form 2555 or 2555-EZ, this result may differ from the tax on the parent's return because the tax computed here is the tax on line 4 of the Foreign Earned Income Tax Worksheet in IRS 1040 Instructions, which is generally higher than the normal tax for Form 1040, line 44.*

**Schedule D or J used to figure the tax in line 10?** *(auto-calc)* Answered Yes if the tax from Schedule D or J was used for line 10.

**11 Subtract line 10 from line 9.** *(auto-calc)* As indicated.

**12a Add lines 5 and 7.** *(auto-calc)* As indicated.

**12b Divide line 5 by line 12a.** *(auto-calc)* As indicated.

**13 Multiply line 11 by line 12b.** *(auto-calc)* As indicated.

**PART III, FIGURE CHILD'S TAX.** The rest of the form is automatic.

**14 Subtract line 5 from line 4.** *(auto-calc)* As indicated.

**Child's tax on line 14 using Schedule D.** *(auto-calc)* If line 14 includes any long-term capital gains or qualified dividends, a tax computed using Schedule D is shown here based on the information supplied from the child's return and the above percentages. This computation uses Schedule D in a special way as detailed in IRS Pub. 929. *You may have to adjust this result (using the Override Key to access the line) if the child had to use the Foreign Earned Income Tax Worksheet to compute his or her tax and there is a capital gain excess. See items 10, 11, and 12 of the IRS instructions for "Using the Schedule D Tax Worksheet for line 15 tax" on page 23 of IRS Pub. 929 for 2014 returns*

**Child's tax on line 14 using Schedule J.** If the child used Schedule J on his or her return, enter the recomputed amount based on line 14.

**15 Tax on line 14 based on child's filing status.** *(auto-calc)* As indicated, using the method that results in the lowest tax.

**Schedule D or J used to figure the tax in line 15?** *(auto-calc)* Answered Yes if the tax from Schedule D or J was used for line 15.

**16 Add lines 13 and 15.** *(auto-calc)* As indicated.

**Child's tax on line 4 using Schedule D.** *(auto-calc)* If line 4 includes any long-term capital gains or qualified dividends, the tax shown on Schedule D is shown here based on the information supplied from the child's return.

**Child's tax on line 4 using Schedule J.** If the child used Schedule J on his or her return, enter the amount based on line 4.

**17 Tax on line 4 based on child's filing status.** *(auto-calc)* As indicated, the method that results in the lowest tax is used.

**Schedule D or J used to figure the tax in line 17?** *(auto-calc)* Answered Yes if the tax from Schedule D or J was used for line 17.

**18 LARGER of line 16 and 17.** *(auto-calc)* As indicated.

The tax at line 18 is posted to screen 2 of our Form 1040, then *modified by the child's Foreign Earned Income Tax Worksheet, if applicable.* The result on our Form 1040 for "Form 8615 tax as adjusted" is then used in place of any other tax at line 44 of Form 1040.

**CAUTION for amended returns:** If the parent's or any of the children's returns are amended, all of the children's returns will have to be amended too if their amended Forms 8615 differ from their original Forms 8615.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 8801\* / Credit for Prior Year Minimum Tax

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to figure a credit for alternative minimum tax (AMT) paid in past years when there is no AMT for the current year. However, only the part of past AMT attributable to deferral items qualifies for the credit, and the current-year credit is limited to the amount by which the tentative minimum tax is less than the regular tax less other credits. (The AMT is generally the amount by which the tentative minimum tax is greater than the regular tax.) Form 8801 is accessible through the Road Map at line 54b of Form 1040.

**Translation based on prior-year Form 6251, not prior-year Form 8801.** Because the credit figured on Form 8801 depends most critically on amounts from the prior-year Form 6251, Form 8801 is translated from the prior-year Form 6251 rather than the prior-year Form 8801. Therefore, you must manually enter any carryover from the prior Forms 8801 on screen 2 of this form even for a translated return because it is not translated from the prior-year return.

**Amounts on 2013 Form 2555 (or 2555-EZ).** For those who file Form 2555 or 2555-EZ, taxable income is increased by excluded foreign earned income through the Foreign Earned Income Tax Worksheet. Therefore you must supply information from the prior-year Form 2555 (or 2555-EZ) in order to properly compute the tax in Parts I and III of Form 8801. As long as you translated a prior-year return with the tax year retained at 2013, these entries should already be correct. Otherwise, you must enter them yourself for accurate computations in Part III of Form 8801.

**Filed Form 2555 (or 2555-EZ) for 2013?** If Yes, special calculations apply for Part III even when there is no amount on the next line.

**Form 2555, line 45 and 50 (or Form 2555-EZ, line 18).** This is the amount of foreign earned income or housing exclusion claimed on line 21 of the 2013 Form 1040 (expressed as a positive number). It is also line 2a of the 2013 *Foreign Earned Income Tax Worksheet—Line 44* on page 38 of the IRS 1040 Instructions for 2013. TIP: The official worksheet allows a reduction in this result (via line 2b on the worksheet) for any itemized deductions or exclusions you could not claim solely because they are related to excluded income. If this case applies to you, you can reduce your entry for this line accordingly.

**Amounts on 2013 Form 6251.** All but one of the following amounts are automatically translated from the prior-year Form 6251 for use in the current-year Form 8801. As long as you translated a prior-year return with the tax year retained at 2013, these amounts should already be correct. Otherwise, you must enter them yourself for accurate computations in Part III of Form 8801.

**2013 filing status.** The prior-year filing status is required because the AMT on prior-year exclusion items is computed in this part of the form. Enter filing status 1 for single, 2 for married filing jointly, 3 for

married filing separately, 4 for head of household, and 5 for qualifying widow(er).

**2013 Form 6251, line 1.** This is the prior-year AGI less itemized deductions taken, if any.

**2013 Form 6251, line 2.** This is the part of prior-year medical and dental expense that is treated as a preference.

**2013 Form 6251, line 3.** This is the total of prior-year deductible taxes.

**2013 Form 6251, line 4.** This is the part of prior-year home mortgage interest not used to buy, build, or improve your home.

**2013 Form 6251, line 5.** This is the total of prior-year miscellaneous deductions.

**2013 Form 6251, line 6.** This is the amount from the 2013 Form 4684, line 18a, if the standard deduction was used for 2013. Otherwise, zero.

**2013 Form 6251, line 7.** This is the prior-year tax refund reported on the 2013 Form 1040.

**2013 Form 6251, line 8.** This is the prior-year investment interest expense difference between the regular tax and the AMT.

**2013 Form 6251, line 9.** This is the prior-year depletion difference between the regular tax and the AMT.

**2013 Form 6251, line 10.** This is the amount of net operating loss deducted on the prior-year Form 1040, line 21, expressed here as a positive so that it is added back to income for the purposes of this form.

**2013 Form 6251, line 12.** This is the prior-year tax-exempt interest from certain private activity bonds.

**2013 Form 6251, line 13.** This is the prior-year preference from the sale of small business stock.

**Other exclusion items.** Enter here any 2013 exclusion items not reflected above. See IRS instructions for line 2 of the 2014 Form 8801 for examples of what to enter here. ***CAUTION: This entry is NOT translated from the prior-year return.***

**2013 Form 6251, line 34.** This is the prior-year regular tax (2013 Form 1040, line 44) less any tax from Form 4972 included (2013 Form 1040, line 44b) less foreign tax credit (2013 Form 1040, line 47).

**2013 Form 6251, line 35.** This is AMT on the prior-year return.

**Information for 2013 Form 6251, line 29.** The following information is required for a taxpayer who was under age 24 in 2013, and is automatically translated from the prior-year Form 6251 as long as the tax year on the return was retained at 2013. It was used in the prior-year Form 6251 to determine whether a special limitation for children applies. This information determines the answer above line 9 of the current-year Form 8801, and applies the limitation in the computation for line 9 when applicable.

**YOUR 2013 earned income.** For this purpose, earned income consists of wages, net profit or loss on Schedules C (except statutory) and F, and self-employment on Schedule E, less half of self-employment tax deducted on the 2013 Form 1040.

**Adjustment for special businesses.** This is an allowance for personal services rendered, as explained in the IRS instructions for line 28 of Form 6251.

**Earned Income for Exemption Worksheet.** *(auto-calc)* Computed as the sum of the preceding two amounts, this amount of earned income used in applying the special limitations for children at line 9.

**Earned Income more than half your support?** Answer Yes only if the preceding amount is more than the support provided by all others combined in 2013.

**Full-time student in 2013?** Answer Yes if enrolled as a full-time student in any 5 month period in 2013.

**YOUR age on 2013 Form 1040.** *(auto-calc)* Computed as the age you entered on our 2014 Form 1040 less one year, this is your age on January 1, 2014.

**Both parents died before 2014?** Answer Yes if neither parent was alive on January 1, 2014.

The special limitation applies only if your age was under 18 for the 2013 return (or age 18 with earned income that was more than half your support, or a full-time student over 18 but under 24 with earned income that was more than half your support), at least one parent was alive, and your filing status was not married filing jointly. *If you made no entry for your age on Form 1040, the entry is ignored and the limitation is not applied.*

**Carryforward from 2013.** *CAUTION: This amount is NOT translated from the prior-year return, so you must make the entry yourself:*

**2013 Form 8801, line 28.** This is the carryover to 2014 from the 2013 Form 8801, and is required to complete Part II.

**Information from 2013 for calculating capital gains tax in Part III.** The following information is translated from the prior-year Form 6251 if capital gains rates applied to the AMT for the prior year – that is, when Part III of Form 6251 was required to be used to compute the AMT for tax year 2013. (Part III would have been required for the 2013 Form 6251 if either line 9b of the 2013 Form 1040 had an amount, or the lesser of line 15 or 16 of the 2013 Schedule D was greater than zero.) All entries are automatically translated from the prior-year Form 6251 as long as the tax year on the prior-year return was retained at 2013.

**Taxable income on 2013 Form 1040, line 43.** This is the taxable income on the prior-year return.

**Qualified dividends on 2013 Form 1040, line 9b.** This is qualified dividends reported on the prior-year return.

**2013 Form 4952, line 4g.** This entry applies when you claimed an investment interest expense deduction on Schedule A.

**2013 Form 4952, line 4e.\*** This entry applies when you claimed an investment interest expense deduction on Schedule A. (\*) However, it may be different from line 4e if you made an election for a lesser amount to be used on Schedule D.

**2013 Schedule D, lesser of line 15 or 16.** This is the net capital gain on the prior-year return. Use Form 1040, line 13, here if there is no Schedule D for the 2013 return.

**2013 28% rate NET for Schedule D, line 18.** This is normally the 28% rate gain or loss for the prior year, but is zero if you were not required to use the Schedule D Tax Worksheet for 2013. (If the 28% net was a loss, line 18 of Schedule D will have been zero, so you must compute the amount to enter yourself unless translated from the 2013 return.)

**2013 Schedule D, line 19.** This is normally the unrecaptured section 1250 gain for the prior year, but is zero if you were not required to use the Schedule D Tax Worksheet for 2013.

**2013 Schedule D Tax Worksheet, line 9.** *(auto-calc)* Computed from the above entries using the Schedule D Tax Worksheet for 2013, this and the following three amounts are used in the computations in Part III of this form when it is required.

**2013 Schedule D Tax Worksheet, line 10.** *(auto-calc)* Computed from the above amounts using the Schedule D Tax Worksheet for 2013.

**2013 Schedule D Tax Worksheet, line 13.** *(auto-calc)* Computed from the above amounts using the Schedule D Tax Worksheet for 2013.

**2013 Schedule D Tax Worksheet, line 19.** *(auto-calc)* Computed from the above amounts using the Schedule D Tax Worksheet for 2013.

**PART I, NET MINIMUM TAX ON EXCLUSION ITEM.** All adjustments and preferences that increase taxable income for the purposes of the AMT are either deferral items or exclusion items. The prior-year AMT attributable to exclusion items is computed here. It is subtracted from the full amount of AMT in Part II in order to arrive at the part of the prior-year AMT that is qualified for a credit. Entries are required only for lines 3 and 12; all other entries are completed for you based on the translated amounts from Form 6251 and any other entries you made on the first two screens of Form 8801.

**1 Combine lines 1, 6, and 10 of your 2013 Form 6251.** *(auto-calc)* Computed as "2013 Form 6251, line 1" less "2013 Form 6251, line 6" plus "2013 Form 6251, line 10." This is the prior-year income to which prior-year exclusions are added in order to determine the prior-year AMT attributable to exclusions.

**2 Adjustments and preferences treated as exclusion items.** *(auto-calc)* Computed as the sum of 2013 Form 6251 amounts for lines 2, 3, 4, 5, 8, 9, 12, 13, and "Other exclusion items" (entered on screen 1), less the 2013 Form 6251 amount on line 7.

**3 Minimum tax credit net operating loss deduction.** See IRS instructions for details on determining the amount to enter here. Enter the amount as a positive number here.

**4 Combine lines 1, 2, and 3.** *(auto-calc)* Normally computed as line 1 *plus* line 2 *less* line 3. However, if married filing separately for 2013 and this result exceeds \$238,550, an additional amount is added to this result (25% of the excess of this result over \$238,550, but no more than \$40,400).

**5 \$80,800, \$51,900, or \$40,400.** *(auto-calc)* Based on the previous entry for "2013 filing status," computed as \$80,800 for filing status 2 or 5, \$51,900 for 1 or 4, or \$40,400 for 3.

**6 \$153,900, \$115,400, or \$76,950.** *(auto-calc)* Based on the previous entry for "2013 filing status," computed as \$153,900 for filing status 2 or 5, \$115,400 for 1 or 4, or \$76,950 for 3.

**7 Subtract line 6 from line 4.** *(auto-calc)* Computed as indicated, but no less than zero.

**8 Multiply line 7 by 25% (.25).** *(auto-calc)* Computed as indicated.

**Limitation for child applied.** *(auto-calc)* Answered Yes if your age was under 18 for the 2013 return (or age 18 with earned income that was more than half your support, or a full-time student over 18 but under 24 with earned income that was more than half your support), at least one parent was alive, and you did not file as married filing jointly in 2013.

**9 Subtract line 8 from line 5.** *(auto-calc)* Normally computed as indicated, but no less than zero. However, if the preceding answer is Yes, this result is limited to no more than the 2013 "Earned Income for Exemption Worksheet" *plus* \$7,150.

**10 Subtract line 9 from line 4.** *(auto-calc)* Computed as indicated, but no less than zero.

**Foreign earned income adjustment.** *(auto-calc)* Taken from the entry on screen 1, this is the amount on line 2 of the IRS "Foreign Earned Income Tax Worksheet—Line 11" on page 2 of the IRS 2014 Instructions for Form 8801.

**Part III required for line 11 calculation.** *(auto-calc)* Answered Yes if either "2013 Form 1040, line 9b" or "2013 Schedule D, minimum of line 15 or 16" is greater than zero. Because qualified dividends and capital gains qualify for favorable tax rates, when the answer is Yes a special calculation in Part III of this form is used in place of the normal calculation of tax for line 11.

**Tax on adjusted line 10.** *(auto-calc)* Computed as the tax on line 10 as modified by the above "Foreign earned income adjustment," this is the amount on line 4 of the IRS "Foreign Earned Income Tax Worksheet—Line 11" on page 2 of the IRS 2014 Instructions for Form 8801, taking into account the capital gains tax through Part III of this form, if applicable. *If Part III is NOT required, this tax is computed as* .26 times the modified line 10 for amounts up to \$175,000 (\$87,500 if married filing separately) *plus* .28 times the amount by which the modified line 10 exceeds that level, if any. *(This one formula gives the same result as the IRS's two separate formulas.)*

**Tax on Foreign Earned Income adjustment.** *(auto-calc)* Computed as the tax on the above "Foreign earned income adjustment," this is the amount on line 5 of the IRS "Foreign Earned Income Tax Worksheet—Line 11" on page 2 of the IRS 2014 Instructions for Form 8801.

**11 Usually, multiply line 10 by .26.** *(auto-calc)* Computed as "Tax on adjusted line 10" less "Tax on Foreign Earned Income adjustment," but no less than zero, this is the result on line 10 of the IRS "Foreign

Earned Income Tax Worksheet—Line 11” on page 2 of the IRS 2014 Instructions for Form 8801. (*When the “Foreign earned income adjustment” is zero, this result is the same result you would get without using the Foreign Earned Income Tax Worksheet.*)

- 12 Minimum tax foreign tax credit on exclusion items.** If you had a foreign tax credit from Form 1116 on the prior-year return, you must refigure the tax for the AMT using only exclusion items. To do so you must create a Form 1116 on a separate copy of this return and alter its entries in accordance with the IRS instructions for this line of Form 8801.
- 13 Tentative minimum tax on exclusion items.** *(auto-calc)* Computed as line 11 less line 12.
- 14 2013 Form 6251, line 35.** *(auto-calc)* Taken from your prior entry for this amount, it is the prior-year regular tax (2013 Form 1040, line 44) less any tax from Form 4972 included (2013 Form 1040, line 44b) less any foreign tax credit (2013 Form 1040, line 47).
- 15 NET MINIMUM TAX ON EXCLUSION ITEMS.** *(auto-calc)* Computed as line 13 less line 14, but no less than zero.

**PART II, MINIMUM TAX CREDIT AND CARRYFORWARD TO 2015.** The credit is computed here based on prior-year AMT less the part attributed to exclusion items plus any carryover from the prior-year Form 8801. All lines in this part are completed automatically except for line 20, which requires your manual entry.

- 16 2013 Form 6251, line 35.** *(auto-calc)* Taken from your prior entry for this amount, this is AMT on the prior-year return.
- 17 Amount from line 15 above.** *(auto-calc)* Taken from line 15, as indicated, this is the part of line 16 attributable to exclusion items.
- 18 Subtract line 17 from line 16.** *(auto-calc)* Computed as indicated, with a negative result allowed.
- 19 2013 CREDIT CARRYFORWARD.** *(auto-calc)* Taken from your prior entry for “2013 Form 8801, line 28,” this is the carryforward to 2014 computed on the prior-year Form 8801.
- 20 2013 unallowed qualified electric vehicle credits.** The IRS instructs you to enter here the amount not allowed in 2013 “solely because of the limitation under section 30(b)(3)(B).” This is the tentative minimum tax part of the tax liability limitation. If tentative minimum tax (shown on 2013 Form 8834, line 5) is zero, your entry here is zero. Otherwise, you must enter here the amount by which the lesser of line 1 or 4 exceeds line 7, if any, on the 2013 Form 8834. This is the part of the limitation due only to the tentative minimum tax.
- 21 Combine lines 18 through 20.** *(auto-calc)* Computed as indicated, but no less than zero. *If this result is zero, neither a credit nor carryover exists, so you should not complete the rest of this form.*
- 22 2014 regular income tax liability minus allowable credits.** *(auto-calc)* Computed from the current Form 1040 as line 44 less a modified line 55 (computed as line 55 less the Form 8801 credit on line 54b and the Form 8912 part of line 54c). This is the regular tax less all credits in line 55 of Form 1040 except the credit from this form and the credit from Form 8912.

- 23 2014 Form 6251, line 33.** *(auto-calc)* Taken from Form 6251, as indicated, this is the tentative minimum tax on the current-year return.
- 24 Subtract line 23 from line 22.** *(auto-calc)* Computed as indicated, but no less than zero.
- 25 MINIMUM TAX CREDIT.** *(auto-calc)* Computed as the smaller of line 21 or line 24, this is the current-year nonrefundable credit for prior-year minimum tax, which is posted to line 54b of Form 1040.
- 26 CREDIT CARRYFORWARD TO 2015.** *(auto-calc)* Computed as line 21 less line 25, this is the credit carryover to next year.

**PART III, TAX COMPUTATION USING MAXIMUM CAPITAL GAINS RATES.** All lines in this part are completed automatically based on your prior entries. This part is used only if there were qualified dividends or a net capital gain on the prior-year return, and is used to compute the AMT on the income shown on line 10 of the current-year Form 8801 (or a more complex variation if Form 2555 or 2555-EZ applied for 2013) using the more favorable tax rates for capital gains. When this part applies, the answer for "Part III required for line 11 calculations" (following line 10 on screen 4 of our Form 8801) will be Yes, and lines 27 through 55 of Form 8801 will be completed for you. Otherwise, no amounts will appear in this part of Form 8801. *TIP: If you did not use Tax Preparer to prepare the prior-year return and translate it with the tax year retained at 2013, you must enter all amounts on screen 3 of this form yourself in order for this part to be completed.*

- 27 Amount from Form 8801, line 10.** *(auto-calc)* Taken from Part I of this form (but modified by any foreign earned income adjustment), as indicated.

**Capital gain excess.** *(auto-calc)* Computed as the amount by which line 10 of the 2013 Schedule D Tax Worksheet exceeds line 10 of the current Form 8801. *If an amount appears here and the answer to "Filed Form 2555 (or 2555-EZ) for 2013?" (on screen 1) is Yes, the Schedule D Tax Worksheet used in the calculations for lines 28, 29, and 30 are automatically modified in accordance with the IRS 2014 Instructions for Form 8801.*

- 28 Line 13 of the 2013 Schedule D Tax Worksheet.** *(auto-calc)* Normally taken from the corresponding amount computed on screen 3, subject to modification if Form 2555 (or 2555-EZ) was filed in 2013.
- 29 Amount from 2013 Schedule D, line 19.** *(auto-calc)* Normally taken from the corresponding entry on screen 3 of Form 8801, subject to modification if Form 2555 (or 2555-EZ) was filed in 2013.
- 30 Smaller of the sum of lines 28 and 29 or line 10 of the Schedule D Tax Worksheet.** *(auto-calc)* Computed as indicated. The amount for line 10 of the Schedule D Tax Worksheet is normally taken from the corresponding entry on screen 3 of Form 8801, subject to modification if Form 2555 (or 2555-EZ) was filed in 2013.
- 31 Smaller of line 27 or line 30.** *(auto-calc)* Computed as indicated.
- 32 Subtract line 31 from line 27.** *(auto-calc)* Computed as indicated.
- 33 Usually, multiply line 32 by .26.** *(auto-calc)* Computed as .26 times line 32 for amounts up to \$175,000 (\$87,500 if married filing separately) plus .28 times the amount by which line 32 exceeds that level, if any.

## Form by Form Details (2015 Edition)

Form 8801

- 34 \$72,500, \$36,250, or \$48,600.** *(auto-calc)* Based on your previous entry for "2013 filing status," computed as \$72,500 for filing status 2 or 5, \$36,250 for 1 or 3, or \$48,600 for 4.
- 35 Line 14 of the 2013 Schedule D Tax Worksheet.** *(auto-calc)* Computed from your prior entries as "Taxable income on Form 1040, line 43" plus "Form 2555, line 45 and 40 (or Form 2555-EZ, line 18)" less "2013 Schedule D Tax Worksheet, line 13."
- 36 Subtract line 35 from line 34.** *(auto-calc)* Computed as indicated, but no less than zero.
- 37 Smaller of line 27 or line 28.** *(auto-calc)* Computed as indicated.
- 38 Smaller of line 36 or line 37.** *(auto-calc)* Computed as indicated.
- 39 Subtract line 38 from line 37.** *(auto-calc)* Computed as indicated, but no less than zero.
- 40 \$400,000 (S), \$225,000 (MFS), \$450,000 (MFJ/QW), or \$425,000.** *(auto-calc)* Based on your previous entry for "2013 filing status," computed as \$400,000 for filing status 1, \$225,000 for filing status 3, \$450,000 for filing status 2 or 5, or \$425,000 for filing status 4.
- 41 Amount from line 36.** *(auto-calc)* Computed from line 36, as indicated.
- 42 Line 19 of 2013 Schedule D Tax Worksheet or Form 1040.** *(auto-calc)* Normally computed as indicated, but computed as "Taxable income on Form 1040, line 43" plus "Form 2555, line 45 and 40 (or Form 2555-EZ, line 18)" if you completed neither the Schedule D Worksheet nor the Qualified Dividends and Capital Gain Worksheet for 2013.
- 43 Add lines 41 and 42.** *(auto-calc)* Computed as indicated.
- 44 Subtract line 43 from line 40.** *(auto-calc)* Computed as indicated, but no less than zero.
- 45 Smaller of line 39 or line 44.** *(auto-calc)* Computed as indicated.
- 46 Multiply line 45 by 15% (.15).** *(auto-calc)* Computed as indicated.
- 47 Add lines 38 and 45.** *(auto-calc)* Computed as indicated. *If line 47 is equal to line 27, lines 48 through 52 will be zero, in accordance with IRS instructions.*
- 48 Subtract line 47 from line 37.** *(auto-calc)* Computed as indicated.
- 49 Multiply line 45 by 15% (.15).** *(auto-calc)* Computed as indicated. *TIP: If line 29 is zero, lines 50 through 52 will be zero, in accordance with IRS instructions.*
- 50 Add lines 32, 47, and 48.** *(auto-calc)* Computed as indicated.
- 51 Subtract line 50 from line 27.** *(auto-calc)* Computed as indicated.
- 52 Multiply line 51 by 25% (.25).** *(auto-calc)* Computed as indicated.
- 53 Add lines 33, 46, 49, and 52.** *(auto-calc)* Computed as indicated.
- 54 Usually, multiply line 27 by .26.** *(auto-calc)* Computed as .26 times line 27 for amounts up to \$179,500 (\$89,750 if married filing separately) plus .28 times the amount by which line 29 exceeds that level, if any.
- 55 Smaller of line 53 or line 54.** *(auto-calc)* Computed as indicated, this is the *tax for line 11 of Form 8801* when Part III is required for the calculation of that tax.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Schedule 8812 / Additional Child Tax Credit

**For eligible taxpayers: automatically generated.** The Child Tax Credit at line 52 of Form 1040 is limited by tax after certain credits and is a nonrefundable credit. Schedule 8812, on the other hand, is used to gain back some or all of the eliminated credit. *Most taxpayers can benefit from this form when the credit on Form 1040 has been limited.* Schedule 8812 is *accessible through the Road Map at line 67 of Form 1040.* However, *except for high-income taxpayers liable for the new Additional Medicare Tax, there is rarely a need to access this form yourself because it is automatically generated when applicable and is fully automatic for most taxpayers.* Unless you file Form 2555 or Form 8959, or need to make a special adjustment to our computation of earned income, you need not even view this form.

**TAXABLE EARNED INCOME (IRS Pub. 972).** The first two screens of this form are not a part of the IRS form but generally follow the *Earned Income Worksheet* on page 8 of the 2014 IRS Pub. 972 (*Child Tax Credit*). It is fully automatic for most taxpayers, but you may have to make an entry at line 5b if you file Form 2555, or a special adjustment above line 8 if you are clergy who received housing benefits or an employee who received meals and lodging. *Note that our worksheet differs from the IRS worksheet in Pub. 972 in our omission of nontaxable combat pay from the computation. See our instructions for line 3 of this worksheet for an explanation.*

**1a Amount on Form 1040, line 7.** *(auto-calc)* Taken from Form 1040, as indicated.

**1b Nontaxable combat pay.** *(auto-calc)* Taken from your entry for "Nontaxable combat pay (see W-2)" on screen 10 of Form 1040, page 1 (in the section CERTAIN NONTAXABLE INCOME) below Form 1040, line 22).

**2a Statutory employee income on Schedule C, line 1.** *(auto-calc)* Computed as line 1 of all copies of Schedules C for which you answered "Yes" to "Statutory Employee on W-2" (on screen 2 of Schedule C).

**2b Nonfarm net income on Schedule C, etc.** *(auto-calc)* Nonfarm self-employment income for you and spouse combined is shown here. When a Schedule SE exists for a spouse, that spouse's contribution to this line is taken from "Net nonfarm profit/loss" (on screen 3 of Schedule SE) less clergy "Social security wages not taxed on Form W-2" and clergy "Nontaxable income that is social security liable" (both on screen 1 of Schedule SE). The amount computed from Schedule SE excludes clergy amounts already in line 1a and statutory amounts already in line 2a. For a spouse without a Schedule SE, that spouse's component to this line is computed from nonfarm self-employment net income on Schedules C and E.

**2e Farm net income on Schedule F, etc.** *(auto-calc)* *(Lines 2c and 2d are reflected in our computation for line 2e.)* Farm self-employment income for you and spouse combined is shown here. When a Schedule SE exists for a spouse, that spouse's contribution to this line is normally taken from "Net farm profit/loss" (on screen 2 of Schedule SE); but if the Farm Optional Method is used and "Net farm profit/loss" is

a gain, the lesser of "Net farm profit/loss" or the amount on line 15 of Schedule SE, Section B, is used here. For a spouse without a Schedule SE, that spouse's component to this line is computed from farm self-employment net income on Schedules F and E.

**3 Add lines 1a, 2a, 2b, and 2e.** *(auto-calc)* Computed as indicated. The amount on line 1b is intentionally omitted because it is not always appropriate for line 4a of Schedule 8812. *This is an intentional deviation from the worksheet in IRS Pub. 972. Rather than including it here, the decision of whether to include combat pay in line 4a of Schedule 8812 is made at that line. (Note that the following line is line 4a of the IRS worksheet, not line 4a of Schedule 8812.)*

**4a Scholarships in line 1a but not on Form W-2.** *(auto-calc)* Taken as your entry on screen 7 of Form 1040 for "Non W-2 taxable scholarship."

**4b Prison inmate income in line 1a.** *(auto-calc)* Computed as "Prison inmate income in box 1" from all W-2 Worksheets you completed for line 7a (and 7b if married filing jointly).

**4c Deferred compensation in line 1a.** *(auto-calc)* Computed as "Deferred compensation in box 1" from all W-2 Worksheets you completed for line 7a (and 7b if married filing jointly).

**Form 2555 (2555-EZ) amount in Form 1040, line 21.** *(auto-calc)* Taken from the component of Form 1040, line 21, labeled "Form 2555 or Form 2555-EZ," this amount is a negative number because it is excluded income. Form 2555, line 45, from which it stems for filers of Form 2555, is the positive version of this number.

**Amount on Form 2555, line 44.** *(If Premium Level, Road Map line supported by Form 2555.)* The amount of deductions allowed in figuring AGI that are related to excluded foreign income is reported here, as shown on Form 2555, line 44.

**5a Amount on Form 2555, line 43 (or Form 2555-EZ, line 18) that is also included in line 3.** *(auto-calc)* Computed as the sum of the "Form 2555 (2555-EZ) amount in Form 1040, line 21" expressed as a positive number, plus the amount on Form 2555, line 44, this is the full amount on Form 2555, line 43 for filers of Form 2555. *If any income in this result is not also included in line 3, above, you must override this entry and reduce the amount accordingly.*

**5b Amount from Form 2555, line 44 that is also deducted on Schedule C, C-EZ, E, or F.** Enter the amount indicated. (The amount relating to Schedule E refers only to partnership income treated as self-employment income.)

**5c Subtract line 5b from line 5a.** *(auto-calc)* Computed as indicated, but no less than zero.

**6 Amount on Form 1040, line 27.** *(auto-calc)* Taken from Form 1040 as indicated, this is the deductible part of the self-employment tax on Schedule(s) SE.

**7 Add lines 4a through 4c, 5c, and 6.** *(auto-calc)* Computed as indicated, this is the amount of income to be excluded from earned income for the purposes of Schedule 8812.

**Special adjustment.** This line is provide to alter our computation of earned income because of a change in the law or special circumstances. *There is no known reason to use this line for 2014, but the line provides flexibility for the future, especially for tax planning.*

- 8 Subtract line 7 from line 3. (auto-calc)** Computed as indicated plus the preceding special adjustment, this is taxable earned income. This result may be less than the result of the IRS worksheet in Pub. 972 because *we omit nontaxable combat pay from this line*. It may be added to earned income at line 4a, not here, depending on your election for the Earned Income Credit on Form 1040.

### **PART I, FILERS WHO HAVE CERTAIN CHILD DEPENDENT(S) WITH AN ITIN.**

You need to complete this part only if you are claiming any children who do not have an SSN (Social Security Number) or an Adoption Taxpayer Identification Number, but have only an ITIN (Individual Taxpayer Identification Number). This would generally only be children who are not eligible for an SSN because they are not lawful permanent residents of the United States. This part consists of a single question, which must be answered for as many children that you claim who have only an ITIN. *TIP: Do not answer the question for any child for whom the answer to "CHILD TAX CREDIT QUALIFIED" is No on that child's Dependent Worksheet for line 6c of Form 1040 because this part of the form does not apply to those children.* If you must answer No for any of the children you claimed, the child is a nonresident alien rather than a resident alien and is therefore not qualified for the child tax credit or the additional child tax credit.

**How many children for whom you claimed the Child Tax Credit have an ITIN?** Count only children who do not have an SSN or an Adoption Taxpayer Identification Number, but have only an ITIN. The software uses this number to ensure than neither the Yes box nor the No box is checked for questions that do not apply to you. *Restriction for e-file: The software supports no more than 4 such children for e-file. If your entry for this line is more than 4, you cannot e-file this return but must file a paper return instead and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation..*

**A For the first dependent identified with an ITIN and listed as a qualifying child for the child tax credit, did this child meet the substantial presence test?** For the purposes of this question, the first claimed child with only an ITIN is the first Dependent Worksheets for line 6c of Form 1040 that identifies the child with an ITIN instead of an SSN and has a Yes "CHILD TAX CREDIT QUALIFIED." (The order for all questions in this section is the order of the Dependent Worksheets, which is the same as the order shown on the official printout for Form 1040 and its supporting statements.) You can generally answer Yes here only if the child meets both of the following conditions: (1) was physically present in the U.S. on at least 31 days during 2014, and (2) was physically present in the U.S. for at least 183 days (184 for leap years) during the 3-year period that includes 2014, 2013, and 2012 counting all the days the child was present in 2014, and 1/3<sup>rd</sup> of the days the child was present in 2013, and 1/6<sup>th</sup> of the days

the child was present in 2012. *CAUTION: If you must answer No, you must return to the Dependent Worksheet for Form 1040, line 6c, for that child and change your answer to "U.S. citizen or resident alien?" from Yes to No because that child is a nonresident alien and therefore not qualified for either the child tax credit. You must then reduce your count for the entry before line A and no longer answer the questions on this form for that child. (See the IRS's 2014 Instructions for Schedule 8812 for exceptions.)*

**B** For the second dependent identified with an ITIN and listed as a qualifying child for the child tax credit, did this child meet the substantial presence test? See the instructions for line A for details.

**C** For the third dependent identified with an ITIN and listed as a qualifying child for the child tax credit, did this child meet the substantial presence test? See the instructions for line A for details.

**D** For the fourth dependent identified with an ITIN and listed as a qualifying child for the child tax credit, did this child meet the substantial presence test? See the instructions for line A for details.

**More than 4 children with an ITIN claimed?** *(auto-calc)* Answered Yes only if your entry above line A is more than 4. If Yes, Computed as indicated. *If the result is zero, you are provided NO credit on this form.*

**If Yes, itemize HERE to list.** If the answer to the preceding question is Yes, provide answers for children after the first 4 in a supporting statement for this line using only the description column with such entries as "Answer for fifth child: Yes", "Answer for fifth child: Yes", etc.

**Remainder of form is fully automatic for most taxpayers.** Except for high-income taxpayers liable for the new Additional Medicare Tax, Parts II, III, and IV are fully automatic based on the taxable earned income worksheet on screens 1 and 2 and certain amounts on Form 1040. For high-income taxpayers who have 3 or more qualifying children, you must include amounts from Form 8959 (Additional Medicare Tax) in Part III (built into the Standard and Premium Level software).

**PART II, ADDITIONAL CHILD TAX CREDIT FILERS.** Even filers with less than 3 qualifying children may be eligible for a credit on this form, as computed in this part of Schedule 8812.

**1 Line 1 of the Child Tax Credit Worksheet.** *(auto-calc)* The worksheet referenced in the line label is a worksheet in IRS 1040 Instructions. However, we use the more complete worksheet in IRS Pub. 972, which takes into account high AGI and foreign and U.S. possession income exclusions. The number you see here may therefore be less than the amount from line 1 of the Child Tax Credit Worksheet in the IRS 1040 instructions, which is just \$1,000 times the number of qualifying children less any advance payment before offset. See our details for line 52 of Form 1040 for more information.

**2 Amount from Form 1040, line 52.** *(auto-calc)* Taken from Form 1040 as indicated, this is the Child Tax Credit on line 52 of Form 1040.

**3 Subtract line 2 from line 1.** *(auto-calc)* Computed as indicated. *If the result is zero, you are provided NO credit on this form.*

**EIC claimed on Form 1040?** *(auto-calc)* Answered Yes only if there is an amount on line 66a of Form 1040, indicating a claim for the Earned Income Credit.

**Combat pay used in EIC?** *(auto-calc)* Answered Yes only if you elected to include nontaxable combat pay in earned income when computing the Earned Income Credit for line 66a of Form 1040.

**Use combat pay for line 4a?** *(auto-calc)* Answered No if both of the preceding two answers are Yes. Otherwise, No. In other words, if you claimed the earned income credit and elected to include combat pay in its calculation, then you cannot include it in the calculation of the *Additional Child Tax Credit* from this form.

**4a Earned income (see instructions).** *(auto-calc)* If the preceding answer is No, taken as the result on line 8 of our *Taxable Earned Income* worksheet. Otherwise, computed as line 8 of our worksheet plus nontaxable combat pay on line 1b of the worksheet.

**4b Nontaxable combat pay.** *(auto-calc)* Taken as line 1b of our *Taxable Earned Income* worksheet, irrespective of *whether or not it is included in line 4a.*

**5 Is line 4 more than \$3,000?** *(auto-calc)* Answered as indicated.

**No: Leave blank and enter zero on line 6.**

**Yes: Subtract \$3,000 from line 4a.** *(auto-calc)* Computed as indicated if the answer to line 5 is Yes. Otherwise, zero.

**6 Multiply line 5 by 15%** *(auto-calc)* Computed as indicated.

**Smaller of line 3 or line 6.** *(auto-calc)* Computed as indicated, *this is your credit if you have fewer than 3 qualifying children.*

**Do you have 3 or more qualifying children?** *(auto-calc)* Determined from the Dependent Worksheets you completed for line 6c of Form 1040.

If the answer to the last question is Yes and line 6 exceeds line 3, you must continue to line 7. Otherwise your credit is the smaller of line 3 or line 6, which will appear on line 13, and lines 7 through 12 will be left blank.

**PART III, CERTAIN FILERS WHO HAVE THREE OR MORE QUALIFYING CHILDREN.** If you have less than 3 qualifying children or line 6 is not less than line 3, all numbered lines will calculate as zero because you are not eligible for this part.

**Social security tax withheld on W-2.** *(auto-calc)* Taken from the W-2 Worksheets you completed for line 7a (and line 7b if married filing jointly) of Form 1040.

**Medicare tax withheld on W-2.** *(auto-calc)* Taken from the W-2 Worksheets you completed for line 7a (and line 7b if married filing jointly) of Form 1040.

**Additional Medicare tax on wages (Form 8959, line 7).** *(If Standard or Premium Level, Road Map line, supported by Form 8959.)* This is the 0.9% tax on Medicare wages and tips that exceed \$250,000 if married filing jointly, \$125,000 if married filing separately, or \$200,000 if single, head of household, or qualifying widow(er).

**Additional Medicare tax withheld (Form 8959, line 22).** *(If Standard or Premium Level, Road Map line, supported by Form 8959.)* This is the portion of withholding reported in box 6 of Form W-2 that stems from the 0.9% Additional Medicare Tax for high-income taxpayers.

**Additional Medicare tax on self-employment income (Form 8959, line 13).** *(If Standard or Premium Level, Road Map line, supported by Form 8959.)* This is the 0.9% tax on self-employment income that exceed \$250,000 if married filing jointly, \$125,000 if married filing separately, or \$200,000 if single, head of household, or qualifying widow(er).

**7 Social security and Medicare tax withheld from your pay.** *(auto-calc)* Computed in accordance with the IRS's *Line 7 Worksheet* in the *2014 Instructions for Form 8812* as the sum of the the first three of the preceding lines less the fourth line plus half of the fifth line.

**8 Form 1040: line 27, 58, and UT part of 62** *(auto-calc)* Taken from Form 1040, computed as the sum of lines 27 and 58 of Form 1040 plus the part of line 62 that stems from uncollected social security and Medicare tax (labeled UT on screen 6 of Form 1040, page 2).

**9 Add lines 7 and 8.** *(auto-calc)* Computed as indicated.

**10 Form 1040: lines 66a and 71.** *(auto-calc)* Computed as indicated.

**11 Subtract line 10 from line 9.** *(auto-calc)* Computed as indicated.

**12 LARGER of line 6 or line 11.** *(auto-calc)* Computed as indicated.

**PART IV, ADDITIONAL CHILD TAX CREDIT.** The results in Part II or III are combined here:

**13 ADDITIONAL CHILD TAX CREDIT.** *(auto-calc)* If Part III is used, the smaller of line 3 or 12 appears here. Otherwise, the smaller of line 3 or 6 appears here.

The result on line 13 is posted to line 67 of Form 1040.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8814 / Election to Report Child's Interest and Dividends

**Who is it for?** This form is designed for taxpayers who have children with interest and dividend income only and who prefer to report that income on their own return rather than filing a return for each child. To qualify to report the child's income this way the child:

- A** must be under age 19 on January 1, 2015 (age 24 if a full-time student),
- B** must be required to file a 2014 return,
- C** must have had income only from interest and dividends, including capital gain distributions and Alaska Permanent Fund dividends,
- D** must have had less than \$10,000 gross income for 2014,
- E** must have had no estimated tax payments for 2014,
- F** must have had no tax overpayment on the 2014 return to be applied to the 2015 estimated tax, and
- G** must have had no federal income tax withheld from any income.

Other restrictions apply, as detailed later. *A separate Form 8814 must be completed for each child* for whom the parent elects to report income in his or her own return. Fifteen copies of Form 8814 are built into the software to report the income for up to 15 qualifying children. All *15 copies of Form 8814 are accessible through the Road Map at line 44a of Form 1040.*

**Age threshold is now 19 (24 if a full-time student).** Ever since tax year 2008, parents can report on their own return income received by their child under age 19 (24 for a full-time student). For tax years 2006 and 2007, the child had to be under age 18, irrespective of student status. Before tax year 2006, the child had to be under age 14, irrespective of student status. While this change eases the burden of filing returns for more of their children than before, it can also increase the tax bite for more of their children.

**PRELIMINARY ELIGIBILITY.** Information about the child and your relationship with him or her is collected here.

**A Child's first name and initial.** Enter in 15 characters or less.

**Child's last name.** Enter last name in 25 characters or less.

**Child's name in e-file format.** *(auto-calc)* The name is displayed here in e-file format, with a < symbol to flag the last name and any suffix like Jr. Furthermore, suffixes like 3<sup>rd</sup> are changed to Roman numerals and first name is shortened to an initial when necessary to keep the name no longer than 35 characters, all in accordance with IRS e-file specifications.

**Child's e-file name control.** The name control is displayed in accordance with IRS e-file specifications. This is usually the first four characters of the last name.

**B Child's SSN.** Enter child's social security number.

**C Is more than one 8814 filed?** Answer Yes if reporting income for more than one child.

The following entries determine whether the child qualifies to be reported on this form:

**Child's age on 1/1/2015.** Enter the age on the first day following the end of the tax year. You can use the decimal part to include fractions of a year. If 24 years of age or older, you cannot report that child's income on Form 8814. If 19 years of age or older, you may be able to use Form 8814 for that child if the answer to the next question is Yes. If under 19 years of age, the child meets the age test, so the other qualifications, below, are considered. *CAUTION: If you make no age entry here, the child will never be considered eligible. You must enter an age of 0.01 or more in order for the child to be considered for this form.*

**Was the child a student 5 months or more in 2014?** If No and 19 years or older, you cannot report that child's income on Form 8814. If Yes and under age 24, the child meets the age test, so the other qualifications are considered.

**Is child exempt from filing a 2014 return?** If Yes, the child is not qualified.

**Is the child filing a joint return for 2014?** If Yes, the child is not qualified.

**Did child pay estimated tax for 2014?** If Yes, the child is not qualified.

**Did child apply a 2013 overpayment to 2014 estimated tax?** If Yes, the child is not qualified.

**Did child have federal income tax withheld?** If Yes, the child is not qualified. *This answer is forced to Yes if you reported any federal income tax withheld on the 1099-INT or 1099-DIV Worksheets that follow.*

The answers to the next few questions determine which parent can file Form 8814:

**Your filing status on Form 1040.** (*auto-calc*) Taken from Form 1040.

**Are you the custodial parent?**

**Is your spouse the child's parent?**

**Is your taxable income higher than your spouse's?**

Tentative eligibility to use this form can now be determined. (Complete eligibility depends on the makeup of the child's income, determined later.)

**ELIGIBLE for Form 8814 so far?** (*auto-calc*) Yes only if all of the first set of questions is answered No *and*, from the second set of questions:

- *If married filing jointly*, either you are the custodial parent or spouse is the child's parent.
- *If married filing separately*, your taxable income is higher *and* either you are the custodial parent or spouse is the child's parent.
- *For any other filing status*, you are the custodial parent.

Otherwise, the answer is No and this form cannot be used.

**CHILD'S INTEREST INCOME.** This section of our form is very much like Part I of Schedule B.

**Child's GROSS interest.** *(Supported by the 1099-INT Worksheet, Figure 2-9.)* The same type of worksheet that supports Part I of Schedule B supports this line as well. You should therefore refer to our details for Schedule B to see details on the worksheet and its illustration (Figure 2-9).

**Nominee distribution: ND.** *(auto-calc)* This is the total nominee distributions from all worksheets combined. If an amount appears here, it is printed with the code "ND" below line 1a of an official printout of Form 8814.

**OID adjustment.** *(auto-calc)* This is the total OID (Original Issue Discount) adjustments from all worksheets combined. If an amount appears here, it is printed with the phrase "OID adjustment" to the left of the amount for line 1a of an official printout of Form 8814.

**ABP adjustment.** *(auto-calc)* This is the total ABP (Amortizable Bond Premium) adjustments from all worksheets combined. If an amount appears here, it is printed with the phrase "ABP adjustment" to the left of the amount for line 1a of an official printout of Form 8814.

**Accrued interest.** *(auto-calc)* This is the total accrued interest from all worksheets combined. If an amount appears here, it is printed with the phrase "Accrued interest" to the left of the amount for line 1a of an official printout of Form 8814.

**Total adjustment.** *(auto-calc)* Computed as the sum of the preceding 3 amounts.

**Penalty on early withdrawal of savings.** *(auto-calc)* Taken from line 2 of the 1099-INT Worksheets (box 2 of Form 1099-INT).

**Federal withholding on Form 1099-INT.** *(auto-calc)* Taken from line 4 of the 1099-INT Worksheets (box 4 of Form 1099-INT).

**Foreign tax paid on Form 1099-INT.** *(auto-calc)* Taken from line 6 of the 1099-INT Worksheets (box 6 of Form 1099-INT). This amount is used in the foreign tax section of our Schedule B for computing foreign tax credit, either through Form 1116 or, when qualified, directly on line 47 of Form 1040.

**Tax-exempt interest on Form 1099-INT.** *(auto-calc)* Taken from line 8 of our 1099-INT Worksheets (box 8 of Form 1099-INT). This amount will be included in line 1b of Form 8814 along with the following amount not on the worksheets.

**Other for Form 8814, line 1b.** Enter here only nontaxable interest that you did not report on a 1099-INT Worksheet but which you must include in line 8b of Form 1040. This may include interest from municipal bonds or exempt-interest dividends from a mutual fund or other regulated investment company if you did not prepare a 1099-INT Worksheet for it. This amount will be included in line 1b of Form 8814 along with the preceding amount from the worksheets.

**AMT preference for Form 6251, line 12.** *(auto-calc)* Taken from line 9 of our 1099-INT Worksheet (usually from box 9 of Form 1099-INT), this

amount is posted to Form 6251 along with the analogous amount on the 1099-INT Worksheets on Schedule B for inclusion in line 12 of Form 6251.

**CHILD'S DIVIDEND INCOME.** This section of our form is very much like Part II of Schedule B.

**Child's ORDINARY dividends.** *(Supported by the 1099-DIV Worksheet, Figure 2-10.)* The same type of worksheet that supports Part II of Schedule B supports this line as well. You should therefore refer to our details for Schedule B to see details on the worksheet and its illustration (Figure 2-10).

**Nominee distribution.** *(auto-calc)* This is the total nominee distributions from all worksheets combined. If an amount appears here, it is printed with the code "ND" to the left of the amount for line 2a of an official printout of Form 8814.

**Qualified dividends.** *(auto-calc, supported by the 1099-DIV Worksheet)* For all qualified children, a portion of qualified dividends on the worksheets is reflected in lines 9a and 9b of Form 1040 for taxation under a favorable low rate rather than the regular tax rate, as detailed for line 9 of this form.

**Capital gains distributions.** *(auto-calc, supported by the 1099-DIV Worksheet)* For all qualified children identified on the worksheets, a portion of capital gains distributions on the worksheets is reflected in line 13 of Schedule D for taxation under the capital gains rate rather than the regular tax rate, as detailed for line 10 of this form.

**Nominee distributions in CGD.** *(auto-calc)* Posted here from all 1099-DIV Worksheets, this is the part of capital gain distributions (CGD) that is a nominee distribution, and therefore not taxable to you.

**Net taxable CGD.** *(auto-calc)* Computed as capital gain distributions less the above nominee part, this is the taxable amount posted to Schedule D.

**Unrecaptured sec. 1250 gain in CGD.** *(auto-calc)* Posted here from line 2b of all 1099-DIV Worksheets (box 2b of Form 1099-DIV), and posted to Schedule D.

**Sec. 1202 gain in CGD.** *(auto-calc)* Posted here from line 2c of all 1099-DIV Worksheets (box 2d of Form 1099-DIV), and posted to Schedule D.

**Collectibles (28%) gain.** *(auto-calc)* Posted here from line 2d of all 1099-DIV Worksheets (box 2d of Form 1099-DIV), this is the 28% rate gain posted to Schedule D.

**Nontaxable distributions.** *(auto-calc)* Posted here from line 3 of all 1099-DIV Worksheets (box 3 of Form 1099-DIV).

**Federal withholding on Form 1099-DIV.** *(auto-calc)* Posted here from line 4 of all 1099-DIV Worksheets (box 4 of Form 1099-DIV).

**Investment expense on Form 1099-DIV.** *(auto-calc)* Posted here from line 5 of all 1099-DIV Worksheets (box 5 of Form 1099-DIV).

**Foreign tax paid on Form 1099-DIV.** *(auto-calc)* Posted here from line 6 of all 1099-DIV Worksheets (box 6 of Form 1099-DIV), this amount

is used in computing foreign tax credit, either through Form 1116 or, when qualified, directly on line 47 of Form 1040.

**Alaska permanent fund dividends.** Unlike the 1099-DIV Worksheet for Schedule B, Alaska permanent fund dividends are reported on the 1099-DIV Worksheet for Form 8814. However, these dividends do not count as investment income for the purposes of the earned income credit. Therefore, you must enter here the amount reported on the worksheets for these type of dividends so that the part of line 6 of Form 8814 that is attributable to these dividends is removed before being added to investment income for the purposes of the earned income credit.

**FINAL DETERMINATION OF ELIGIBILITY.** The child's income is compared here with allowed limits.

**Does child have OTHER income?** You cannot use Form 8814 for the child if he or she has *ANY* income other than the above interest and dividend income.

**ELIGIBLE TO USE FORM 8814?** *(auto-calc)* Answered Yes only if ALL of the following conditions are met:

- The answer to "ELIGIBLE for 8814 so far?" was Yes, and
- The answer to "Child has OTHER income?" is No, and
- Reportable interest and dividends for 2014 (that is, gross interest and dividends less nominee distributions, tax-exempt interest, nontaxable distributions, and other adjustments) is less than \$10,000.

**FOREIGN ACCOUNTS AND TRUSTS.** You must answer for the child the same questions you answer for yourself in Part III of Schedule B. Any Yes answer here also appears on your Schedule B flagged by "Form 8814" on the official printout. Any foreign tax paid shown on the preceding worksheets also appears on your Schedule B for use in your own claim for foreign tax credit. *See our instructions for Schedule B for more information on these lines.*

**PART I, CHILD'S INTEREST AND DIVIDEND INCOME TO REPORT ON YOUR RETURN.** This step is fully automatic based on the prior entries.

- 1a Child's TAXABLE interest.** *(auto-calc)* Computed from the preceding interest entries, adjusting gross interest by the adjusting entries in the same way as Part I of Schedule B.
- 1b Child's TAX-EXEMPT interest.** *(auto-calc)* Computed as the tax-exempt interest entered on the 1099-INT Worksheet plus any additional entered for "Other tax-exempt for 1b."
- 2a Child's ordinary dividends.** *(auto-calc)* Taken from the entries in line 1a of the 1099-DIV worksheets, after eliminating nominee amounts.
- 2b Child's qualified dividends included on line 2a.** *(auto-calc)* Taken from the entries in line 1b of the 1099-DIV worksheets, after eliminating nominee amounts.
- 3 Capital gain distributions.** *(auto-calc)* Taken from the entries in line 2a of the 1099-DIV worksheets, after eliminating nominee amounts.
- 4 Add lines 1a, 2a, and 3.** *(auto-calc)* Computed as indicated.

- 5 Base amount.** *(auto-calc)* Always \$2,000 for tax year 2014.
- 6 Subtract line 5 from line 4.** *(auto-calc)* Computed as indicated, but no less than zero. *This amount generally counts as investment income for the parent's Form 4952 (Investment Interest Expense Deduction), with the exception of the part attributable to Alaska Permanent Fund dividends.*
- 7 Divide line 2b by line 4.** *(auto-calc)* Computed as indicated, carried to full accuracy even though the display and printout show only the first four decimal places. This is the ratio of qualified dividends to total income for the child.
- 8 Divide line 3 by line 4.** *(auto-calc)* Computed as indicated, carried to full accuracy even though the display and printout show only the first four decimal places. This is the ratio of capital gain distributions to total income for the child.
- 9 Multiply line 6 by line 7.** *(auto-calc)* Computed as indicated, this is the portion of the child's qualified dividends that is taxable to the parent. *This result will be reflected in lines 9a and 9b of the parent's Form 1040 with the amount identified at those lines with the flag "F8814" on the official printout of Form 1040.* (If a Schedule B exists for this return, this result will also be posted to Schedule B to be combined with any other qualified dividends for the parent at line 5 of Schedule B.)
- 10 Multiply line 6 by line 8.** *(auto-calc)* Computed as indicated, this is the portion of the child's total capital gains distributions that is taxable to the parent. *This result will be reflected in line 13 of the parent's Schedule D with the amount identified at that line with the flag "Form 8814" on the official printout of Schedule D.* (Only amounts in box 2a of Form 1099-DIV are reflected here. Amounts in boxes 2b, 2c, and 2d, which identify specific types of capital gains distributions, are similarly prorated and shown below line 12 for posting to other parts of Schedule D.)
- 11 Add lines 9 and 10.** *(auto-calc)* Computed as indicated, this is the total of taxable amounts that are separately posted (from lines 9 and 10) because of the favorable tax treatment they can receive.
- 12 Subtract line 11 from line 6.** *(auto-calc)* Computed as indicated, this is the taxable amount subject to the regular tax. It is *posted to the component of Form 1040, line 21, labeled "Form 8814," and is identified at line 21 on the official printout of Form 1040.*
- Unrecaptured section 1250 gain for Schedule D, line 19.** *(auto-calc)* Prorated analogously to lines 9 and 10, this is the part of capital gain distributions subject to a 25% tax rate. It is used on Schedule D in the IRS Unrecaptured Section 1250 Gain Worksheet to determine the amount for Schedule D, line 19.
- Section 1202 gain for Schedule D.** *(auto-calc)* Prorated analogously to lines 9 and 10, this is the part of capital gain distributions eligible for partial exclusion from taxation. See our details for Schedule D, line 13, and the Gain/Loss Worksheet for Schedule D for the election you can make. This amount is shown on screen 6 of Schedule D below

the amount from line 10, above, for Schedule D, line 13, but is used in calculations only when you make the described election on the worksheets.

**Collectibles (28% rate gain) for Schedule D.** *(auto-calc)* Prorated analogously to lines 9 and 10, this is the part of capital gain distributions subject for a 28% tax rate. This amount is shown on screen 6 of Schedule D below the amount from line 10, above, for Schedule D, line 13. It is used on Schedule D in the IRS 28% Rate Gain Worksheet to determine the amount for Schedule D, line 18.

**PART II, TAX ON 1ST \$2,000 OF CHILD'S INTEREST AND DIVIDENDS.** This step is also fully automatic based on the prior entries.

**13 Amount not taxed.** *(auto-calc)* Automatically \$1,000 for all returns for 2014. This is the standard deduction for a dependent child with no earned income.

**14 Subtract line 13 from line 4.** *(auto-calc)* Computed as indicated, this would have been the taxable income of the child had the child filed his or her own return.

**15 TAX.** *(auto-calc)* Computed as 10% of line 14, but no more than \$100. This is the tax on up to \$1,000 of the child's taxable income.

The results on line 15 from all Forms 8814 prepared are summed together then posted to line 44a of Form 1040 for inclusion in total tax liability for the return.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8815\* / Exclusion of Interest from Series EE and I U.S. Savings Bonds Issued After 1989

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to exclude from taxation interest on qualified bonds you cashed in *to pay for higher education expenses*. The only qualified bonds are series EE and series I U.S. Savings Bonds issued in your name after 1989, and you must have been at least age 24 when the bonds were issued. Furthermore, the *exclusion is not available if married filing separately*, and is phased out at high income for other filing statuses. The interest to be considered for exclusion here must be included in line 1 of Schedule B, and the exclusion computed here is reported at line 3 of Schedule B. Form 8815 is *accessible through the Road Map at line 3 of Schedule B.*

**PERSONS WHO QUALIFIED.** The person for whom you paid higher education expenses *must be you, your spouse, or a dependent claimed on line 6c* of Form 1040. Eligible expenses include contribution to the person's Coverdell Education Savings Account (ESA) or Qualified Tuition Program (QTP). Other eligible expenses include tuition and fees at an eligible educational institution in which the person was enrolled or attended.

- 1 Number of qualified persons.** *(Supported by the Student Worksheet, Figure 2-66.)* The qualified person is identified in the supporting worksheets along with the qualified educational institution, ESA, or QTP. The number of students identified appears here.
- 2 Qualified higher-education expenses you paid in 2014.** *(auto-calc)* Taken from the supporting worksheets for line 1.
- 3 Nontaxable educational benefits received for 2014.** *(auto-calc)* Taken from the supporting worksheets for line 1.
- 4 Subtract line 3 from line 2.** *(auto-calc)* Computed as indicated. If zero, you cannot take the exclusion and the form will compute none.
- 5 Proceeds from all series EE and I U.S. savings bonds issued after 1989 that you cashed in 2014.** Enter total proceeds including both interest and principal.
 

**Face value of post-1989 series EE bonds cashed in 2014.** Enter the face value at original issue. (EE bonds, first offered in 1980, are issued at a 50% discount from face value, and face value is paid upon their 30-year maturity.)

**Face value of series I bonds cashed in 2014.** Enter the face value at original issue. (I bonds, first issued in 1998, are issued at full face value, and face value plus accrued interest is paid upon their 30-year maturity.)

**Total counted as principal.** *(auto-calc)* Computed in accordance with the IRS's *Line 6 Worksheet* as half of the series EE face value plus all of the series I face value.
- 6 Interest included on line 5.** *(auto-calc)* Computed in accordance with the IRS Line 6 Worksheet as line 5 less "Total counted as principal."

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Form 8815

*CAUTION: You may have to override this amount if you reported any of the interest before 2014. See IRS Pub. 550 for details.*

**IMPORTANT: Include Form 8815, line 6, in Schedule B, line 1.** This form is used to figure an exclusion of interest included in line 1 of Schedule B. You must therefore report the interest before exclusion (the amount on line 6, above) on line 3 of a Form 1099-INT Worksheet for line 1 of Schedule B. (If you received a Form 1099-INT for the interest, the amount would be shown in box 3, which you would enter on line 3 of our Form 1099-INT Worksheet.)

- Line 4 as a % of line 5 (100% maximum).** *(auto-calc)* Computed as line 4 divided by line 5 expressed as a percentage.
- 7 Divide line 4 by line 5 (1.0 maximum).** *(auto-calc)* Computed as line 4 divided by line 5 (to 4 decimal places) expressed as a decimal, this is the fraction of the proceeds used for eligible expenses.
- 8 Multiply line 6 by line 7.** *(auto-calc)* Computed as indicated, this is the *tentative exclusion* before reduction for high income.
- Filing status (ineligible if 3).** *(auto-calc)* Taken from Form 1040, *you are allowed no exclusion if married filing separately.*

**STUDENT WORKSHEET**  
Person must be you, spouse, or dependent who attended eligible educational institution.  
a. Name of person  
b. Name institution  
    address....  
    address (cont'd).....  
    city.....  
    state.....  
    ZIP code.....  
Qlfd expenses paid in 2014  
Nontaxable benis rcvd 2014  
Person counted.....  Yes

**Student Worksheet.** *(Figure 2-66)* Supports lines 1 through 3 of Form 8815. You must identify each qualifying person, the institution or account, and the amount spent.

**a. Name of person.** The person (student) must be you, your spouse, or a

**Figure 2-66. Student Worksheet**

dependent claimed on line 6c of Form 1040. Enter the full name in 25 characters or less.

- b. Name of institution.** What you enter here depends on where the withdrawn funds were spent: **(a)** If the proceeds of the bond were paid directly to the educational institution for tuition and fees, enter here the name of the eligible institution (and the institution's address below). **(b)** If the proceeds were used for contributions to a *Coverdell Educational Savings Account (ESA)*, enter here the name of the financial institution where the account is held, followed by the monicor **ESA** (and the institution's address below). **(c)** If the proceeds were used for contributions to a *Qualified Tuition Program (QTP)*, enter here the name of the program, followed by the monicor **QTP** (and the program's address below).

**address.** Enter here the street address of the institution or program named in line a. The address entry is split into two lines in order to fit on the printed form: 22 characters on the first line and 10 characters on the second line. For a paper return, the 22 character entry is printed at the end of the first line provided for address on the official form, and the second entry is printed at the beginning of the second line provided on the form. For an e-file return, the two entries are concatenated together to form a single entry.

**city.** Enter the city in 22 characters or less.

**state.** Enter the standard 2-letter code for the state.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**Qualified expenses paid in 2014.** Enter the tuition and fees paid or contributions to the ESA or QTP.

**Nontaxable benefits received in 2014.** If any of the amount on the preceding line was covered by a scholarship or other nontaxable benefit, enter the amount here. Do not include on either line amounts **(a)** covered by nontaxable education benefits, **(b)** claimed on Form 8863 (*Education Credits*), or **(c)** used to figure the nontaxable part of a distribution from an ESA or QTP.

**Person counted.** *(auto-calc)* The worksheet is counted only if you entered an amount for "Qualified expenses paid in 2014."

**EXCLUSION AND LIMITATION.** The rest of the form is fully automatic. The phaseout of the exclusion for high income is computed here based on a special form of modified AGI.

**Amount from line 2 of Schedule B.** *(auto-calc)* Taken from Schedule B as indicated, this is line 1 of the IRS's *Line 9 Worksheet*.

**Form 1040, line 22.** *(auto-calc)* Taken from Form 1040 as indicated.

**Form 1040, line 8a.** *(auto-calc)* Taken from Form 1040 as indicated.

**Income on Form 1040, line 22, excluding line 8a.** *(auto-calc)* Computed as "Form 1040, line 22" less "Form 1040, line 8a," this is line 2 of the IRS's *Line 9 Worksheet*.

**Form 1040, line 36, excluding lines 33, 34, and 35.** *(auto-calc)* Computed from Form 1040 as indicated, this is line 4 of the IRS's *Line 9 Worksheet*.

**Additional adjustments per IRS Pub. 550:**

**Foreign exclusion and deduction.** *(auto-calc)* Computed as the Form 2555 exclusion reflected in Form 1040, line 21, plus the Form 2555 deduction reflected in Form 1040, line 36.

**Puerto Rico income excluded.** *(auto-calc)* Taken from the entry below line 22 of Form 1040 for "Puerto Rico income not reported" (under the banner of CERTAIN NONTAXABLE INCOME).

**American Samoa income excluded.** *(auto-calc)* Taken from the entry below line 22 of Form 1040 for "American Samoa income not reported" (under the banner of CERTAIN NONTAXABLE INCOME).

**Adoption benefits excluded (Form 8839).** *(auto-calc)* Taken from the entry below line 22 of Form 1040 for "Excluded benefits from Form 8839" (under the banner of CERTAIN NONTAXABLE INCOME).

**Additions per IRS Pub. 550.** *(auto-calc)* Computed as the sum of the preceding three amounts.

**9 Modified adjusted gross income.** *(auto-calc)* In accordance with the IRS's *Line 9 Worksheet* (in the Form 8815 instructions) as modified by the more complete IRS Pub. 550, computed from the preceding amounts as "Amount from line 2 of Schedule B" *plus* "Income on Form 1040, line 22, excluding line 8a" *less* "Form 1040, line 36, excluding lines 33, 34, and 35" *plus* "Additions per IRS Pub. 550." See IRS Pub. 550 for details. *You are allowed no exclusion if the amount on this line is \$143,950 or more (\$91,000 or more if single or head of household). (You are not eligible to use this form if married filing separately.)*

**10 \$76,000 if single or head of household, \$113,950 if married filing jointly or qualifying widow(er).** *(auto-calc)* Computed as indicated, this is the income at which the phaseout of the exclusion starts. *(If married filing separately, this and all following lines will be zero because you are not qualified to use this form.)*

**11 Subtract line 10 from line 9.** *(auto-calc)* Computed as indicated, if zero or less you are allowed the full exclusion on line 8. Otherwise, the phaseout is computed on lines 12 and 13.

**Line 11 as a % of \$15,000 or \$30,000 (100% maximum).** *(auto-calc)* Computed as line 11 divided by \$30,000 (\$15,000 if single or head of household) expressed as a percentage, this is the percentage by which the tentative exclusion on line 8 will be reduced because of the phaseout.

**12 Divide line 11 by \$15,000 if single or head of household; \$30,000 if married filing jointly or qualifying widow(er).** *(auto-calc)* Computed as indicated to 4 decimal places, but no less than zero and no more than 1.0. This result is the same as 1/100th of the preceding line.

**13 Multiple line 8 by line 12.** *(auto-calc)* Computed as indicated.

**14 EXCLUDABLE SAVINGS BOND INTEREST.** *(auto-calc)* Computed as line 8 less line 13, this is the allowed exclusion.

The amount on line 14 is posted to line 3 of Schedule B where it is subtracted from the total interest on line 2 of Schedule B. **CAUTION:** *You must report the interest shown on line 6 of this Form 8815 on line 3 of a 1099-INT Worksheet for line 1 of Schedule B. The exclusion applies to that interest alone.*

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8822 & 8822-B\* / Change of Address & Change of Address or Responsible Party – Business

\* Included in Premium Level software ONLY. This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition. *See the separate Partnership Edition manual for details on the version of Form 8822 that is built into the Partnership Edition software.*

**Purpose.** These forms are used to report changes of address to the IRS at a time when you are not filing the returns to which they apply. Accordingly, *they are not attached to any return, but are sent by themselves to the IRS.* (To change your address at the time you file you merely use the new address on your return.) *Because of their stand-alone nature, they are accessible only from the Forms Menu (listed as Form 8822), and not through the Road Map.*

**Two forms supported here:** Form 8822 (Change of Address) and Form 8822-B (Change of Address—Business). Even though only Form 8822 appears on the Forms Menu, the selection of that form gives you access to both forms. Form 8822 is prepared on screens 1 through 3 (for changing your home address), and Form 8822-B is prepared on screens 4 through 6 (for changing your business’s mailing address, location, or responsible party).

**FORM 8822 – CHANGE OF ADDRESS (For Individual, Gift, Estate, or Generation-Skipping Tax Returns).** Data entry for *Form 8822* is provided on screens 1 through 3.

**PART I, COMPLETE THIS PART TO CHANGE YOUR HOME MAILING ADDRESS.** This part is used to change the mailing address from the address used on the last Form 1040 return filed, among others, and is therefore the part normally used for the Form 1040 (*Tax Preparer*) software. *Your current name(s) and address are taken from Form 1040. You need enter only prior name(s) and address(es).*

**Check ALL boxes this change affects:**

**1 Individual income tax returns?** Answer Yes if the address change affects a U.S. Individual Income Tax Return, such as Form 1040, 1040A, 1040EZ, or 1040NR returns.

**If last return was a joint return, are you now establishing a residence separate from the spouse with whom you filed that return?** Answer Yes if applicable. If Yes, the spouse is not required to sign this change of address form.

**2 Gift, estate, or generation-skipping transfer (GST) tax returns?** Answer Yes if the address change affects the cited returns, such as Form 706, 706-NA, or 709 returns.

**For Form 706 or 706-NA, enter:**

**Decedent’s name.** If you answered Yes to line 2 for an estate tax return, enter the decedent’s name here in 25 characters or less.

**Decedent's SSN.** If you answered Yes to line 2 and entered a decedent name above, you must also enter the decedent's social security number here in the standard xxx-xx-xxxx format.

**If 1 or 2 is "Yes":**

*(The official Form 8822 is not printed if neither 1 nor 2 is "Yes.")*

**3a, 3b, 4a, 4b, Your and spouse's name and SSN.** *(auto-calc lines)* If you indicated, by answering Yes to line 1 or line 2, that you are using Form 8822, the name and SSN entries are taken from Form 1040. Otherwise they are blank. (TIP: If you are using this form only for gift, estate, or GST returns, you can create a mock Form 1040 with the name and SSN for that return so that they appear here automatically.)

**5a Your prior name.** If changing your name due to marriage or divorce, enter the full prior name on the lines supplied. You must also notify the Social Security Administration of the change.

**5b Spouse's prior name.** If changing spouse's name due to marriage or divorce, enter the full prior name on the lines supplied. You must also notify the Social Security Administration of the change.

**6a Old address.** Enter the address the IRS has for the cited return(s). If the address is in a foreign country, you must also use the last three entries for line 6a for country, province, and postal code.

**6b Spouse's old address, if different.** Enter the spouse's old address if different from the address on line 6a. If in a foreign country, you must also use the last three entries for line 6b for country, province, and postal code.

**7 New address.** *(auto-calc lines)* If you indicated, by answering Yes to line 1 or line 2, that you are using Form 8822, the address entries are taken from Form 1040. Otherwise they are blank. *TIP: The entry for "New address (no., street)" is constructed from your entries on Form 1040 for "Street address" and "Apt., Suite, Bldg., etc." If the result exceeds the 35-character space for this entry, you must go to screen 3 of Form 1040 and shorten your entry for "Street address." Similarly, the entry for "City and state" is constructed from your entries on Form 1040 for "City or p.o." and "State." If the result exceeds the 25-character space for this entry, you must go to screen 3 of Form 1040 and shorten your entry for "City or p.o."*

**PART II, SIGNATURE.** The official Form 8822 must be signed by the taxpayer or an authorized representative (such as executor, administrator, donor, etc.) *Your spouse is also required to sign if married filing jointly on the last return filed unless you indicated below line 1 that you are establishing a residence separate from your spouse.*

**Contact person's daytime phone number.** This is an optional entry to use if you want the IRS to contact anyone by phone if there are questions about the completed Form 8822.

**Where to file Form 8822.** You must send the completed and signed Form 8822 to the address for your state shown on page 2 of the IRS *Form 8822 (Rev. October 2014)*. **CAUTION:** *These addresses are not the same as the addresses for mailing your Form 1040 return to the IRS.*

**FORM 8822-B, CHANGE OF ADDRESS – BUSINESS.** Data entry for *Form 8822-B* is provided on screens 4 through 6.

**USE TO CHANGE YOUR BUSINESS MAILING ADDRESS, LOCATION, OR RESPONSIBLE PARTY.** This part is used to change the mailing address, physical location, or responsible party of your business. For Form 1040 filers, it would generally relate to returns that your sole-proprietorship must file, such as returns required by employers, not your Form 1040 return.

**Check ALL boxes this change affects:**

- 1 Employment, excise, income, and other business returns?** Answer Yes if the address change affects U.S. business returns, such as Form 720, 940, 940-EZ, 941, 990, 1041, 1065, or 1120 returns. *Note that Form 1040 is not listed here because the IRS does not require a notice of change for a sole-proprietors's business for the purposes of Form 1040.*
- 2 Employee plan returns?** Answer Yes if the address change affects a U.S. employee plan return, such as Form 5500 or 5500-EZ returns.
- 3 Business location?** Answer Yes if the address change is a change in a business's location.

**If 1, 2, or 3 is "Yes":**

*(The official Form 8822-B is not printed if 1, 2, and 3 are all "No.")*

**4a Business name.** Enter the business name in 35 characters or less.

**4b Employer IDN.** Enter the tax identification number of the business in the standard format. For a sole proprietorship, this could be the Employer Identification Number (EIN).

**5 Old mailing address.** Enter the address the IRS has for the cited return(s).

**6 New mailing address.** Enter the new mailing address for the cited returns.

**7 New business location.** Enter the new location of the business if you answered Yes to line 3.

**Report a change in responsible party for the business.** The IRS now also requires that you notify them if you have changed the party responsible for the control of the business or its funds or assets. The IRS takes four paragraphs to define "responsible party" on the back of the IRS *Form 8822-B (Rev. 10-2014)*. You must enter the full name and taxpayer identification number for the current responsible party. *(NEW for tax year 2014: It is no longer required to identify the former responsible party, if any, so the IRS has removed the lines for the "Old responsible party.")*

**8 New responsible party's name.** Enter the full name of the new responsible party (in 35 characters or less).

**9 New responsible party's SSN, ITIN, or EIN.** Enter the tax identification number of the new responsible party (a 9-digit SSN, ITIN, or EIN).

**10 Signature.** The official Form 8822-B must be signed by the owner of the business or an authorized representative (such as officer, administrator, general partner, etc.).

**Contact person's daytime phone number.** This is an optional entry to use if you want the IRS to contact anyone by phone if there are questions about the completed form.

**Where to file Form 8822-B.** You must send the completed and signed graphic Form 8822-B to the address for your state shown at the bottom of the graphic Form 8822-B (Rev. October 2014). *CAUTION: These addresses are not the same as the addresses for mailing your Form 1040 return to the IRS.*

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8824\* / Like-Kind Exchanges

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition.

**Purpose.** This form is principally used to report an exchange of business or investment property for property of a like kind. (It is also used to report certain conflict-of-interest sales in Part IV of the form.) Although part or all of the exchange may be currently tax-free, the basis in the new property is generally lowered so that the exchange is really a form of tax deferral rather than zero tax. You must use a separate Form 8824 for each separate exchange, and five copies of the form are available in the software. For Form 1040 and Form 1065 software, Form 8824 is accessible through the Road Map at lines 4 and 11 of Schedule D (Form 1040), lines 5 and 12 of Schedule D (Form 1065), and lines 5 and 16 of Form 4797.

**CAUTION: Like-kind exchanges subject to many rules.** It is important that you structure the exchange in a way that will satisfy the IRS under the current regulations, because the regulations are quite involved and have changed many times over the years. A careful reading of the IRS Form 8824 Instructions and the examples in IRS Pub. 544 (Sales and Other Dispositions of Assets) are therefore critical for both structuring the exchange and completing Form 8824.

**PART I, INFORMATION ON THE LIKE-KIND EXCHANGE.** In this part you must describe the properties and non-monetary details of the exchange.

**Collectible (28% rate sale)?** Your answers to this and the next two questions are used to determine where any taxable income from the transaction is posted and how it is taxed. Answer Yes here for an exchange of collectibles, which are subject to the highest capital gains tax.

**Capital asset (for Schedule D)?** Answer Yes if the sale of the property given up would have been reported on Schedule D. Otherwise it is assumed to be reportable on Form 4797. The entry for this line is automatically Yes if you answered Yes to the preceding question.

**Installment method applies?** If Yes, no amounts are posted from this form to any other form or schedule, and you must complete Form 6252 to determine any taxable gain this year.

**1 Describe the like-kind property given up.** Describe the property given up in the exchange in a supporting statement for this line, using only the text column of the support. If real or personal property located outside the U.S., indicate the country as well. *Restriction for e-file: For e-file, the 30-character lines in the support are concatenated together into a single line. However, you must limit your entries to little more than 8 lines of text because the IRS allows no more than 250 characters for the description.*

**2 Describe the like-kind property received.** Describe the property received in the exchange in a supporting statement for this line, using only the text column of the support. If real or personal property locat-

ed outside the U.S., indicate the country as well. *Restriction for e-file:* For e-file, the 30-character lines in the support are concatenated together into a single line. However, you must limit your entries to little more than 8 lines of text because the IRS allows no more than 250 characters for the description.

**3 Date like-kind property given up (line 1) was originally acquired.** Enter the date you originally acquired the property in the standard mm/dd/yyyy format.

**4 Date you actually transferred your property to the other party.** Enter the transfer date in the standard mm/dd/yyyy format.

**Transferred in the current tax year.** *(auto-calc)* Automatically Yes if the date on line 4 is within the tax year of the return. *If Yes, you must file Form 8824 with the return.* If No, you must file Form 8824 with the return only if a related party exchange and the date is less than 3 years earlier than the tax year of the return.

**Treated as LONG term?** *(auto-calc)* Automatically Yes if the date on line 4 is more than one year after the date on line 3. If Yes, any gain currently recognized on this form is treated as long term (except for ordinary income under recapture rules).

**5 Date like-kind property you received (line 2) was identified by written notice to another party.** You must deliver a signed written notice of the property to be received *within 45 days after the date on line 4.* See IRS instructions for detailed requirements for this notice. However, if you actually received the replacement property within the 45 day period, no written notice is required and you should enter here the date the property was received. Enter the date in the standard mm/dd/yyyy format.

**6 Date you actually received the like-kind property (line 2) from the other party.** To qualify as a like-kind exchange, you must have received the party by *either* the 180<sup>th</sup> day after the date on line 4 *or* the due date (including extensions) of your tax return for the tax year in which the date on line 4 falls, *whichever is earlier.* Enter the date in the standard mm/dd/yyyy format.

**7 Was the exchange of either property made with a related party?** You must answer Yes whether a related party was involved directly or indirectly. *A related party is generally your spouse, child, grandchild, parent, grandparent, brother, sister, or a business, trust, or estate in which you have an interest (a related corporation, S corporation, partnership, trust, or estate).* See IRS Form 8824 instructions for additional rules when related parties are involved. *If Yes, you must complete Part II, below.*

**PART II, RELATED PARTY EXCHANGE INFORMATION.** Complete this part only if you answered Yes to the question on line 7.

**8 Name (choose one):**

**Business Name.** If you performed the exchange with a business, enter the business name here in 25 characters or less. Otherwise, leave this line blank and use the next line instead. *(For the purposes of this*

*form, a trust or estate is considered to be a business, in addition to corporations and partnerships.)*

**Person's Name.** If you performed the exchange with an individual, enter the person's full name here in 25 characters or less.

**Relationship to you.** Enter your relationship to the business or person named above in 15 characters or less. If a principal of the business, enter your title.

**Tax ID number (choose one):**

**SSN.** If you entered a person's name for line 8, enter that person's social security number in the standard xxx-xx-xxxx format. Otherwise, leave this line blank and use the next line instead.

**EIN.** If you entered a business name for line 8, enter the business's Employer Identification Number here in the standard xx-xxxxxxx format.

**If U.S. address, enter:**

**Street address.** Enter only a U.S. address or a foreign address, even if the person or business has both. If you choose to enter a U.S. address, enter the street address here in 30 characters or less, and complete the following 3 lines.

**City.** Enter city in 22 characters or less.

**State.** Enter the standard 2-letter state code.

**ZIP code.** Enter the ZIP code in the xxxxx or xxxxx-xxxx format.

**If foreign address, enter:**

**Street address.** If you did not enter a U.S. address above, enter the foreign street address here in 30 characters or less, and complete the following four lines.

**City.** Enter the foreign city in 25 characters or less.

**Province or state.** Enter the foreign province or state in 15 characters or less.

**Country.** Enter the standard 2-letter code for the country as shown in Table 2-6 on page 2-22 of this manual.

**Postal code.** Enter the foreign postal code in 15 characters or less.

**9 During this tax year (and within 2 years after the last transfer of property that was part of the exchange) did the related party directly or indirectly sell or dispose of any part of the like-kind property received from you in the exchange?** If Yes, you must generally report on your tax return for the year of disposition the deferred gain figured on line 24 of this form unless an exception in line 11 applies.

**10 During this tax year (and within 2 years after the last transfer of property that was part of the exchange) did you sell or dispose of any part of the like-kind property you received?** If Yes, you must generally report on your tax return for the year of disposition the deferred gain figured on line 24 of this form unless an exception in line 11 applies.

**11 If one of the exceptions below apply, answer:**

**a The disposition was after the death of either of the related parties.**

- b The disposition was an involuntary conversion, and the threat of conversion occurred after the exchange.
- c You can establish to the satisfaction of the IRS that neither the exchange nor the disposition had tax avoidance as its principal purpose. If Yes, you must explain in a supporting statement for the next line.

If c is Yes, **itemize here to explain.** Explain a Yes answer to line 11c in a supporting statement for this line, using only the text column of the support. See IRS Pub. 537 (Installment Sales) for exceptions to tax avoidance.

**PART III, REALIZED GAIN OR LOSS, RECOGNIZED GAIN, AND BASIS OF LIKE-KIND PROPERTY RECEIVED.** In this part you must determine the gain recognized this year as well as the deferred gain. The recognized gain will be posted to Schedule D or Form 4797, unless the installment method applies.

**If reporting multi-asset exchanges, skip lines 12 through 18, override line 19, 20, and 25, and itemize here to explain.** For multi-asset exchanges involving more than one kind of property or cash, you must provide your own computation of the realized and recognized gains in a supporting statement for this line, and override the cited lines to report the results on this form. *(Feel free to use both the text and amount columns of the support because the IRS imposes no restriction to text only for this line.)*

**Use lines 12 through 14 ONLY if you gave up any property that is NOT like-kind property:**

- 12 FMV of other property given up.** Enter the Fair Market Value of the property given up (included in line 1) that is NOT like-kind property.
- 13 Adjusted basis of other property given up.** Enter the adjusted basis of the property given up (included in line 1) that is NOT like-kind property.
- 14 Gain or loss recognized on other property given up. *(auto-calc)*** Computed as line 12 less line 13. ***CAUTION: You must report this gain on Schedule D, Form 4797, or Form 6252, whichever is appropriate, as if the property were sold rather than exchanged; this amount is NOT automatically posted to these forms.***

**Cash the other party paid you.** Enter cash you received.

**FMV of other property received.** Enter the fair market value of other property that is not like-kind property you received in the exchange.

**Net liabilities assumed by other party.** Enter the liabilities transferred to the other party.

**Exchange expenses you incurred.** Expenses you enter here will reduce the net value of other than like-kind property.

- 15 Cash and other non-like-kind property received, including debt assumed by the other party. *(auto-calc)*** Computed as the sum of the cash received, FMV of other property received, and assumed liabilities less the preceding expenses, this is the net value of other than like-kind property received in the exchange.

- 16 FMV of like-kind property you received.** Enter the fair market value of all like-kind property you received in the exchange.
- 17 Add lines 15 and 16. *(auto-calc)*** Computed as indicated, this is the net value of all property you received in the exchange, whether like-kind or not.

**Adjusted basis of like-kind property you gave up.** Enter as indicated.

**Net amounts paid to other party.** Enter the total of liabilities you assumed, cash you paid, and fair market value of other non-like-kind property you gave up (excluding liabilities assumed by the other party).

**Exchange expenses not used in line 15.** Enter only expenses not included in line 15.

- 18 Adjusted basis of like-kind property you gave up, net amounts paid to other party, plus any exchange expenses not used on line 15. *(auto-calc)*** Computed as the sum of the adjusted basis of like-kind property you gave up and net amounts you paid less the preceding expenses. This is the net value of all property you gave up in the exchange, whether like-kind or not.

**If like-kind property was your home for 5 years up to date of exchange:**

**Section 121 exclusion.** You may be able to exclude all or part of your gain if you owned and used the property given up as your home for the 5-year period immediately preceding the exchange. See IRS Pub. 523 to determine the amount of exclusion to which you are entitled. When you enter the exclusion here, the calculations for lines 19, 20, and 25 are modified in accordance with IRS instructions and the words "Sec. 121 exclusion" will be printed on the dotted line next to line 19 of Form 8824 along with the amount of exclusion.

- 19 REALIZED GAIN OR LOSS. *(auto-calc)*** Computed as line 17 less line 18 and any "Sec. 121 exclusion" you entered above.
- 20 Smaller of line 15 or line 19. *(auto-calc)*** Computed as the smaller of line 15 (less any sec. 121 exclusion) or line 19, but no less than zero.
- 21 Ordinary income under recapture rules.** See IRS Form 8824 instructions for details on how to determine the amount to enter here, which is the recapture of depreciation under specific rules. You will have an amount here only if you would have reported the sale of the property given up in Part III of Form 4797 (for sales of section 1245, 1250, 1252, 1254, and 1255 property). Therefore, if you identified the property as collectible property or a capital asset, the amount for this line will be forced to be zero. ***CAUTION: If the installment method applies and the property is section 1252, 1254, or 1255 property, you must report this amount on line 25 or 36 of a Form 6252 for this exchange; this amount is NOT automatically posted to any Form 6252.***
- 22 Subtract line 21 from line 20. *(auto-calc)*** Computed as indicated, but no less than zero, this amount will be posted to Schedule D or Form 4797 unless the installment method applies, as detailed later.

- 23 RECOGNIZED GAIN.** *(auto-calc)* Computed as the sum of lines 21 and 22, this is the total amount to be reported as taxable in the current year (unless the installment method applies).
- 24 Deferred gain or loss.** *(auto-calc)* Computed as line 19 less line 23, this is the amount to be deferred until the sale of the property received, unless a related party is involved. If a related party is involved and no exception applies, *if either you or the related party disposes of the property before the 2-year waiting period, you must report this amount on Schedule D and Form 4797 for the year of the sale.*
- 25 BASIS OF LIKE-KIND PROPERTY RECEIVED.** *(auto-calc)* Computed as the sum of lines 18 and 23 less line 15, this is the adjusted basis to be used when you eventually sell the like-kind property you received.

**Allocation of Form 8824 lines 21 and 22 to Schedule D and Form 4797.** The recapture on line 21 and net gain on line 22 to be reported in the current year are distributed here to the appropriate lines of Schedule D and Form 4797 unless the installment method applies. (If the installment method applies, all below amounts will be zero and you must use Form 6252 to determine the amounts to report for the current year.)

**Ordinary income:**

**Short-term amount for Schedule D, line 4 (line 5 for Partnership returns).** *(auto-calc)* If a capital asset sold in the current year and held one year or less, computed as the net gain on line 22; otherwise, zero.

**Short-term amount for Form 4797, line 16.** *(auto-calc)* If not a capital asset, but sold in the current year, computed as the recapture on line 21 plus, if held one year or less, the net gain on line 21; otherwise, zero.

**Long-term income:**

**Long-term amount for Schedule D, line 11 (line 12 for Partnership returns).** *(auto-calc)* If a capital asset sold in the current year and held more than one year, computed as the net gain on line 22; otherwise, zero.

**28% rate gain in the above.** *(auto-calc)* Computed as the preceding Schedule D amount if the sale was for collectible property.

**Long-term amount for Form 4797, line 5.** *(auto-calc)* If not a capital asset, but sold in the current year and held more than one year, computed as the net gain on line 22; otherwise, zero.

**Installment method.** *If the installment method applies, all above lines are zero and no amounts are posted to other forms.* Instead, YOU must complete a Form 6252 to figure the amount of gain to report this year.

**PART IV, DEFERRAL OF GAIN FROM SECTION 1043 CONFLICT-OF-INTEREST SALES.** This part is *used very rarely* because it applies only to officers or employees of the executive branch of the Federal Government or judicial officers of the Federal Government (including certain spouses, children, dependents,

and trustees) who are required to sell property to comply with conflict-of-interest requirements. You can use this form to defer part or all of the gain on the sale provided you purchase permitted replacement property within 60 days after the sale that has a cost that exceeds the basis of the property sold. No amount is taxable this year unless there is ordinary income under recapture rules or the cost of the replacement property is less than the gain realized on the sale. **CAUTION:** *No amounts are automatically posted elsewhere on the return from this part of the form; you must enter any taxable amounts on Schedule D or Form 4797 as instructed for lines 35 and 36.* Data entry is similar to the data entry for Parts I and III of this form:

- 26 Number from certificate of divestiture.** If you sell the property under a certificate of divestiture issued by the Office of Government Ethic or the Judicial Conference of the United States, enter the number from the upper right corner of the certificate here.
- 27 Describe divested property.** Describe the property you were required to give up in a supporting statement for this line, using only the text column of the support. If real or personal property located outside the U.S., indicate the country as well. *Restriction for e-file: For e-file, the 30-character lines in the support are concatenated together into a single line. However, you must limit your entries to little more than 8 lines of text because the IRS allows no more than 250 characters for the description.*
- 28 Describe replacement property.** Describe the property you acquired as a replacement for the property given up in a supporting statement for this line, using only the text column of the support. If real or personal property located outside the U.S., indicate the country as well. *Restriction for e-file: For e-file, the 30-character lines in the support are concatenated together into a single line. However, you must limit your entries to little more than 8 lines of text because the IRS allows no more than 250 characters for the description.*
- 29 Date divested property was sold.** Enter the date you divested the property in the standard mm/dd/yyyy format.
- 30 Sales price of divested property.** Enter the proceeds of the sale after reduction by any selling expenses.
- 31 Basis of divested property.** Enter the adjusted basis of the property sold.
- 32 REALIZED GAIN.** *(auto-calc)* Computed as line 30 less line 31, but no less than zero.
- 33 Cost of replacement property (within 60 days after date of sale).** Enter the cost or the permitted replacement property that you purchased within 60 days after the sale of the divested property.
- 34 Subtract line 33 from line 30.** *(auto-calc)* Computed as indicated, but no less than zero.
- 35 Ordinary income under recapture rules.** You must enter here any recapture for which you are liable; it is not computed for you. See IRS Form 8824 instructions for details on how to determine the amount to enter here. **CAUTION:** *You must also enter this amount on a worksheet for line 10 of Form 4797; it is not posted automatically.*

- 36 Subtract line 35 from line 34.** *(auto-calc)* Computed as indicated, but no less than zero, this is the part of your gain on the sale that you must report as taxable income on the current return. **CAUTION:** *You must report this gain on Schedule D or Form 4797; it is not posted automatically.* Report on Schedule D (on a worksheet for line 8b, 9, or 10) if a capital asset or Form 4797 (on a worksheet for line 2 or 10) if used in a trade or business or the sale is treated as ordinary income.
- 37 DEFERRED GAIN.** *(auto-calc)* Computed as line 32 less the sum of lines 35 and 36, this is amount that is deferred from taxation until the replacement property is sold.
- 38 BASIS OF REPLACEMENT PROPERTY.** *(auto-calc)* Computed as line 33 less line 37, but no less than zero, this is your reduced basis in the replacement property.

**CAUTION:** *If you have any amounts on line 35 or line 36, you must report those amounts on Schedule D or Form 4797 in accordance with IRS instructions; no amounts are posted automatically to other forms from this part of Form 8824.*

**Form 8828\* / Recapture of Federal Mortgage Subsidy**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to figure the recapture tax you owe if you sell (or otherwise dispose of) a home you financed under a federally subsidized program and that sale is within 9 years of the closing date of the loan. In the context of this form, you have a federal mortgage subsidy if your mortgage loan is characterized by either of the following:

**Tax-exempt qualified mortgage bond.** Your mortgage loan will generally have an interest rate that is below market value if it was funded from a tax-exempt qualified mortgage bond issue. This benefit is a form of federal subsidy.

**Mortgage credit certificate (MCC).** You can use Form 8396 to claim an annual tax credit if your mortgage loan came with a mortgage credit certificate (MCC). This benefit is another form of federal subsidy.

Form 8828 is accessible through the Road Map at the FMSR component of Form 1040, line 62c.

**When recapture applies...**

**If you sold your home,** you must figure recapture tax on the basis of the actual sales price you received.

**If you gave away your home,** you generally figure recapture tax as if you sold it at fair market value. However, *you do not owe recapture tax on a home given to your spouse (or ex-spouse) incident to a divorce.*

**If your home was destroyed by casualty,** you must figure recapture tax as if you sold it at fair market value. However, *you do not owe recapture tax if you replaced the home on its original site (for use as your home) within 2 years of the end of the tax year when the casualty occurred.*

**...and when it does not.**

**You sold or disposed of the home more than 9 years after the loan started.** No recapture applies if the sales date is more than 9 years after the closing date of the original federally subsidized loan.

**You refinanced your home.** Whether you refinance with another federally subsidized loan or not, you do not owe a recapture tax by virtue of the refinancing. However, you may still owe recapture tax when you later sell the home, although the amount of tax may be reduced.

**You transferred your interest in the home to a spouse under a divorce decree.** You generally do not owe recapture tax under this circumstance as long as no gain or loss was included in income, but see IRS Pub. 504 for details.

**PART I, DESCRIPTION OF HOME SUBJECT TO FEDERALLY SUBSIDIZED DEBT.** You must fully identify the home and the loan, and provide the dates of relevant transactions.

**1 Address of property:**

**Number and street.** Enter the street address in 35 characters or less.

*This is the U.S. address of the home that had the federally subsidized debt, not necessarily your current home.*

**City or town.** Enter the city or town in 22 characters or less.

**State.** Enter the standard 2-letter state code.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**2 Type of federal subsidy:**

**a Mortgage loan from the proceeds of a tax-exempt bond.** This is a loan that has an unusually low interest rate because it was financed by a tax-exempt qualified mortgage bond (QMB).

**b Mortgage credit certificate.** This certificate (MCC) comes with your loan and allows you to claim an annual tax credit on your return through Form 8396 (*Mortgage Interest Credit*).

*TIP: If neither of the above types apply, Form 8828 does not apply to you and you should not file this form.*

**3 Name of the bond or certificate issuer:**

**State.** Enter the state that issued the underlying tax-exempt bond or issued the MCC. Use the standard 2-character state code.

**Subdivision.** Enter the political subdivision (such as city or county) as identified on the notification that came with the original loan (in 35 characters or less).

**Agency, if any.** Name the agency (in 35 characters or less)

**4 Name and address of original lending institution:**

**Name.** Enter the name of the bank (or other lender) that actually provided your original federally subsidized mortgage (in 35 characters or less).

**Street address.** Enter the U.S. street address of the lender in 35 characters or less.

**City or town.** Enter the city or town in 22 characters or less.

**State.** Enter the standard 2-letter state code.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**CAUTION: All dates are critical.** You must enter all dates below in the standard numerical mo/dy/year format in order for the software to determine your liability for the recapture tax and to calculate the holding period rate for line 20 under some circumstances.

**5 Closing date of the original loan.** Enter the precise date that the loan was provided. This will generally be the settlement date of your purchase of the home if the loan was provided to purchase the home, but can be a later date if your loan was federally subsidized at a later date. *TIP: If this date is before 1/1/1991, you should not file Form 8828 because it does not apply to you.*

**6 Date of sale or other disposition of your interest in the home.** If you co-owned the home with someone else, but sold (or otherwise disposed of) your entire interest in the home, the transaction counts as a sale for the purposes of this form. Enter the precise date in the standard format (mo/dy/year). *TIP: If this date does not fall within the tax year of the return, no recapture tax is due for this return. You must file Form 8828 only for the tax year in which the sale occurred. If the sale occurred in a prior year but you did not file Form 8828 as required, file Form 8828 with an amended return (Form 1040X) for the tax year in which the sale occurred.*

**7 Number of years and full months between line 5 and line 6:**

**Years.** *(auto-calc)* Computed as the number of full years from the closing of the original loan to the sale or other disposition. *If the result on this line is more than 9 years, you are not liable for the recapture tax.*

**Months.** *(auto-calc)* Computed as the number of full months *after* the full years from the start of the closing of the original loan to the sale or other disposition.

**8 Date of full repayment of the original loan.** If you never refinanced your home during your ownership, or all refinancing replaced the original loan with another MCC loan, this date will be the same as the date of sale on line 6. Otherwise the date will precede the date of sale. Enter in the standard date format (mo/dy/year).

**Required to file Form 8828?** *(auto-calc)* Determined from your entries at lines 2a, 2b, 5, and 6. *The answer will be No if ANY of the following conditions apply:*

*Neither line 2a nor line 2b is answered Yes.*

*Line 5 (closing date) is before January 1, 1991.*

*Line 6 (sale date) is not in the current tax year.*

*Line 6 (sale date) is more than 9 years after line 5 (closing date).*

*But if the answer is Yes, a recapture tax may apply and you must complete this form.* (If the answer is No, no recapture tax will apply and you should not file Form 8828 with the return. The form will not be printed when you choose to print a complete official return.)

**PART II, COMPUTATION OF RECAPTURE TAX.** You must not only provide details of the purchase and sale, but must also enter information from a table that appears in the documentation that the borrower receives when the loan is created. *TIP: If you owned the home with someone else, enter only your share for all entries (including income, expenses, basis, sales price, etc.).*

**9 Sales price of your interest in the home sold or disposed of.** If you did not sell the home you must enter the fair market value on the date of its disposition.

**10 Expenses of sale.** Include sales commissions, advertising, legal fees, etc.

**11 Amount realized.** *(auto-calc)* Computed as line 9 less line 10, but no less than zero.

**Original cost of property.** Enter the purchase price of the home when you bought it.

**Purchase commissions, fees, etc.** Enter expenses of the purchase that increased your cost of the property.

**Improvements.** Enter improvements made to sell the home.

**Past depreciation claimed.** Enter any depreciation claimed in the past, which is possible if you rented out part of your home.

**Other adjustment for line 12.** Enter any other amount to be added to the cost in determining the adjusted basis on line 12. See IRS Pub. 551 (*Basis of Assets*) for information on what other adjustments are applicable (positive or negative).

**12 Adjusted basis of your interest in the home sold or disposed of.** *(auto-calc)* Computed as the "Original cost of property" plus "Purchase commissions, fees, etc." plus "Improvements" less "Past depreciation claimed" plus "Other adjustment for line 12."

**Itemize gain paid to QSML.** *(Supported by the Share Paid to QSML Lender Worksheet, Figure 2-67.)* If the loan was a Qualified Subordinate Mortgage Loan (QSML) or a related grant, you may be required to pay some of your gain on the sale (computed as line 11 less line 12) to the QSML governmental lender. If you made such a payment, enter it in the worksheet that supports this line. The total payments you enter will be shown on this line when you return from the worksheets. If an amount appears here, line 13 of Form 8828 will be flagged on the official printout with the printing of "QSML" to the left of the amount on line 13, and the amount on line 13 will be reduced by the share you paid to the QSML lender.

SHARE PAID TO QSML LENDER  
 Report part of gain on sale pd  
 to your QSML (Qlfd,Subordinate  
 Mortgage Loan) gov't lender.  
 Explain how you figured amt.:

Date you pd. the QSML lender  
 Amt. you paid to QSML lender      0

**Share Paid to QSML Lender Worksheet.** *(Figure 2-67)* Supports line 13 of Form 8828. You must identify the part of your gain on the sale that you paid to the QSML lender.

**Explain how you figured amt:** Eight 25-character data entry lines are provided for

Figure 2-67. Share Paid to QSML Lender Worksheet

you to explain how you computed the amount to pay to your QSML (Qualified Subordinate Mortgage Loan) lender. *On an e-file return, these eight entries are concatenated together to form a single entry up to 200 characters long.*

**Date you paid the QSML lender.** Enter the date in the standard mo/dy/year format. *Complete this worksheet only for payments made within the tax year of the return.*

**Amount you paid to your QSML lender.** Enter the amount paid on the preceding date. *This is the QSML lender's share of the gain on the sale.*

The amount you paid to your QSML lender will appear on the line you itemized to reach this worksheet.

**13 Gain or (loss) from sale or disposition.** *(auto-calc; supported by the Share Paid to QSML Lender Worksheet, Figure 2-67)* Computed as line 11 less line 12 less the amount paid to the QSML lender (shown on the preceding line). If a loss, you do not have recapture tax but you still must file this form with your return. *This is your share of the gain on the sale.*

**14 Multiply line 13 by 50% (.50).** *(auto-calc)* Normally computed as indicated. However, if you are not required to file Form 8828 (as shown below line 8), the result will be zero instead so that no recapture tax is computed.

**AGI on Form 1040, line 38.** *(auto-calc)* Taken from Form 1040 as indicated.

**Tax-exempt interest on Form 1040, line 8b.** *(auto-calc)* Taken from Form 1040 as indicated.

**Gain included on Form 1040 for this sale.** If any of the gain on the sale is taxable income to you on therefore reported on Form 1040, you must enter that amount here. This is relatively rare because the allowed exclusion of \$250,000 of gain (\$500,000 if married filing separately) on the sale of your home will generally exceed any gain from the sale of the low-priced housing that is typical of federally subsidized home purchases.

**Other adjustment for line 15.** Enter any other amount to be added to AGI in determining the adjusted AGI for line 15, such as tax-exempt interest not shown on Form 1040, line 8b, *including accrued interest.*

**15 Modified adjusted gross income.** *(auto-calc)* Computed as "AGI on Form 1040, line 38" *plus* "Tax-exempt interest on Form 1040, line 8b" *less* "Gain included on Form 1040 for this sale" *plus* "Other adjustment for line 15."

**16 Adjusted qualifying income.** You must determine the amount to enter here from a table in documentation that came with the original loan. The table shows your "adjusted qualifying income" based on your family size and the number of years and months shown in line 7 of this form.

**17 Subtract line 16 from line 15.** *(auto-calc)* Computed as indicated. If zero or a loss, you do not have recapture tax *but you still must file this form with your return.*

**18 Income percentage.** *(auto-calc)* Computed as line 17 divided by \$5,000 expressed as a percentage, but no more than 100% and rounded to the nearest whole percent.

**19 Federally subsidized amount.** You should find this amount in the documentation that came with the original loan. It is 6.25% of the highest amount of the loan that was federally subsidized.

**Holding period percentage from issuer.** You will find the percentage to enter here from the same table (in the documentation that came with the original loan) that you used in determining the amount for line 16. This percentage will be used for line 20 only if you held the loan at least 4 years before fully repaying it. Otherwise a special calculation is used, as described next.

**20 Holding period percentage.** *(auto-calc)* Computed as the preceding entry if the date on line 8 is more than 4 years after the date on line 5. Otherwise, a calculation based on the IRS worksheet on the last page of the IRS Instructions for Form 8828 is used. The result is fully automatic based on the dates you entered at lines 5, 6, and 8.

**21 Multiply line 19 by the percentage on line 18.** *(auto-calc)* Computed as indicated.

**22 Recapture amount.** *(auto-calc)* Computed as the amount on line 21 times the percentage on line 18.

**23 Tax. Smaller of line 14 or line 22.** *(auto-calc)* Computed as indicated.

The result on line 23 is posted to the FMSR component of Form 1040, line 62c.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8829 / Expenses for Business Use of Your Home

**Who is it for?** This form is used to figure the expenses you can deduct on Schedule C for a business in which you use part of your home to conduct the business. Form 8829 ensures the proper application of complex limitations and the proper carryovers to future years. *Form 8829 is accessible through the Road Map at the line above Schedule C, line 30, labeled "Home business expense on Form 8829."* A separate copy of Form 8829 is reserved for each separate copy of Schedule C.

**Simplified method available in lieu of Form 8829.** Thanks to a new simplified method for computing the deduction, you are no longer required to complete Form 8829 in order to deduct home business expenses. Instead, you can elect to use a new Simplified Method. If qualified, the Simplified Method generally provides you with a deduction of \$5 per square feet of space, up to 300 square feet. See our instructions for Schedule C, line 30, and the IRS 2014 Instructions for Schedule C for details.

**PART I, PART OF YOUR HOME USED FOR BUSINESS.** The business use percentage that is applied to indirect costs in Part II is determined here.

**Copy number (1 through 5).** *(auto-calc)* The number for the copy you selected from the Forms Menu, or the Schedule C from which you accessed this form, appears here automatically. Each copy of Form 8829 supports ONLY the Schedule C with the same copy number.

**Spouse owns (from Schedule C)?** *(auto-calc)* Taken from the corresponding copy of Schedule C.

**1 Area used exclusively for business.** Enter as indicated, including area used for storing inventory and area used for day-care even if not exclusively used for day care.

**2 Total area of home.** Enter total area in the same units as used in line 1 (such as square feet).

**3 Divide line 1 by line 2 (expressed as a percentage).** *(auto-calc)* Computed as indicated.

**Day-care facilities claimed?** If No, lines 4 through 6 are skipped.

**Facilities ever used for nonbusiness purposes in 2014?** If No, lines 4 through 6 are skipped. *Exception: See the shaded box on the next page for instructions for a special case in which you should answer No here even when you used some of the facilities for nonbusiness purposes.*

**For day-care NOT all business.** The following lines, through line 6, apply ONLY to those who answer Yes to BOTH of the above two questions.

**Total hours in whole year.** *(auto-calc)* The number of hours in a full year (8,760 hours for tax year 2014, which is 365 days at 24 hours per day) appears here automatically.

**Number of days NOT in business.** This entry applies ONLY to a business that was started or terminated during the tax year. Enter the number of days the day-care facility did NOT exist during the year.

**Total hours available.** *(auto-calc)* Computed as the total hours in a year less 24 times the above entry for number of days *NOT* in business.

**Actual hours of business use.** Enter the number of hours the day-care facility was *actually* used for business. This entry can be no greater than the preceding result for total hours available. (The IRS suggests you compute the amount for this entry by figuring the number of days the facility is open for daycare use, then multiplying that number by the average hours of use per day.) **CAUTION:** Do *not* itemize this line to explain or compute your "Actual hours of business use." Support for this line is reserved for a different purpose for e-file, as explained in the following shaded paragraph.

**How to handle a home with both exclusive use and shared use areas for day-care.** If part of your home was used exclusively for daycare and another part was used for both personal use and daycare use, you must determine the business percentage for line 7 using a special prorationing rather than the computations performed in lines 4 through 7. The special prorationing is detailed in the IRS 2014 Instructions for Form 8829 under the heading "Special Computation for Certain Daycare Facilities." If you must use this special prorationing, you must perform the following steps:

1. Answer No to "Facilities ever used for nonbusiness purposes in 2014?" even though the proper answer is Yes. A No answer will cause lines 4, 5, and 6 to be zero, as required by the IRS for this special prorationing.
2. Perform the prorationing computation described in the IRS instructions under the heading "Special Computation for Certain Daycare Facilities."
3. Use the Override Key (F8 or ctrl-O) to access the computed line 7 and change the entry from the computed percentage to the percentage you computed in step 2, above. Be sure to enter a true percentage (from 0 to 100%) rather than a ratio (from 0 to 1.0).
4. In a supporting statement for the line "Actual hours of business use" (above line 4), explain your computation in the text column of the support. (Do not make any entry in the amount column.)

The official printout of Form 8829 will reference the supporting statement on the dotted line for line 7.

**4 Multiply days used for daycare during year by hours used per day.** *(auto-calc)* Taken as the preceding entry if you answered Yes to both "Day-care facilities claimed?" and "Facilities ever used for nonbusiness purposes in 2014?" Otherwise, zero.

**5 Total hours available for use during the year.** *(auto-calc)* Taken from the preceding result for "Total hours available" if you answered Yes to both "Day-care facilities claimed?" and "Facilities ever used for nonbusiness purposes in 2014?" Otherwise, zero.

**6 Divide line 4 by line 5 (expressed as a decimal).** *(auto-calc)* Computed as indicated.

**7 Business percentage.** *(auto-calc)* Computed as line 3 times line 6 if you answered Yes to both "Day-care facilities claimed?" and "Facilities ever used for nonbusiness purposes in 2014?" Otherwise, line 3 alone is used here. This percentage is used in figuring indirect expenses, defined below, and the depreciation of the business portion of your home. *For circumstances where you must override this computed result, see the preceding shaded box.*

**How to handle a change of home during the year.** Form 8829 generally assumes that you used the same home for the business all year long. However, if you moved during the year and you either use the "Indirect expense" method described next or you claim depreciation on your home, you must use a separate Form 8829 for each home. Since only one Form 8829 is built into the software for each business, and its result is automatically posted to the Schedule C to which it is attached, you can handle this case only by removing the Form 8829 for this business and entering the result of separately prepared Forms 8829 for both homes combined on line 30 of the appropriate Schedule C. (You can complete the multiple Forms 8829 separately on a mock return in order to minimize your effort and produce fileable printouts, but you cannot have a Form 8829 for this Schedule C in the return you file.) **CAUTION** *for e-file: You should not e-file the return in this case, but file a paper return instead, because the software supports only one Form 8829 per Schedule C. Include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

**PART II, FIGURE YOUR ALLOWABLE DEDUCTION.** All expenses in lines 9 through 21 are split into direct and indirect expenses. *Direct expenses*, which are identified as column (a) expenses, are those that benefit **ONLY** the business and not the home. *Indirect expenses*, which are identified as column (b) expenses, are those that benefit **BOTH** the business and the home, and must therefore be prorated between business and personal use. This prorating is performed at lines 13 and 23 by multiplying the indirect expenses by the business use percentage on line 7, so you must enter the **ENTIRE** expense on the "Indirect" lines. However, any indirect cost that relates to the business in a different percentage than that shown on line 7 should be reported on the Direct line instead, entering only the business part of the expense.

**Amount from Schedule C, line 29.** *(auto-calc)* This is the tentative profit or loss taken from line 29 of the copy of Schedule C with the same copy number as this form.

**Gross income NOT from home use.** If the business reported on Schedule C is not operated exclusively out of your home, you must enter the part of gross income (line 7 of Schedule C) that applies to the operation of your business from a place of business other than your home.

**Schedule D and Form 4797 gain from business use of home.** Enter gains only resulting from the sale of assets of your business (or other transactions reported on Schedule D and Form 4797) associated with

the home use part of your business, such as the sale of equipment used exclusively in your home.

**Schedule D and Form 4797 loss NOT from business use of home.** Enter losses only resulting from the sale of assets of your business (or other transactions reported on Schedule D and Form 4797) NOT associated with the home use part of your business.

**8 Schedule C, line 29 (as adjusted).** *(auto-calc)* Computed as Schedule C, line 29 less "Gross income NOT from home use" plus "Schedule D and Form 4797 gain from business use of home" less "Schedule D and Form 4797 loss NOT from business use of home" in accordance with the IRS 2014 Instructions for Form 8829.

**9 Casualty losses.** Enter allowable losses from a specially prepared Form 4684, Sec. A, line 21. See IRS Instructions for Form 8829 for details on the special way to use Form 4684 to figure the amount to enter here.

**10 Deductible mortgage interest.** Enter the mortgage interest that is deductible on Schedule A for this home. If you file Schedule A and report only interest for loans that benefit the entire home, and only this home, you would generally enter on line 10 or 11 of Schedule A ONLY the interest NOT deducted on Form 8829. (The amount deducted on Form 8829 is the direct entry on line 10, or the indirect entry on line 10 times line 7.)

**11 Real estate taxes.** Enter as indicated.

**12 Add lines 9, 10, & 11.** *(auto-calc)* Computed as indicated separately for columns (a) and (b).

**13 Multiply 12(b) by line 7.** *(auto-calc)* Computed as indicated.

**14 Add line 12(a) and line 13.** *(auto-calc)* Computed as indicated.

**15 Subtract line 14 from line 8.** *(auto-calc)* Computed as indicated but no less than zero.

**16 Excess mortgage interest.** Enter the amount of mortgage interest that is not deductible, and therefore not reported on line 10 above, because of limits on Schedule A for this home. If you file Schedule A and report only interest for loans that benefit the entire home, and only this home, you would generally enter in the "indirect" part of line 16 ONLY the amount exceeding the limit as shown on the line above line 10 or the line above line 11 of Schedule A.

**17 Insurance.** Enter as indicated.

**18 Rent.** Enter as indicated.

**19 Repairs and maintenance.** Enter as indicated.

**20 Utilities.** Enter as indicated.

**21 Other expenses.** Enter any rents paid for this home and other eligible expenses.

**22 Add lines 16 through 21.** *(auto-calc)* Computed as indicated separately for columns (a) and (b).

**23 Multiply 22(b) by line 7.** *(auto-calc)* Computed as indicated.

**24 Carryover of operating expense from 2013 Form 8829, line 42.** Enter the amount of operating expenses disallowed on the prior-year return

(line 42 of the 2013 Form 8829) due to the limitation on expenses for business use of your home.

- 25 Add line 22(a), 23, and 24.** *(auto-calc)* Computed as indicated.
- 26 Allowable operating expense.** *(auto-calc)* Computed as the lesser of line 15 or line 25.
- 27 Limit on excess casualty losses and depreciation.** *(auto-calc)* Computed as line 15 less line 26.
- 28 Excess casualty losses.** Enter the amount of casualty losses NOT allowed, and therefore not entered on line 9, due to the limits on Form 4684, Sec. A.
- 29 Depreciation of home from Part III.** *(auto-calc)* Taken from line 41, below.
- Carryover of excess casualty losses from 2013 Form 8829, line 43.** Enter the amount of excess casualty losses disallowed on the prior-year return due to the limitation on expenses for business use of your home.
- Carryover of excess depreciation from 2013 Form 8829, line 43.** Enter the amount of excess depreciation disallowed on the prior-year return due to the limitation on expenses for business use of your home.
- 30 Carryover of excess casualty losses and depreciation from 2013 Form 8829, line 43.** *(auto-calc)* Computed as the sum of the above two entries.
- 31 Add lines 28 through 30.** *(auto-calc)* Computed as indicated.
- 32 Allowable excess casualty losses and depreciation.** *(auto-calc)* Computed as the lesser of line 27 or line 31.
- 33 Add lines 14, 26, and 32.** *(auto-calc)* Computed as indicated.
- 34 Casualty losses included on lines 14 and 32.** *(auto-calc)* The line 14 part is computed as line 9(Direct) plus line 7 times line 9(Indirect). The line 32 part is computed as the ratio line 32 divided by line 31 multiplied by the sum of line 28 and the casualty part of line 30.
- 35 Allowable expenses for business use of your home.** *(auto-calc)* Computed as line 33 less line 34.

**PART III, DEPRECIATION OF YOUR HOME.** Depreciation for the business use of the home is computed here instead of Form 4562. *However, if any of the depreciation claimed below is for property first placed in service in 2014, you must complete an unattached copy of Form 4562 reporting that new property in addition to figuring the depreciation here.*

- 36 Smaller of your home's adjusted basis or fair market value.** Enter as indicated. Use the fair market value of the home on the date you first used it for business in this comparison. When determining the home's basis, do not include any depreciation claimed after the date you first used the home for business.
- 37 Value of land included on line 36.** Enter as indicated.
- 38 Basis of building.** *(auto-calc)* Computed as line 36 less line 37, but no less than zero.
- 39 Business basis of building.** *(auto-calc)* Computed as line 38 multiplied by the business use percentage on line 7.

**40 Depreciation percentage (as xx.xxx).** *(auto-calc ONLY if you itemize the next line)* If you know the proper depreciation rate to use, you can enter it here and skip the next line. But if you want the software to figure it for you, skip this line and itemize the next line instead. When you return from the worksheet that supports the next line, the depreciation percentage will be computed and placed here for you.

**Home depreciation (itemize).** *(Supported by the MACRS/ACRS for Form 8829 Worksheet, Figure 2-68.)* The worksheet that supports this line is similar to the one that supports lines 15, 16, 17, and 19 of Form 4562, but with several lines not relevant to Form 8829 removed. *Only one worksheet can be created for this line* because only one home can be depreciated on a single Form 8829. (Note that the worksheet is *NOT* printed with the official return because the IRS does not require it. However, if the home was first placed in service in the current tax year, in order to satisfy IRS reporting requirements, you should prepare an unattached Form 4562 that reports the same depreciation as you compute on the supporting worksheet for this line, and file it with the return.)

**e-file: itemize to explain.** The IRS does not support a formatted worksheet for e-file, so you should explain your computations for "Improvements depreciation" in a supporting statement for this line. *You do not need to support this line for a paper return because details from the worksheets that support the next line are automatically printed with the paper return.*

**Improvements depreciation (itemize).** *(Supported by the MACRS/ACRS for Form 8829 Worksheet, Figure 2-68.)* The worksheet that supports this line is the type as the one that supports the "Home Depreciation" line, but with less restrictions. It is provided for additions or improvements placed in service *AFTER* the home was placed into business service. However, in spite of the added flexibility that we provide, the IRS still generally requires you the use nonresidential real estate (NR) as the class. Any worksheet created here is printed with the official return and referenced on Form 8829, since depreciation claimed here will alter the calculation of line 41 of Form 8829.

**41 Depreciation allowable.** *(auto-calc)* Computed as line 39 times line 40 (which is the same as the result for "Home depreciation" if you used the worksheet for that line) plus the above depreciation for improvements. (Note that line 39 times line 40 should be the same as the result for "Home depreciation" if you used the worksheet for that line.)

The result on line 41 is used for line 29 of this copy of Form 8829.

**MACRS/ACRS for Form 8829 Worksheet, Figure 2-68.** A separate set of worksheets supports the line "Home depreciation" and the line "Improvements depreciation."

**a. Classification of property.** If you enter a blank on this line (which we suggest) *the*

MACRS/ACRS FOR FORM 8829		
	Tax year on Form 1040	0
a.	Classificat'n of property	
	Indian Reservation Property? No	
b.	Date in service (mm/dd/yy)	
c.	Deprec'n basis	0
d.	Recov. Period	0
	Farm or elect 150% DB? No	
	MUST use mid-qtr convn? No	
e.	Convention used	
f.	Method (DB,S/L,etc)	
	Month sold(if this yr)	0
	Percentage this year	0
g.	Deprec'n deduction	0

**Figure 2-68. MACRS/ACRS for Form 8829 Worksheet**

*software assumes nonresidential real property*, which is the generally the proper classification for both your home and improvements for your home office, and make **NR** the first two characters of the entry. If you need to use a different classification for special circumstances, refer to the details for the MACRS/ACRS Worksheet in our instructions for Form 4562.

**Indian Reservation Property?** If the property qualifies, you may answer Yes here and the allowed recovery periods used in computing line g are shortened for most classifications, resulting in a higher deduction over a shorter period of time. (This accelerated depreciation benefit had expired on December 31, 2009, but the *Tax Relief Act of 2010* reinstated it retroactively and extended it through 2011, then the *American Taxpayer Relief Act of 2012* reinstated it retroactively again and extended it through 2013, and, finally, the recent year-end tax bill extended it again through 2014.)

**b. Date placed in service (month, day, and year).** If you reached this worksheet from the "Home depreciation" line, you must enter the date the home office was started (the date placed in business service), not the date the home was purchased. *This is the ONLY entry you should generally have to make on the worksheet for home depreciation, unless the date precedes 1981.* If you reached this worksheet from the "Improvements depreciation" line, your date entry should be later than your date entry for home depreciation because the improvements line is intended only for improvements you made after you placed the home into business service. (If you need to enter a date earlier than January 1, 1981, when ACRS depreciation was created, you must use the Manual Method, described at line f.) **TIP:** *Enter the date using the full mm/dd/yy format so that the changes in IRS rules over the years, including those made in the middle of a month, are all properly handled.*

**c. Basis for depreciation.** If you reached this worksheet from the "Home depreciation" line, this entry is automatically taken from line 39 of Form 8829 (Business basis of building) and *cannot be changed*. If you reached this worksheet from the "Improvements depreciation"

line, you should generally enter the cost of the improvement multiplied by your business use percentage.

- d. Recovery period.** As long as you retained the default classification at line a as NR, which is generally required for both the home and improvements, the Recovery Period is *restricted to those that are allowed for nonresidential real estate*. See Table 2-17 (which follows) for the minimum allowed periods for various dates placed in service.

**Farm or elect 150% DB method?** If the declining balance method is chosen, property used in a farming business MUST be depreciated at a 150% rate. In addition, nonfarm property can be depreciated at 150% by election (in order to avoid the complications of the alternate minimum tax). In either case, answer Yes here to force 150% DB for classes where 200% DB would be used otherwise.

**MUST use mid-quarter convention?** (For post-1986 property only.) If more than 40% of your new property for a class was placed in service in the last quarter of a tax year, you normally must answer Yes for all property of the same class for that tax year. A Yes answer causes the software to use the mid-quarter convention rather than the half-year convention when figuring MACRS depreciation. (Under the normal rule you must answer this question the same way for all property of the same class placed in service in the same year.)

- e. Convention used.** (auto-calc line when you enter DB, MA, PRE, AC, or SL as the method at line f.) As long as you retained the default classification at line a as NR, which is generally required for both the home and improvements, the convention is *determined by the software based on the date entered, in accordance with the ACRS rules for nonresidential real estate*.

- f. Method (DB, SL, etc.).** The method is *generally set by the software to straight-line depreciation*. TIP: If you need to enter a date earlier than January 1, 1981, when ACRS depreciation was created, you must use the Manual Method. With the Manual Method you enter your method on this line *with a leading space*, and the software then let's you make any entry you want for the "Percentage this year" above line g.

**Month sold (if this year).** If sold or retired during the tax year, enter the month sold or retired from 1 to 12. The deduction is determined automatically based on the law. REMINDER: A zero deduction will result for pre-1987 property other than real property under the ACRS rules that no deduction is allowed in the year of sale.

**Percentage this year.** (auto-calc line when you enter DB, MA, PRE, AC, or SL as the method.) If you don't enter a bona fide method, the Manual Method is assumed and you can enter the percentage here yourself. Otherwise the IRS percentage is displayed here to two decimal places, even though it is retained to three decimal places in the calculations when so required by the IRS. CAUTION: Do not use the Manual Method unless you have an unusual exception, such as transition property, because the software has numerous lesser-known

*subtleties of the law built in, handling all the changes of the past decade.*

- g. Depreciation deduction.** *(auto-calc)* Computed as the basis on line c times the above percentage. Note that the special 30% depreciation allowance is *NOT* included in this total. The special allowance is separately handled, and the total from all worksheets is included in line 14 of Form 4562 instead.

We cannot overly stress the fact that the regulations are complex and constantly changing. We have built into the software much more tax law information than can be detailed here. We therefore suggest you consult the latest version of IRS Pub. 946 if you have questions.

**Table 2-17. Recovery Periods for Office in Home**

<u>Date home placed placed in business service</u>	<u>Minimum allowed Recovery Period</u>
After May 12, 1993	39 years
Jan. 1, 1987 to May 12, 1993	31.5 years
May 9, 1985 to Dec. 31, 1986	19 years
March 16, 1984 to May 8, 1985	18 years
Jan. 1, 1981 to March 15, 1984	15 years

If placed in business service before Jan. 1, 1981, use the Manual Method to report depreciation by a method allowed before ACRS was created by the IRS.

**PART IV, CARRYOVER OF UNALLOWED EXPENSES TO 2015.** Carryovers to the next tax year are shown here.

- 42 Operating expenses.** *(auto-calc)* Computed as line 25 less line 26, but no less than zero.

**Carryover of excess casualty losses to 2015.** *(auto-calc)* Computed as the casualty part of line 30 less the casualty part of line 31.

**Carryover of excess depreciation losses to 2015.** *(auto-calc)* Computed as the depreciation part of line 30 less the depreciation part of line 31.

- 43 Excess casualty losses and depreciation.** *(auto-calc)* Computed as the sum of the above two lines.

Line 42 will be used for line 24 of next year's Form 8829. Line 43 will be used for line 30 of next year's Form 8829.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8839\* / Qualified Adoption Expenses

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to figure and claim a credit for adopting a child or disabled person, even if the adoption was not yet final by the end of the tax year. The form is also used to justify the exclusion of employer-provided benefits already excluded from the employee's Form W-2, or to figure the amount that must be added back to income or any additional exclusion for a child with special needs. The credit and exclusion are both generally limited to qualified expenses up to \$13,190 per adopted child, or the full \$13,190 irrespective of expenses for a child with special needs. Form 8839 is accessible through the Road Map at the 8839 component of line 54c of Form 1040.

**Attachment of documentation no longer required.** Starting with tax year 2012, the credit is once again nonrefundable, as it was before the Health Care Act made it temporarily refundable. As a result, documentation requirements have been eased. You are no longer required to attach any documentation with your tax return to support your claim for the credit. However, you must still keep it with your records. As a result, Form 8839 is once again included by the IRS in their e-file program.

**Information Required for MFS filers.** These questions need be answered only for MFS filers (that is, those who file Form 1040 using filing status 3 -- Married Filing Separately). Qualification for MFS filers to claim the credit or exclusion for a child depends on the answers to these questions, the modified AGIs, and the answers on the worksheet for the child. .

**Legally separated by decree?** If you are legally separated under a decree of divorce or separate maintenance, you do not have to satisfy the requirements that others filing separately must satisfy. Instead, you are considered unmarried for the purposes of this form even if you use filing status 3. You should answer this question before you complete the worksheets for line 1. **CAUTION:** *If you answer this question after completing the worksheets for line 1, you must return to the worksheets so that the proper determination of qualification for each child can be made.*

**Did you live apart from the spouse during the last 6 months of the tax year?** To qualify for Form 8839, the answer must be Yes if married filing separately unless you are legally separated by decree.

**Did you provide over half the cost of keeping up your home?** To qualify for Form 8839, the answer must be Yes if married filing separately unless you are legally separated by decree.

In addition to the above requirements, the child must have lived with you more than half of the tax year for you to claim a credit or exclusion for that child. This requirement is separately answered on the worksheet for each child.

**PART I, INFORMATION ABOUT YOUR ELIGIBLE CHILD OR CHILDREN.** All information for Form 8839 is entered in this section. The remainder of the form is then completed automatically for you based on the information you provide.

- 1 Number of eligible children.** (*Supported by the Adoption Expense Worksheet, Figures 2-69a through 2-69d.*) All information about the adoptees is entered on the worksheets you access here, whether you use Part II or Part III of the form. The number of children for whom you provided complete information (that is, the number of worksheets you properly completed) appears on this line. *Limitation for e-file: The IRS allows no more than 12 children for e-file. Therefore, if you have more than 12 qualifying children to claim, you must file a paper return instead.*

**Special printouts when more than 3 children.** The IRS paper form is designed for no more than three children. However, the IRS defines a special procedure when more than three children are eligible. You will therefore have additional pages of Form 8839 and supporting statements when you have more than three eligible children.

- ◆ The first page of Form 8839 will show information on the first three children on lines 1 through 6, line 7 will show the sum of lines 6 for all children combined (not just the first three), and the rest of page 1 will be computed. The phrase "See attached" will appear to the far right of the CAUTION above the PART II heading to draw attention to the fact that information on other children exists.
- ◆ The second page of Form 8839 will show no details for any children, but line 17 will show a supporting statement cross-reference, line 21 will show the sum of lines 20 for all children combined, and line 28 will show the sum of lines 27 for all children combined, and the rest of page 2 will be computed.
- ◆ The third and subsequent pages will be additional copies of Form 8839, page 1, but completed only through line 6 (plus lines 10 and 11) for the additional children (3 children per page).
- ◆ Information on other children for Form 8839, page 2, will appear in the supporting statement referenced previously at line 17.

**Summary of worksheets:**

**Filed Form 8839 in a prior year?** (*auto-calc*) Answered Yes if you made an entry for line 3 on any of the worksheets. This answer determines which check box is marked for line 3 of the printed Form 8839.

**Amounts on line 6.** (*auto-calc*) Computed as the sum of amounts on line 6 for all worksheets combined, this total is used in calculations for line 12 in Part II of Form 8839.

**Received prior employer-provided adoption benefits?** (*auto-calc*) Answered Yes if you made an entry for line 18 on any of the worksheets.

**Amounts on line 20.** *(auto-calc)* Computed as the sum of amounts on line 20 for all worksheets combined, this total is used for line 21 in Part III of Form 8839.

**Amounts on line 22.** *(auto-calc)* Computed as the sum of amounts on line 22 for all worksheets combined, this total is used in calculations for line 28 in Part III of Form 8839.

**CAUTION: Credit and exclusion cannot use the same expenses.** Form 8839 provides for both a credit (in Part II) and an exclusion (in Part III), but both cannot be claimed for the same expenses for the same adopted child. Therefore, when you enter your adoption expenses on the worksheet we provide, *you must exclude expenses covered by your employer.* You must also exclude expenses paid by anyone else or expenses allowed as a credit or deduction elsewhere.

**Adoption Expense Worksheet.** *(Figures 2-69a through 2-69d)* You must use a separate worksheet for each separate child, including any children included in any carryforward you enter on line 13 of Form 8839. However, if you failed in previous attempts to adopt just *one* child, you must combine all children into one child for the purposes of this form. Name only the child finally adopted or, if not yet final, the last one attempting to adopt. If you have incomplete information (such as incomplete name or missing SSN), leave the relevant entry blank.

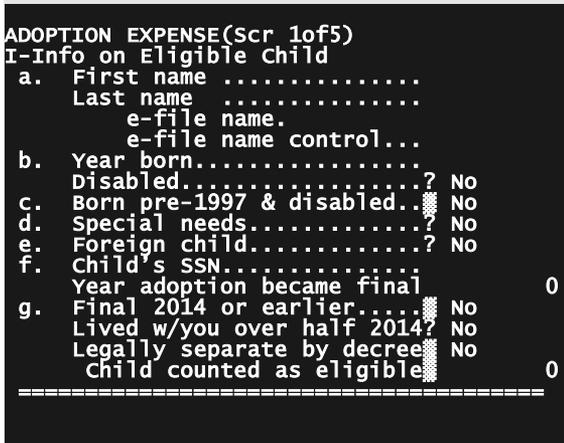


Figure 2-69a. Adoption Expense, Screen 1

as you know.

**Last name.** Enter last name in 15 characters or less. If you do not know the full name of the child before you file the return, enter as much as you know.

**e-file name.** *(auto-calc)* The names you enter are coded into a 25-character full name using IRS-specified symbols to highlight the last name and IRS-specified abbreviations for suffixes. This result is used only in the e-file output for a return.

**I-Information on Eligible Child.** All filers must complete this section, which is screen 1 of the 5-screen worksheet for each child. (See Figure 2-69a.)

**a. First name.** Enter first name in 10 characters or less. If you do not know the full name of the child before you file the return, enter as much

**e-file name control.** *(auto-calc)* The last name you enter is coded into a 4-character name control, usually the first four characters of the last name. This result is used only in the e-file output for a return.

- b. Year born.** Enter the year in 4-digit format. The child must generally be under age 18 to qualify you for the credit.

**Disabled?** If 18 or older by year-end, the child must be disabled (physically or mentally unable to take care of himself or herself) to qualify you for the credit or exclusion.

- c. Born before 1997 and was disabled?** *(auto-calc)* Answered Yes only if the preceding answer is Yes and your entry for line b precedes 1997 (if preparing the return for tax year 2014), indicating age 18 or older by the end of the tax year.

- d. Special needs?** To answer Yes the child must have been a citizen or resident of the U.S. (or its possessions) when the adoption process began, must have been determined by a state as not returnable to his or her parents' home and not adoptable without assistance to the adoptive parents. A child with special needs qualifies you for a full credit or exclusion even when your expenses do not match the maximum allowed amount.

- e. Foreign child?** To answer Yes the child must not have been a citizen or resident of the U.S. (or its possessions) when the adoption process began. You are not allowed a credit for a foreign child until the tax year in which the adoption becomes final. Similarly, you are not allowed to exclude any employer-provided benefits for a foreign child until the tax year in which the adoption becomes final.

- f. Child's SSN.** Enter the identifying number of the child in the standard xxx-xx-xxxx format. The number may be an SSN, ATIN, or ITIN, all of which use the same format. If you do not know the number before you file the return, leave the entry blank.

**Year adoption became final.** Enter the year as a 4-digit number. However, if the adoption is not yet final, leave the entry as zero.

- g. Adoption became final in 2014 or earlier?** *(auto-calc)* Answered Yes if your preceding entry is less than 2015 but greater than zero. A yes answer will cause an X to appear in the check box for line 1, column (g), of Form 8839.

**Lived with you over half of 2014?** This answer is relevant only if you are married filing separately but not separate by decree. In this case the child must have lived with you for more than half of the year to qualify you for the credit or exclusion.

**Legally separated by decree?** *(auto-calc)* Taken from your answer at the top of screen 1 of Form 8839, a Yes answer excludes the requirement for MFS filers that the child must have lived with you more than half of the tax year.

**Child counted as eligible?** *(auto-calc)* Answered Yes only if all of the following conditions are true:

- (1) The child is less than either less than 18 years old (line b is 1997 or later) or disabled (line c is Yes),

- (2) You made an entry for the child's identifying number on line f, and
- (3) If married filing separately, you answer is Yes to at least one of the preceding two lines.

**Info for ALL children.** You must complete this section, which is at the top of screen 2 of the 4-screen worksheet, for every child.

**Qualified expense paid in 2002 through 2012.** Enter the amounts paid in 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, and 2012. Do not include any amount covered by an employer-provided benefit or reimbursed by any other person and organization. (An entry is required here only if the child is a foreign child and the adoption was final in 2014.)

ADOPTION EXPENSE(Scr 2of5)	
Qlfd. exp. pd.2002thru2012	0
Qlfd. expense pd. in 2013.	0
Qlfd. expense pd. in 2014.	0
Employer has qlfd. program? Yes	
Employer beni rcvd in 2014	0
Info for foreign children:	
Qlfd. exp. pd.1997thru2001	0
Part of \$5K lim to another	0
Add'l qlfd expens for ln 5	0
Employer ben. 1997thru2001	0
Part of \$5K lim to another	0
Add'l emp ben for line 22.	0
Employer beni 2002thru2013	0
Allowed amts. For 5 & 22:	
Qlfd. adoption exp. for 5.	0
Employer benefits for 20.	0

**Qualified expense paid in 2013.** Enter the amount paid in 2013. Do not include any amount covered by an employer-provided benefit or reimbursed by any other person and organization. **Qualified expense paid in 2014.** Enter

Figure 2-69b. Adoption Expense, Screen 2

the amount paid in 2014. **CAUTION:** Do not include any amount covered by an employer-provided benefit or reimbursed by any other person and organization.

**Employer has a qualified adoption assistance program?** You can answer Yes only if the employer has a separate written plan set up to provide adoption assistance to its employees. See IRS Pub. 968 (*Tax Benefits for Adoption*) for details. If you answer No, any employer-provided benefits you received in the tax year are fully taxable, which will be reflected in line 27 of Form 8839 by the lack of any excluded benefits.

**Employer-provided adoption benefits you received in 2014.** Enter qualified amount received for this child. The total you received for the year should be shown in box 12 of your 2014 Form W-2 with the code T, but you must allocate that total among all worksheets if more than one child is adopted and planned to be adopted.

**Info for foreign children.** You must complete this section if you answered Yes to line e, indicating that the child is a qualified foreign child. For a foreign child you can claim a credit or exclusion only in the tax year in which the adoption became

final, but can include expenses as far back as 1997. Information about past years is therefore collected in this section. (See Figure 2-69b.)

**Qualified expenses paid in 1997 through 2001.** Enter the qualified amount paid in the cited years only. Do *not* include any amount covered by an employer-provided benefit or reimbursed by any other person and organization.

**Part of \$5,000 limit allocated to another.** The total of expenses for years prior to 2002 and after 1996 are subject to a \$5,000 limit. However, if you and another person (other than a spouse who files jointly with you) adopt the child and both of you claim the credit, you must allocate the \$5,000 maximum among the two of you. Enter here that part of the maximum that is used by the other person on his or her tax return.

**Additional qualified expense for line 5.** (*auto-calc*) Computed as the qualified expenses entered above for 1997 through 2001 but limited to \$5,000 less the preceding entry.

**Employer-provided benefits received in 1997 through 2001.** Enter the amount received in the cited years only.

**Part of \$5,000 limit allocated to another.** The total of benefits for years prior to 2002 and after 1996 are subject to a \$5,000 limit. However, if you and another person (other than a spouse who files jointly with you) adopt the child and both of you claim the exclusion, you must allocate the \$5,000 maximum among the two of you. Enter here that part of the maximum that is used by the other person on his or her tax return.

**Additional employer-provided benefit for line 20.** (*auto-calc*) Computed as the benefits entered above for 1997 through 2001 but limited to \$5,000 less the preceding entry.

**Employer-provided adoption benefits you received in 2002 through 2013.** Enter qualified amount received for this child for tax years 2002 through 2013 alone. The total you received each year should be shown in box 12 of your Form W-2 for each year with the code T, but you must allocate that total among all worksheets if more than one child is adopted and planned to be adopted.

**Allowed amounts for lines 5 and 20.** Information entered in the preceding two sections is used to compute total expenses for line 5 of Form 8839 and total employer-provided benefits for line 20 of Form 8839. (See Figure 2-69b.)

**Qualified adoption expenses for line 5.** (*auto-calc*) The computation depends on a number of factors:

- (1) If the child is a foreign child and the adoption was final in the tax year, computed as the sum of "Qualified. expense paid in 2002 through 2012" *plus* "Qualified. expense paid in 2013" *plus* "Qualified. expense paid in 2014" *plus* "Additional qualified expense for line 5."
- (2) If the child is a foreign child but the adoption was *not* final in the tax year, computed as zero.

- (3) If the child is not a foreign child and the adoption was not final by the end of the tax year, computed as "Qualified. expense paid in 2013."
- (4) If the child is not a foreign child and the adoption was final in a prior tax year, computed as "Qualified. expense paid in 2014."
- (5) If the child is not a foreign child and the adoption was final in the tax year, but the child was not a child with special needs, computed as the sum of "Qualified. expense paid in 2013" plus "Qualified. expense paid in 2014."
- (6) If the child is not a foreign child, the adoption was final in the tax year, and the child was a child with special needs (indicated by line d), computed \$13,190 regardless of your actual expenses.

**Employer-provided benefits for line 20.** *(auto-calc)* If the child is a foreign child and the adoption was final in the tax year, computed as the sum of "Employer-provided benefits received in 2014" plus "Additional employer-provided benefit for line 20" plus "Employer-provided benefits received in 2013." Otherwise, computed as "Employer-provided benefits received in 2014" alone.

**II-Adoption Credit.** You must complete this section, which is screen 3 of the 4-screen worksheet for each child, only if you are claiming an adoption credit for the child. (See Figure 2-69c.)

ADOPTION EXPENSE(Scr 3of5)	
II-Adoption Credit	
2	Maximum credit per child... 12,970.
	Amt. allocated to another 0
	If changed, max. for ln 2 0
	Strikeout for orig. ln 2.
	Prior amts for this child:
	Last post-97 8839, ln 3+6 0
	1997 Form 8839, line 4... 0
3	Amt. from prior Form 8839. 0
4	Subtract line 3 from ln 2. 0
5	Qualified adoption expense 0
6	Smaller of line 4 or ln 5. 0
10	Multiply line 6 by line 9. 0
11	Subtract line 10 from ln 6 0
III-Employer-Provided Beni	
17	Max. exclusion per child... 0
	Amt. allocated to another 0
	Strikeout for orig. ln 17

**2 Maximum adoption credit per child.** *(auto-calc)* If the child was counted as eligible on screen 1, the maximum credit for tax year 2014, \$13,190, appears here automatically. **Amount allocated to another.** If you and another person (other than a

Figure 2-69c. Adoption Expense, Screen 3

spouse who files jointly with you) adopt the child, you can both claim the credit but must allocate the \$13,190 maximum among the two of you. Enter here that part of the maximum that is used to the other person on his or her tax return.

**If changed, maximum for line 2.** *(auto-calc)* If you made an entry on the preceding line, the remainder allocated to you appears here and is printed on the official printout of Form 8839 above the preprinted maximum of \$13,190.

**Strikeout for original line 2.** *(auto-calc)* If an amount appears on the

preceding line, the strikeout shown here is printed on the official printout of Form 8839 so that the original preprinted maximum for line 2 is hidden, in accordance with IRS instructions.

**Prior amounts for this child:**

**Last post-1997 Form 8839, line 3 plus line 6.** If this child was claimed on a prior Form 8839 after 1997, enter the sum of lines 3 and 6 for the child from the most recent Form 8839 on which this child was claimed.

**1997 Form 8839, line 4.** If the child was claimed on Form 8839 for tax year 1997, enter line 4 for the child for that year.

**3 Amount from prior Form 8839.** *(auto-calc)* If an amount appears on the above post-1997 line, that amount is normally used here. Otherwise, the amount on the 1997 line is used here. *(If the child is a foreign child, this line is always computed as zero.)* If an amount appears on line 3 for any child, the Yes box for line 3 will be checked on the official printout of Form 8839. Otherwise the No box will be checked.

**4 Subtract line 3 from line 2.** *(auto-calc)* Computed as indicated, but no less than zero.

**5 Qualified adoption expense.** *(auto-calc)* Computed as “Qualified adoption expense for line 5” shown at the bottom of screen 2.

**6 Smaller of line 4 or line 5.** *(auto-calc)* Computed as indicated.

**10 Multiply line 6 by line 9.** *(auto-calc)* This new line depends on the ratio computed on line 9 Form 8839 (not shown on this worksheet) based on a modified AGI (described following this shaded section). The ratio will be zero if modified AGI is less than \$194,580 and one if modified AGI is more than \$234,580, with a phaseout between those thresholds. As a result, because worksheets are calculated separately from schedules and forms, *you will have to return to this worksheet after the final recalculation of the return if AGI changes such that the ratio is changed from the last time you visited the worksheet.* To help you determine whether you need to revisit the worksheet, a line labeled “DISCREPANCY with worksheets” appears on-screen below line 11 on Form 8839 itself. If the amount for this line is not zero, you must revisit all the worksheets that support Form 8839 in order to update the calculation on the worksheets so that the worksheet amounts are consistent with the calculations on the form. *(The credit on Form 8839 will be properly computed even if you don’t revisit the worksheets. However, the child-by-child amounts for lines 10 and 11 will be inconsistent with the totals on Form 8839 that control the calculation of the credit.)*

**11 Subtract line 10 from line 6.** *(auto-calc)* Computed as indicated. Because this result depends on the result for line 10, *you may have to return to this worksheet after the final recalculation of the return in order for the result to be updated from a change in AGI.*

**III-Employer Benefits.** You must complete this section, which starts at the bottom of screen 3 and concludes on screen 4 of the 4-screen worksheet for each child, only if you had employer-provided adoption benefits for the child. (See Figures 2-69c and 2-69d.)

**17 Maximum exclusion per child.** *(auto-calc)* If the child was counted as eligible on screen 1, the maximum exclusion for tax year 2014, \$13,190, appears here automatically.

**Amount allocated to another.** If you and another person (other than a spouse who files jointly with you) adopt the child, you can both claim the exclusion but must allocate the \$13,190 maximum among the two of you. Enter here that part of the maximum that is used to the other person on his or her tax return.

**Strikeout for original line 135.** *(auto-calc)* If an amount appears on line 17 and the preceding line, the strikeout shown here is printed on the official printout of Form 8839 so that the original preprinted maximum for line 17 is hidden, in accordance with IRS instructions, and the original amount for line 17 will be reduced by the preceding entry and printed above the original preprinted maximum. *(If the child is a foreign child the amount computed for line 17 is much more complex. If the adoption was final during the tax year, the maximum is recomputed as the lesser of the same remainder as noted above vs. "Employer-provided benefits for line 20" shown at the bottom of screen 2; otherwise the maximum is recomputed as zero.)*

**Prior amounts for this child.** In the following entries you need only enter an amount for the most recent Form 8839 for this child:

**2013 Form 8839, lines 18 + line 22.** Enter as indicated if 2013 was the most recent tax year for which you received benefits for this child.

**2012 Form 8839, lines 14 + line 18.** Enter as indicated if 2011 was the most recent tax year for which you received benefits for this child.

*TIP: The lines referenced in this and the following several lines are analogous to lines 18 and 22 on the current (2014) Form 8839.*

**2011 Form 8839, lines 14 + line 18.** Enter as indicated if 2011 was the most recent tax year for which you received benefits for this child.

**2010 Form 8839, lines 16 + line 20.** Enter as indicated if 2010 was the most recent tax year for which you received benefits for this child.

**2009 Form 8839, lines 20 + line 24.** Enter as indicated if 2009 was the most recent tax year for which you received benefits for this child.

**2008 Form 8839, lines 20 + line 24.** Enter as indicated if 2008 was the most recent tax year for which you received benefits for this child.

**2007 Form 8839, lines 20 + line 24.** Enter as indicated if 2007 was the most recent tax year for which you received benefits for this child.

**2006 Form 8839, lines 20 + line 24.** Enter as indicated if 2006 was the most recent tax year for which you received benefits for this child.

**2005 Form 8839, lines 20 + line 24.** Enter as indicated if 2005 was the most recent tax year for which you received benefits for this child.

**2004 Form 8839, lines 20 + line 24.** Enter as indicated if 2004 was the most recent tax year for which you received benefits for this child.

**2003 Form 8839, lines 20 + line 24.** Enter as indicated if 2003 was the most recent tax year for which you received benefits for this child.

**2002 Form 8839, lines 20 + line 24.** Enter as indicated if 2002 was the most recent tax year for which you received benefits for this child.

ADOPTION EXPENSE(Scr 4f5)			
2013	Form 8839, ln 18 + 22		0
2012	Form 8839, ln 14 + 18		0
2011	Form 8839, ln 14 + 18		0
2010	Form 8839, ln 16 + 20		0
2009	Form 8839, ln 20 + 24		0
2008	Form 8839, ln 20 + 24		0
2007	Form 8839, ln 20 + 24		0
2006	Form 8839, ln 20 + 24		0
2005	Form 8839, ln 20 + 24		0
2004	Form 8839, ln 20 + 24		0
2003	Form 8839, ln 20 + 24		0
2002	Form 8839, ln 20 + 24		0
2001	Form 8839, ln 16 + 20		0
2000	Form 8839, ln 16 + 20		0
1999	Form 8839, ln 20 + 24		0
1998	Form 8839, ln 18 + 22		0
1997	Form 8839, line 15..		0
18	Amt from last yr w/benefit		0
19	Subtract ln 18 from ln 17.		0

Figure 2-69d. Adoption Expense, Screen 4

**2001 Form 8839, lines 16 + line 20.** Enter as indicated if 2002 was the most recent tax year for which you received benefits for this child.

**2000 Form 8839, lines 16 + line 20.** Enter as indicated if 2002 was the most recent tax year for which you received benefits for this child.

**1999 Form 8839, lines 20 + line 24.** Enter as indicated if 1999 was the most recent tax year for which you received benefits for this child.

**1998 Form 8839, lines 18 + line 22.** Enter as indicated if 1998 was the most recent tax year for which you received benefits for this child.

**1997 Form 8839, line 15.** Enter as indicated if 1997 was the most recent tax year for which you received benefits for this child.

**18 Amount from the last year you received benefits.** *(auto-calc)* Normally computed as the first nonzero entry in the preceding 18 lines. **EXCEPTION:** *This line is always computed as zero if the child is a foreign child.*

**19 Subtract line 18 from line 17.** *(auto-calc)* Normally computed as indicated, but no less than zero.

ADOPTION EXPENSE(Scr 5f5)			
19	Amt. from previous screen.		0
20	Employer benis rcvd in yr.		0
22	Smaller of line 19 or 20..		0
26	Multiply line 22 by ln 25.		0
27	EXCLUDED BENEFITS.....		0
No entry required on this page			0

Figure 2-69e. Adoption Expense, Screen 5

**EXCEPTION:** *This line is computed as zero if you answered No on worksheet screen 2 to "Employer has qualified program?"*

**20 Employer-provided adoption benefits you received in 2014.** *(auto-calc)* Computed as "Employer-provided benefits for line 22" shown at the bottom of screen 2.

- 22 Smaller of line 19 or line 20.** *(auto-calc)* Normally computed as indicated. **EXCEPTIONS:** *Line 19 is used here instead if the child is identified as a child with special needs on line e and the adoption was final during the tax year. This line is computed as zero if you answered No on worksheet screen 2 to "Employer has qualified program?"*
- 26 Multiply line 22 by line 25.** *(auto-calc)* This new line depends on the ratio computed on Form 8839 (not this worksheet) based on a modified AGI (described following this shaded section). For 2014, the ratio will be zero if modified AGI is less than \$197,880 and one if modified AGI is more than \$237,880, with a phaseout between those thresholds. As a result, because worksheets are calculated separately from schedules and forms, *you will have to return to this worksheet after the final recalculation of the return if AGI changes such that the ratio is changed from the last time you visited the worksheet.* To help you determine whether you need to revisit the worksheet, a line labeled "DISCREPANCY with worksheets" appears on-screen below line 27 on Form 8839 itself. If the amount for this line is not zero, you must revisit all the worksheets that support Form 8839 in order to update the calculation on the worksheets so that the worksheet amounts are consistent with the calculations on the form. *(The excluded benefits and taxable benefits will be properly computed even if you don't revisit the worksheets. However, the child-by-child amounts for lines 26 and 27 will be inconsistent with the totals on Form 8839 that control the calculation of the credit.)*
- 27 EXCLUDED BENEFITS.** *(auto-calc)* Computed as line 22 less line 26. Because this result depends on the result for line 26, *you may have to return to this worksheet after the final recalculation of the return in order for the result to be updated from a change in AGI.*

**Modified AGI for claimant.** The IRS uses two slightly different definitions of modified AGI for line 7 in Part II and line 23 in Part III of Form 8839, respectively, as shown on screen 2 and detailed here.

**AGI on Form 1040, line 38.** *(auto-calc)* Taken from Form 1040 as indicated, this is the AGI before any modification.

**Excluded Puerto Rico income.** *(auto-calc)* Taken from your entry below line 22 of Form 1040 for "Puerto Rico income not reported," which is income from Puerto Rico that you did not report as taxable income on the return.

**Excluded American Samoa income.** *(auto-calc)* Taken from your entry below line 22 of Form 1040 for "American Samoa income not reported," which is income from American Samoa that you did not report as taxable income on the return.

**Excluded foreign housing expense.** *(auto-calc)* Taken from Form 1040, this is the part of Form 1040, line 36 that stems from the foreign housing deduction claimed *via* Form 2555.

**Other foreign income excluded.** *(auto-calc)* Taken from Form 1040, this is the part of Form 1040, line 21 that stems from the foreign income and housing exclusion *via* Form 2555 or 2555-EZ. This amount appears as a negative number on Form 1040 (because it is a deduction

from income), but appears here as a positive number (because it is being added back to income for purposes of the modified AGI).

**Modified AGI for line 7.** *(auto-calc)* Computed as the sum of the preceding five amounts, this is the AGI with excluded income added back to income for the purposes of determining the credit on Form 8839 (in Part II of the form). This calculation is based on the chart in the instructions for line 7 in the IRS *2014 Instructions for Form 8839*.

**Adoption benefits in Form 1040, line 7.** *(auto-calc)* Any amount in line 7 of Form 1040 that stems from Part III of this Form 8839 appears here. It will be excluded from the computation of modified AGI for Part III. (In spite of the label, this entry can be negative or positive.)

**Student loan interest deduction.** *(auto-calc)* Taken from Form 1040, line 33.

**Tuition and fees deduction.** *(auto-calc)* Taken from Form 1040, line 34.

**Domestic production deduction.** *(auto-calc)* Taken from Form 1040, line 35.

**Worksheet totals for line 21.** *(auto-calc)* Taken as the total shown on the line "Amounts on line 20" on screen 1 (in the "Summary of worksheets"), this is the amount that will be used for line 21 of Form 8839.

**Modified AGI for line 23.** *(auto-calc)* Computed as "Modified AGI for line 7" *less* "Adoption benefits in Form 1040, line 7" *plus* the sum of the preceding four amounts, this is the AGI with excluded benefits added back to AGI in addition to deductions on lines 33, 34, and 35 of Form 1040, for the purposes of determining excluded and taxable benefits on Form 8839 (in Part III of the form). This calculation is based on the IRS's *Modified AGI Worksheet—Line 23* in the IRS *2013 Instructions for Form 8839*.

**PART II, ADOPTION CREDIT.** This section is fully automatic based on your prior entries on the form and the worksheets.

**Qualified for credit in Part II.** *(auto-calc)* For this answer to be Yes, you must have at least one qualifying child for line 1 with an amount on line 6, have a 2014 "modified AGI for line 7" less than \$237,880, and, if applicable, meet the special requirements for MFS filers.

**1 through 6 See worksheets for line 1.** Lines 1 through 6 of Form 8839 appear only on the worksheets that support line 1 because they must be reported separately for each child.

**Sum of amounts on line 6.** *(auto-calc)* Taken from the amounts on line 6 of all worksheets combined (shown on screen 1).

**7 Modified adjusted gross income.** *(auto-calc)* Taken from "Modified AGI for line 7" shown on screen 2.

**8 Is line 7 more than \$197,880?** *(auto-calc)* Answered as indicated.

**If Yes, subtract from line 7.** *(auto-calc)* Computed as line 7 less \$197,880, but no less than zero.

**9 Divide line 8 by \$40,000.** *(auto-calc)* Computed as indicated, but no more than 1.0, and expressed as a decimal to 4 places.

- 10 Multiply amounts on 6 by line 9.** *(auto-calc)* Computed as indicated, this *total* is not shown on the official form because of the IRS format for the form. However, it is shown here so that the credit is properly computed even when the worksheets have not been updated for a changed AGI.
- 11 Subtract line 10 from line 6.** *(auto-calc)* Computed as indicated, this *total* is also not shown on the official form because of the new IRS format for the form. However, it is shown here so that the credit is properly computed even when the worksheets have not been updated for a changed AGI.
- DISCREPANCY with worksheets.** *(auto-calc)* Computed as the sum of amounts shown on line 11 for all worksheets combined less the above amount for line 11. The above amount is always the correct amount, so an amount here indicates that the calculations on the worksheets are based on a prior AGI, so you must revisit all worksheets for line 1 in order to update their calculations. (The computation of credit at line 12 will be correct even if you fail to update the worksheets when needed, but the child-by-child amounts on the official printout will be inconsistent with the totals used in the computation unless you revisit the worksheets to update them.)
- 12 Add amounts on line 11.** *(auto-calc)* Taken as the preceding total for line 11, this is the tentative adoption credit before adding any carryforward of unused credit from the prior year or reduction by the tax liability limitations.
- 13 Credit carryforward from prior years.** If you have an unused credit from 2013, you must enter the allowed carryforward here. To determine the amount to enter, you must complete the *Adoption Credit Carryforward Worksheet--Line 16* on page 7 of the IRS 2013 Instructions for Form 8839 (not 2014). This will usually be the amount, if any, by which line 14 exceeds line 16 on the 2013 Form 8839, but may be less if you had a carryover of unused credit from 2012 to 2013.
- 14 Add lines 12 and 13.** *(auto-calc)* Computed as indicated.
- Tax from Form 1040, line 47.** *(auto-calc)* Taken from Form 1040 as indicated.
- Credits on Form 1040, lines 48 through 51; Form 5695, line 30; line 12 of the Pub. 972 Line 11 Worksheet; Form 8396, line 9; Form 8910, line 15; and Form 8936, line 23.** *(auto-calc)* Computed as indicated based on the corresponding amounts on page 2 of Form 1040, this is the sum of credits that take precedence over the adoption credit.
- 15 Amount from line 5 of the Credit Limit Worksheet.** *(auto-calc)* Computed as the smaller of line 14 or the tax balance of Form 1040, line 47 less the preceding credits, this is the maximum credit available this year.
- 16 ADOPTION CREDIT** *(auto-calc)* Computed as the smaller of line 14 or line 15, this result is posted to the Form 8839 component of Form 1040, line 54c. If line 14 exceeds line 16, you will have a credit carryforward to next year's Form 8839, which you can determine by completing the *Adoption Credit Carryforward Worksheet--Line 16* on page 7 of the IRS 2014 Instructions for Form 8839.

**PART III, EMPLOYER-PROVIDED ADOPTION BENEFITS.** This section is fully automatic based on your prior entries on the form and the worksheets, except for the last line (on which married taxpayers filing jointly must identify the spouse's part of any taxable benefits or exclusion). Amounts for lines 17 through 20 and line 22 are not shown here because they apply individually to each child, and therefore are seen only on the worksheets for line 1 and the official printouts of Form 8839.

**Qualified for exclusion in Part III.** *(auto-calc)* For this answer to be Yes, you must have at least one qualifying child for line 1 with an amount on line 22, have a modified AGI for line 23 less than \$237,880 for 2014 (\$197,880 plus the \$40,000 phaseout region), and, if applicable, meet the special requirements for MFS filers.

**17 through 20 and 22. See worksheets for line 1.** Lines 17 through 20 and line 22 of Form 8839 *appear only on the worksheets that support line 1* because they must be reported separately for each child.

**21 Add amounts on line 20.** *(auto-calc)* Taken from "Amounts on line 20" on screen 1, this is the sum of amounts on line 20 of all worksheets combined.

**Sum of amounts on line 22.** *(auto-calc)* Taken from "Amounts on line 22" on screen 1, this is the sum of amounts on line 22 of all worksheets combined.

**23 Modified adjusted gross income (from worksheet).** *(auto-calc)* Taken from "Modified AGI for line 23" shown on screen 2.

**24 If line 23 more than \$197,880?** *(auto-calc)* Answered as indicated.

**If Yes, subtract from line 23.** *(auto-calc)* Computed as line 23 less \$197,880, but no less than zero.

**25 Divide line 24 by \$40,000.** *(auto-calc)* Computed as indicated, but no more than 1.0, and expressed as a decimal to 4 places.

**26 Multiply line 22 by line 25.** *(auto-calc)* Computed as indicated, this total is not shown on the official form because of the new IRS format for the form. However, it is shown here so that the excluded and taxable benefits are properly computed even when the worksheets have not been updated for a changed AGI.

**27 EXCLUDED BENEFITS.** *(auto-calc)* Computed as line 22 less line 26, but no less than zero, this total is also not shown on the official form because of the new IRS format for the form. However, it is shown here so that the excluded and taxable benefits are properly computed even when the worksheets have not been updated for a changed AGI.

**DISCREPANCY with worksheets.** *(auto-calc)* Computed as the sum of amounts shown on line 27 for all worksheets combined less the above amount for line 27. The above amount is always the correct amount, so an amount here indicates that the calculations on the worksheets are based on a prior AGI, so you must revisit all worksheets for line 1 in order to update their calculations. (The computation of excluded benefits at line 27 will be correct even if you fail to update the worksheets when needed, but the child-by-child amounts

on the official printout will be inconsistent with the totals used in the computation unless you revisit the worksheets to update them.)

- 28 Add amounts on line 27.** *(auto-calc)* Taken as the preceding total for line 27, this result is posted to screen 10 of Form 1040 in the section titled "CERTAIN NONTAXABLE INCOME." It is not included as taxable income, but it is used in some special calculations in the return.

**Is line 28 more than line 21?** *(auto-calc)* If Yes, you are allowed a reduction in taxable income because of the rules for children with special needs. This exclusion will be reflected in line 29, below, and will result in a reduction in Form 1040, line 7 and the printing of a flag on the official printout of Form 1040 to indicate that the reduction stems from a child with Special Needs.

**Pre-2014 foreign child exclusion.** *(auto-calc)* If any of the worksheets was prepared for a foreign child whose adoption was final in the tax year, the total employer-provided benefits received before 2014 (subject to limitations computed on the worksheet) appear here. The amount on this line is used as an adjustment to line 29 in order to satisfy the special IRS instructions for a foreign child.

- 29 TAXABLE BENEFITS.** *(auto-calc)* Computed as line 21 less line 28 less the amount on the preceding line, this result is posted to screen 7 of Form 1040 and included in the total for line 7 of Form 1040. It is printed on the official printout along with a flag that indicates its source. If positive, the flag is "AB" (for "Adoption Benefits"). If negative, the flag is "SNE" (for "Special Needs") when line 27 is more than line 20, and "PYAB" (for "Prior Year Adoption Benefits") otherwise. ("PYAB" indicates that prior benefits for a foreign child caused line 29 to be negative.)

**Part of line 29 for spouse.** If married, you must identify the portion of line 29 that applies to the spouse alone so that the amount will be properly allocated between you and spouse for the purposes of various unrelated calculations on the return.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8846\* / Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level versions of Tax Preparer and Partnership Edition. (See the separate Partnership Edition manual for details on the version of Form 8822 that is built into the Partnership Edition software.)

**Purpose.** This form is used to claim a credit for social security and Medicare tax paid on tips on behalf of food service employees (to the extent that the tips are not used to meet Federal minimum wage requirements). The result of this form is posted to Form 3800 (the result of which is posted to Form 1040, line 54a). Carryovers are reported on Form 3800 as well, and passive activity and tax liability limitations are applied on Form 3800. (Form 3800 is automatically created when Form 8846 is present upon the final recalculation of the return.) Form 8846 is accessible through the Road Map from screen 4 of Form 3800.

**For the food service industry ONLY.** This special credit is only for food or beverage establishments where tipping of employees is customary for delivering or serving food or beverage. Furthermore, only those tips for which you paid or incurred social security and Medicare tax qualify.

**CAUTION: Additional entries may be required on Form 3800.** Unless you make additional entries on screen 4 of the main Form 3800, the credit is initially assumed to be a Category A credit (General Business Credit from a Non-passive Activity) and posted to line 4f of Copy 2 of Form 3800, Part III. (Copy 2 of Form 3800, Part III, is reserved for the General Business Credit from a Non-passive Activity.) If the credit stems from a passive activity, or you have any carry-forwards or carrybacks, you must indicate on Form 3800 screen 4 that it is not a Category A credit and manually enter the credit on line 4f of the appropriate copy of Form 3800, Part III. Also, if the credit originated from a pass-through entity, you must enter the EIN of the entity on the copy of Form 3800, Part III, that you use.

**1 Tips received by employees on which you paid or incurred employer social security and Medicare taxes during the tax year.** Enter all qualifying tips for the tax year for which you were liable for social security and Medicare taxes.

**2 Tips not subject to the credit provisions.** If you pay any tipped employees less than \$5.15 per hours (which was the federal minimum wage from September 1, 1997 through July 23, 2007), the portion of those tips used to reach the minimum wage is not eligible for the credit. You must determine the amount of ineligible tips separately for each individual as the amount by which total hours worked times the cited minimum wage rate exceeds the actual wages paid excluding tips (but no more than the amount of tips received by the employee).

**3 Creditable tips.** *(auto-calc)* Computed as line 1 less line 2.

**If you had any tipped employees whose wages (including tips) exceeded \$117,000 (or were exempt from social security taxes), ITEMIZE here.** If the sum of wages and tips for any employee exceeds the maximum amount subject to social security tax (\$117,000 for calendar year 2014), some of the tips on line 3 may be subject to only 1.45% tax rather

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## Form 8846

than the full 7.65% tax normally computed for line 4. If so, you must, in a supporting statement for this line, enter the amount in line 3 that is subject *only* to the 1.45% tax in the amount column, and explain how you figured the amount in the text column. The calculation for line 4 is then modified, and, on the official printout, the line 4 check box is marked and your supporting statement is referenced.

**4 Multiply line 3 by 7.65%. (*auto-calc*)** Normally computed as indicated. However, if you have an entry on the preceding line, only the amount on line 3 less the preceding amount is multiplied by 7.65%, then the amount on the preceding line times 1.45% is added to the result. **CAUTION:** *Because you are claiming a credit for this amount on Form 8846, the deduction on your return for social security and Medicare taxes paid on behalf of your employees must exclude this amount. For example, if you normally include the taxes on this line in your entry for line 26 of Schedule C, you must now exclude these taxes from your entry for Schedule C, line 26.*

**5 Form 8846 credits from pass-through entities.** Enter any Form 8846 credits from a pass-through entity shown as code N in box 13 of Schedule K-1 (Form 1120S) from an S corporation or code N in box 15 of Schedule K-1 (Form 1065) from a partnership.

**CAUTION: Additional entry on Form 3800 always required if you have an amount on line 5.** Thanks to the IRS's complex new design of Form 3800, manual entries are now required on Part III of that form when you have credit from a pass-through entity. You must now enter the EIN of the entity in column (b) of line 4f of the copy of Form 3800, Part III, that applies to this credit. (There are 10 copies available to handle the 8 unique IRS categories plus a consolidated copy and an unattached copy.)

**6 Add lines 4 and 5. (*auto-calc*)** Computed as indicated, this is the credit before passive activity or tax liability limitations are applied. Although the IRS form indicates that this result should be posted to line 4f of Form 3800, it is instead posted to screen 4 of the on-screen Form 3800, from which it is posted to line 4f of copy 2 of Form 3800, Part III, unless you specify otherwise on screen 4 of Form 3800, as explained below.

**CAUTION: Additional entries may be required on Form 3800. If this is a general business credit from a non-passive activity, you're done** (unless you have to enter an EIN as noted above). The credit will be automatically posted to screen 3 of Form 3800, and copy 2 of Form 3800, Part III (for category A) will be automatically created with the result from line 6, above, posted to line 4f of Form 3800, Part III. **But if the credit is from a passive activity, you must indicate this fact by an entry on screen 4 of Form 3800 and then enter the result from line 6, above, on the copy of Form 3800, Part III that applies to your credit.**

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8853\* / Archer MSAs & Long-Term Care Insurance Contracts**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to report contributions to Archer MSAs and figure the corresponding deduction, and to report taxable distributions and payments from MSAs and long-term care (LTC) insurance contracts. Form 8853 is accessible through the Road Map at MSA, MedMSA, and LTC components of line 21 of Form 1040, the MSA component of line 36 of Form 1040, and the MSA and MedMSA components of line 62c of Form 1040.

**Beware complexities.** So many aspects of the form defy intuition, especially for joint returns where both spouses have MSAs or LTCs, that you may be tempted to use overrides on illogical results. If you experience such a temptation, it is very important that you read these instructions and the 8-page IRS instructions for this form, because our calculations and printouts may be much more sophisticated than you realize. Unexpected results can arise when both spouses have MSAs, or a taxpayer inherits an MSA, or there is only a partial exception to the 50% penalty, or there is more than one LTC policyholder. (The difficulties arise because the form is physically designed to handle only the simple cases, but it is used for much more through convoluted IRS instructions.)

**Limitations for e-file.** Because of the complexities for married taxpayers filing jointly who both have Archer MSAs, you will not be able to e-file the return under certain circumstances; see "*Exception for e-file*" in our details for the headings for Section A and Section B. Similarly, you will not be able to e-file the return if more than one Section C must be filed; see "*Exception for e-file*" in our details for the line "More than one Section C attached?" in Section C.

**Information on YOUR Archer MSA (for Section A).** All of the information required for contributions and most of the information required for distributions are entered here. The first screen of entries relates to YOUR MSA, and the second screen relates to SPOUSE'S MSA. CAUTION: Every answer is important for this complex form, so don't skip what you don't understand.

**Dependent on another return.** (*auto-calc*) Taken from your answer on Form 1040. You cannot deduct any contributions to an Archer MSA if you can be claimed as a dependent on someone else's return.

**Your age (from Form 1040).** (*auto-calc*) Taken from your entry on Form 1040.

**Number of months contributions NOT allowed.** Eligibility to make contributions to an Archer MSA is determined monthly, on the 1<sup>st</sup> day of each month. Therefore, you must *enter here the number of full months in which you were ineligible to contribute to an Archer MSA.* (This entry is used to proportionately reduce the limitation for line 3 as your entry rises from 0 to 12, in accordance with the IRS Line 3 Worksheet.)

Example 1: You are ineligible for months in which you are enrolled in Medicare. Therefore, if you first enroll in Medicare on January 2 of the tax year, you should enter 11 here. (Formerly, you could not make contributions for the months in which you were eligible for Medicare, but now you are allowed to make contributions unless enrolled in Medicare.)\_

Example 2: You are ineligible to make contributions to an Archer MSA if you can be claimed as a dependent on someone else's return. Therefore, your entry here will always be forced to 12 if you are a dependent of another.\_

Example 3: You are ineligible for all months prior to establishing the HDHP. Furthermore, if you established it after the 1<sup>st</sup> of the month, you are ineligible for that month. Accordingly, if you established the HDHP on February 2, 2014, you must enter 2 here because you are ineligible for January and February, 2014.\_

**Uninsured when the Archer MSA was established?** Answer Yes only if the account holder was previously uninsured at the time the MSA was established. See IRS instructions for details.

**Does HDHP cover Family?** An Archer MSA can only be set up for an employee of a small business (or self-employed) who has a High Deductible Health Insurance Plan (HDHP). Answer Yes only if the coverage for this plan is family coverage rather than self-only. If you have more than one plan and one is a family plan, answer Yes here and answer all succeeding questions for that plan alone.

**Annual deductible for plan.** By the rules for Archer MSAs, for 2014 the deductible is \$4,350 to \$6,550 for family coverage and \$2,200 to \$3,250 for self-only coverage. The software ensures that your entry lies in this range based on your answer to the preceding question.

**% used in line 3 worksheet.** (auto-calc) The limitation on contributions is based on a percentage of the deductible for the plan. The percentage is usually 75% for family coverage and 65% for self-only coverage. *However, if married filing separately, the percentage for family coverage is nominally 37.5% (half of 75%), but you can override this line with a different fraction of 75% as long as the percentage for you and spouse combined is 75%.*

**Limitation per line 3 worksheet.** (auto-calc) The IRS instructions include a *Line 3 Limitation Chart and Worksheet* that helps you determine the limitation on contributions at line 3 of Form 8853. The software computes the limitation using that worksheet under the assumption that, for the months you are eligible, your deductible is the same every month throughout the year. If this assumption is not valid for your case, you may have to override the result that appears here with a manual calculation using the IRS worksheet. This result is proportionately reduced when "Number of months contributions NOT allowed" is greater than zero, and reduced to zero when the number is 12.

**Earned income on Form 1040.** (auto-calc) Computed from amounts throughout the return, this is earned income attributed to you from wages and self-employment. This and the next few lines are used to

determine your compensation applicable to the Archer MSA. This compensation has an effect on Form 8853 only if your contributions for the year exceeded your wages (or self-employment income) for the job (or business) under which the plan was established.

**Wages included in the above.** *(auto-calc)* This is the part of Form 1040 line 7 attributed to you.

**Net self-employment.** *(auto-calc)* Computed as your earned income less your wages.

**HDHP employer-maintained?** If the Archer MSA applies to your work as an employee, you must answer Yes here. The answer is automatically Yes if the preceding two lines show that there are wages but no self-employment income. Conversely, the answer is automatically No if the preceding two lines show that there is self-employment income but no wages.

**Tentative compensation.** *(auto-calc)* Taken as your wages if the preceding answer is Yes, and taken as your net self-employment income if not.

**Adjustment for multiple sources.** If your wages are used above but you have more than one job, you must enter a negative number here to subtract out wages from all jobs other than the one under which the Archer MSA was established. Conversely, if your self-employment income is used and you have more than one trade or business, you must enter an adjustment to remove all self-employment income other than the amount related to the trade or business under which the Archer MSA was established.

**Compensation for line 4.** *(auto-calc)* Computed as the "Tentative compensation" less the preceding adjustment.

**Your Archer MSA contributions for 2014.** Enter only the contributions *you* made to your Archer MSA, including those made for 2014 in the period January 1, 2015 through April 15, 2015, but do not include rollovers. Be sure to include any direct deposits made to your Archer MSA for economic stimulus payments. This amount will be used for line 2 of your contribution to Section A, Part I of Form 8853. Do *not* include contributions made by your employer. **CAUTION:** *Contributions for 2009 and later can be made only if you were an active Archer MSA participant before 2009 or you became a participant in 2009 or later under a high deductible health plan of an Archer MSA participating employer.*

**Employer's Archer MSA contributions for 2014.** Enter the contributions your employer made to your Archer MSA. This amount will be used for line 1 of your contribution to Section A, Part I of Form 8853. If your employer made any contributions during the year, you are not allowed to make any contributions. Any contributions you make are considered excess contributions and must be withdrawn.

**Distributions from your Archer MSAs in 2014.** Enter the total distributions received. This amount should be reported to you in box 1 of a Form 1099-SA with Archer MSA checked in box 5. This amount will be used in line 6a of Section A, Part II of Form 8853. **CAUTION:** *If this*

*amount includes any amount rolled over into another Archer MSA or includes a timely withdrawal of a prior excess contribution, be sure to include that amount in your entry for Form 8853, Sec. A, Part II, line 6b so that you will not be taxed on it.*

**Amount received after died, or disabled, or over 65.** Any amounts distributed after the account holder died, became disabled, or turned 65 are not subject to a 20% additional tax for not being used for qualified medical expenses. If "Your age at end of tax year" on our Form 1040 is 66.01 or more, this entry is automatically the same as the preceding entry. (Remember that the age entry is based on the age on January 1 of the following year.) Otherwise you can enter any amount up to the preceding entry. This amount is taken into account in the computation of the penalty at line 9b.

**FMV of benefactor's Archer MSA at time of death.** If you inherited an Archer MSA from someone other than your spouse, the entire MSA must be distributed to you. You must therefore enter the fair market value (FMV) of the account at the time of your benefactor's death, and the amount will be included in line 6a. In addition, no penalty applies to this distribution, so this amount is taken into account when computing the 20% additional tax at line 9b. *An entry here will cause "DEATH MSA ACCT HOLDER" to be printed above the taxpayer's name(s) near the top of Form 8853 to flag to the IRS that you are reporting a distribution from a deceased benefactor.*

**Information on SPOUSE'S Archer MSA (for Section A).** This section is identical to the section for YOUR Archer MSA except that amounts for spouse's MSA are used. Line by line details are therefore omitted here. (Amounts you enter here have no effect on the return unless married filing jointly.)

**SECTION A, ARCHER MSAs.** The information you supplied above is used to automatically complete all of Section A except for a couple of entries in Part II (concerning distributions you received). Only Archer MSAs are reported here. Medicare Advantage MSAs (formerly called Medicare+Choice MSAs) are reported in Section B. *Exception for e-file: If married filing jointly and both spouses have self-only coverage with contributions in 2014, you will not be able to e-file the return because multiple Forms 8853 are required, which the software does not support. Instead, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation. (For more information on this exception, see our details for "Above used for filed Form 8853?" on the next page.)*

**GENERAL INFORMATION.** This section, which is comprised solely of questions, is automatically completed based on your entries on the preceding screens. Note that answers in lines d, e, and f can be Yes only if married filing jointly. (These questions appeared on the official Form 8853 for tax years prior to 2009. Although they are no longer on the official form, we retain them so you can confirm the validity of your prior entries.)

**Your Archer MSA for Part I.** This section is automatically completed based on your entries on the preceding screens, but there are some important subtleties to note because of the complexity of Form 8853.

- 1 Total employer contributions.** *(auto-calc)* Taken from your entry for “Employer Archer MSA contributions for 2014.”
- 2 Contributions you made for 2014.** *(auto-calc)* Taken from your entry for “Your Archer MSA contributions for 2014.” Note that this entire amount will constitute an excess contribution subject to penalty if line 1 shows an amount.
- 3 Limitation from worksheet for line 3.** *(auto-calc)* Taken from the previous result for this limitation, but zero if no contributions are shown on line 1 or line 2.
- 4 Compensation from employer maintaining the HDHP.** *(auto-calc)* Taken from the previous result for “Compensation for line 4,” your contribution cannot exceed this amount.
- 5 Archer MSA deduction.** *(auto-calc)* Normally computed as the smallest of line 2, 3, or 4. However, the result will be zero whenever there is an amount on line 1, since your contributions are not deductible if your employer contributed to your Archer MSA.

**Above used for filed Form 8853.** *(auto-calc)* If you use any filing status other than married filing jointly, the answer is Yes if there is an amount on line 1 or 2, and the above results will appear on the printed Form 8853. By contrast, the IRS instructions are quite involved for joint filers when it comes to what is actually reported. For example, if you have self-only coverage but your spouse has family coverage, the answer here will be No and only the spouse’s numbers will be used on the form. If you both have family coverage, only the one with the lower deductible is reported. *But if you both have self-only coverage, and both have contributions, each set of amounts will be detailed on separate pages of Form 8853 page 1, and the main Form 8853 will show entries only for lines 1, 2, and 5. See IRS instructions for details. You will not be able to e-file the return if this special case applies to you.*

**Your excess contributions.** *(auto-calc)* Computed as the amount on line 2 less the amount on line 5 when this section is used for filing. Otherwise taken as the entire amount on line 2 because this is not the Archer MSA recognized by the IRS. CAUTION: If an amount appears here, see the shaded box on the next page for instructions on reporting this excess.

**Employer excess contributions.** *(auto-calc)* Computed as the amount on line 1 less the lesser of lines 1, 3, or 4 when this section is used for filing. Otherwise taken as the entire amount on line 1 because this is not the Archer MSA recognized by the IRS. CAUTION: If an

amount appears here, see the shaded box on the next page for instructions on reporting this excess.

**Spouse Archer MSA for Part I.** This section is also automatically completed based on your entries on the preceding screens, and uses the same computations as the section for You except that all lines are zero if not married filing jointly. It is therefore not separately detailed here.

**PART I, ARCHER MSA CONTRIBUTIONS AND DEDUCTIONS.** This part is used to claim a deduction for contributions you make to your Archer MSA. It is automatically completed based on the preceding two sections. While other copies of Form 8853 page 1 may print with the official return, this is the primary one, which is printed first. How the lines are computed depends on the answers for "Above used for filed Form 8853."

- 1 Total employer contributions. (auto-calc)** The amount that appears here is taken from your or spouse's results if only one of the two is used for filing, otherwise it is the *sum* of the two amounts.
- 2 Contributions you made for 2014. (auto-calc)** The amount that appears here is taken from your or spouse's results if only one of the two is used for filing, otherwise it is the *sum* of the two amounts.
- 3 Limitation from worksheet for line 3. (auto-calc)** The amount that appears here is taken from your or spouse's results if only one of the two is used for filing, otherwise it is *zero*.
- 4 Compensation from employer maintaining the HDHP. (auto-calc)** The amount that appears here is taken from your or spouse's results if only one of the two is used for filing, otherwise it is *zero*.
- 5 Archer MSA deduction. (auto-calc)** The amount that appears here is taken from your or spouse's results if only one of the two is used for filing, otherwise it is the *sum* of the two amounts. This result is automatically posted to the MSA line above line 36 of Form 1040 Page 1, and reduces the AGI for the return.

In addition to the primary Form 8853, *there will be two additional copies of Form 8853 printed with the official return if married filing jointly and both spouses amounts are used for filing* (as indicated by Yes answers for both spouses for "Above used for filed Form 8853"). These extra copies are identified by the word STATEMENT appearing above the social security number for the form and at the end of the heading for Section A, Part I, of Form 8853. Each copy will show results for one spouse alone, as backup for the primary Form 8853. This procedure conforms to the unconventional method in the IRS Form 8853 Instructions.

**How to handle excess contributions.** If an amount appears on any of the “excess contribution” lines in the details for Part I for you or spouse, you are subject to a 6% penalty tax on the amount. However, you are allowed to withdraw the amount with no penalty if you do so by the due date of the return (including extensions) and withdraw any earnings on the amount as well. How you report the excess depends on whether or not you take advantage of this exception:

- ◆ **If you do NOT withdraw the excess on time...** you must report the excess as income on line 21 of Form 1040 unless it was included in box 1 of a W-2. If you need to report it you should enter it in a supporting statement for the line “Other Unearned” above line 21 of Form 1040 for the appropriate spouse. This amount will therefore be subject to ordinary income tax. You must also report the amount on line 39 of the Form 5329 for the appropriate spouse. A 6% penalty will be applied there and reflected on Form 1040 line 59.
- ◆ **If you DO withdraw the excess on time...** you should exclude it from your entries for contributions on Form 8853, as if the contribution had never occurred. However, if the amount you withdraw for this purpose is reported to you in box 1 of a Form 1099-SA with Archer MSA checked in box 5, you must report the withdrawal as a distribution on both lines 6a and 6b of Form 8853 for the tax year to which the Form 1099-SA applies. This amount will be subject to neither a penalty nor any other kind of taxation.

Note that you can also take advantage of the exception after you file by filing an amended return to report a withdrawal within 6 months after the due date of the return (including extensions). You would revise both Forms 5329 and 8853 in such an amended return.

**PART II, ARCHER MSA DISTRIBUTIONS.** This section is used to report distributions you receive from your Archer MSA, which is subject to taxation and an additional penalty unless an exception applies.

**Distributions from Archer MSAs.** *(auto-calc)* Taken from your previous entry for “Distribution from your Archer MSAs” for you (and spouse if married filing jointly).

**FMV of benefactor’s Archer MSA at time of death.** *(auto-calc)* Taken from your previous entry for “FMV of benefactor’s Archer MSA at time of death” for you (and spouse if married filing jointly). *If an amount appears here, “DEATH MSA ACCT HOLDER” will be printed above the taxpayer’s name near the top of Form 8853 to flag to the IRS that you are reporting a distribution from a deceased benefactor.*

**6a Distributions you and spouse received in 2014 from all Archer MSAs.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**6b Distributions included in line 6a that you rolled over into another Archer MSA or a health savings account (HSA).** In addition to qualified rollovers, enter any amount included in line 6a for the timely withdrawal of a prior excess contribution (and earnings on it). *Be sure to include any direct deposits made to your Archer MSA for economic stimulus payments that you withdrew on time.*

**6c Subtract line 6b from line 6a.** *(auto-calc)* Computed as indicated.

**Unreimbursed qualified medical expenses.** Generally, enter the part of line 6c that you used to pay for qualified medical expenses for you, your spouse, or your dependents. However, see IRS instructions for restrictions. *CAUTION: Any amount you enter here cannot be claimed as an itemized deduction on Schedule A.*

**Decedent's qualified medical expenses.** Enter the amount of qualified medical expenses incurred by the above benefactor before his or her death that you paid within 1 year of death. This entry can be no more than the FMV of the benefactor's Archer MSA on the date of death. *CAUTION: Any amount you enter here cannot be claimed as an itemized deduction on Schedule A.*

- 7 Unreimbursed qualified medical expenses.** *(auto-calc)* Computed as the sum of the preceding two amounts. *CAUTION: Because you are claiming a credit for this amount on this form, you cannot include this amount in Part I of your Schedule A.*

**Your and spouse's taxable distributions.** *(auto-calc)* Computed as "Distributions from Archer MSAs" (without the decedent's amount) less line 6b and less "Unreimbursed qualified medical expenses" (without the decedent's amount). This amount is generally subject to a 20% penalty tax unless you previously identified an amount distributed due to death, disability, or age.

**Decedent's taxable distributions.** *(auto-calc)* Computed as "FMV of benefactor's Archer MSA at time of death" less "Decedent's qualified medical expenses." This entire amount is exempt from the 20% penalty tax.

- 8 TAXABLE ARCHER MSA DISTRIBUTIONS.** *(auto-calc)* Computed as line 6c less line 7, but no less than zero. This result is posted to the special "MSA" line for line 21 of Form 1040 for inclusion with other income.

**Your and spouse's exception to the 20% additional tax.** *(auto-calc)* Taken from your prior entry for "Amount received after died, or disabled, or over 65" for you (and spouse if married filing jointly), which is the only part of your taxable distributions excepted from the penalty.

**Decedent's exception to the 20% additional tax.** *(auto-calc)* Computed as the entire amount for "Decedent's taxable distributions," all of which is excepted from this penalty.

- 9a Any of the distributions in line 8 meet an exception to the additional 20% tax.** *(auto-calc)* Answered Yes if there is an amount on either of the preceding two lines.

- 9b ADDITIONAL 20% TAX.** *(auto-calc)* Computed as 20% of the amount on line 8 less the sum of the preceding two exceptions, this amount is posted to the special "Archer MSA" line above line 62 of Form 1040 for inclusion with other taxes.

**Information on YOUR Medicare Advantage MSA (for Section B).** All of the information required for reporting distributions from your Medicare Advantage MSA (formerly called Medicare + Choice MSA) are entered here. Although this

section follows the format of Section B, the determination of what to include on the filed Form 8853 comes later.

**Distributions from your Medicare Advantage MSAs in 2014.** Enter the total distributions received. This amount should be reported to you in box 1 of a Form 1099-SA for which Archer MSA is checked in box 5. ***CAUTION: Do NOT include rollovers into another Medicare Advantage MSA nor withdrawals for prior erroneous contributions.***

**Amount received after died or disabled.** Any amounts distributed after the account holder died or became disabled are not subject to a 50% additional tax for not being used for qualified medical expenses. You can enter any amount up to the preceding entry. This amount is taken into account in the computation of the penalty at line 13b. (Unlike Archer MSAs, the age exception does not apply here.)

**FMV of benefactor's Medicare Advantage MSA at time of death.** If you inherited a Medicare Advantage MSA from someone other than your spouse, the entire MSA must be distributed to you. You must therefore enter the fair market value (FMV) of the account at the time of your benefactor's death, and the amount will be included in line 10. In addition, no penalty applies to this distribution, so this amount is taken into account when computing the 50% additional tax at line 13b. *An entry here will cause "DEATH MSA ACCT HOLDER" to be printed above the taxpayer's name(s) near the top of Form 8853 to flag to the IRS that you are reporting a distribution from a deceased benefactor.*

**10 Total distributions you received in 2014 from all Medicare Advantage MSAs.** *(auto-calc)* Computed as the sum of "Distributions from your Medicare Advantage MSAs" and "FMV of benefactor's Medicare Advantage MSA at time of death."

**Unreimbursed qualified medical expenses.** Generally, enter the part of line 10 that you used to pay for qualified medical expenses for you, your spouse, or your dependents. However, see IRS instructions for restrictions. *CAUTION: Any amount you enter here cannot be claimed as an itemized deduction on Schedule A.*

**Decedent's qualified medical expenses.** Enter the amount of qualified medical expenses incurred by the above benefactor before his or her death that you paid within 1 year of death. This entry can be no more than the FMV of the benefactor's Medicare Advantage MSA on the date of death. *CAUTION: Any amount you enter here cannot be claimed as an itemized deduction on Schedule A.*

**11 Unreimbursed qualified medical expenses.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**Your taxable distributions.** *(auto-calc)* Computed as "Distributions from Medicare Advantage MSAs" (without the decedent's amount) less "Unreimbursed qualified medical expenses" (without the decedent's amount). This amount is generally *subject to a 50% penalty tax* unless you previously identified an amount distributed due to death or disability.

**Decedent's taxable distributions.** *(auto-calc)* Computed as "FMV of benefactor's Medicare Advantage MSA at time of death" less "Decedent's qualified medical expenses." This entire amount is exempt from the 50% penalty tax.

**12 TAXABLE MEDICARE ADVANTAGE MSA DISTRIBUTIONS.** *(auto-calc)* Computed as line 10 less line 11, but no less than zero.

**Your exception to the 50% additional tax.** *(auto-calc)* Taken from your prior entry for "Amount received after died or disabled" for you (and spouse if married filing jointly), this is the nominal exception. However, if this amount is less than "Your taxable distributions," the IRS instructs you to use a special worksheet to determine the excepted amount. This IRS worksheet (Additional 50% Tax Worksheet—Line 13b) can result in a higher exception than the nominal amount when the MSA has a value at the beginning of the tax year.

**Value of the Medicare Advantage MSA on December 31, 2013.** This entry is relevant only when the exception on the preceding line is less than the entire distribution. Enter the value at the end of the prior tax year.

**Annual deductible on January 1, 2014.** Similarly, this entry is relevant only when the exception is less than the entire distribution. Enter the annual deductible at the beginning of the current tax year.

**Decedent's exception to the 50% additional tax.** *(auto-calc)* Computed as the entire amount for "Decedent's taxable distributions," all of which is excepted from this penalty.

**13a Any of the distributions in line 12 meet an exception to the additional 50% tax.** *(auto-calc)* Answered Yes if there is an amount on either of the preceding two lines.

**13b ADDITIONAL 50% TAX.** *(auto-calc)* Normally computed as 50% of the amount on line 12 less the sum of the preceding two exception amounts, but the computation is more complex for partial exceptions, as noted above.

**Information on SPOUSE'S Medicare Advantage MSA (for Section B).** This section is completely analogous to the section for YOUR Medicare Advantage MSA, and so is not detailed here. Note that amounts you enter here have no effect on the return unless married filing jointly.

**SECTION B, MEDICARE ADVANTAGE MSA DISTRIBUTIONS.** This part is used to report taxable distributions from and penalty taxes on Medicare Advantage MSAs. It is automatically completed based on the preceding two sections (for you and spouse). If both spouses have distributions from their Medicare Advantage MSAs, two additional copies of Form 8853 page 1 are printed with the official return to show each spouse's amounts (in the previous sections). However, the primary Form 8853, which is printed first, shows the sum of amounts from the two additional copies. Exception for e-file: *If married filing jointly and both spouses have distributions from their Medicare Advantage MSAs, you will not be able to e-file the return because multiple Forms 8853 are required, which the software does not support. Instead, you must file a paper return and*

include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.

- 10 Total distributions you received in 2014 from all Medicare Advantage MSAs.** *(auto-calc)* Computed as the amount for the corresponding line for your Medicare Advantage MSAs (plus spouse's amount if married filing jointly).
- 11 Unreimbursed qualified medical expenses.** *(auto-calc)* Computed as the amount for the corresponding line for your Medicare Advantage MSAs (plus spouse's amount if married filing jointly).
- 12 TAXABLE MEDICARE ADVANTAGE MSA DISTRIBUTIONS.** *(auto-calc)* Computed as the amount for the corresponding line for your Medicare Advantage MSAs (plus spouse's amount if married filing jointly). *This result is posted to the special "MedMSA" line for line 21 of Form 1040 for inclusion with other income.*
- 13a Any of the distributions in line 12 meet an exception to the additional 50% tax.** *(auto-calc)* Normally from the answer for the corresponding line for your Medicare Advantage MSAs. But if married filing jointly, answered Yes is either spouse's answer is Yes.
- 13b ADDITIONAL 50% TAX.** *(auto-calc)* Computed as the amount for the corresponding line for your Medicare Advantage MSAs (plus spouse's amount if married filing jointly). *This result is posted to the special "MedMSA" line above line 62 of Form 1040 for inclusion with other taxes.*

**SECTION C, LONG-TERM CARE (LTC) INSURANCE CONTRACTS.** This part is used to report taxable periodic payments from an LTC insurance contract or accelerated death benefits from a life insurance policy. Only the policyholder reports the payments on this form, even if the payments are assigned to someone else. See IRS instructions for details on what constitutes a qualified contract or policy, and what constitutes a per diem or periodic payment.

**Is spouse the policyholder (vs. you)?** Identify which spouse is the policyholder so that the proper SSN is printed on page 2 of Form 8853. If both spouses own policies, answer No here so that the SSN of the primary taxpayer is used.

**Itemize HERE for Section C.** *(Supported by the Long-Term Care Worksheet, Figure 2-70.)* The number of worksheets on which you reported qualified LTC payments or accelerated death benefits appears here. You must use a separate worksheet for each separate insured or policy.

**More than one Section C attached.** *(auto-calc)* Answered Yes if the preceding line shows that 2 or more worksheets have been completed. If Yes, only the total of line 26 from all worksheets appears on the official printed Form 8853, and all details appear only in supporting statements, which duplicate the look of Section C. *Exception for e-file: If the answer to this question is Yes, you will not be able to e-file the return because multiple Sections C are required, which the software does not support. Instead, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation.*

17 **Gross LTC payments received.** (*auto-calc, supported by the Long-Term Care Worksheet, Figure 2-70.*) The total from all worksheets appears here.

18 through 25. (*labels only*) The entries for these lines are shown only on the supporting worksheets. When only one worksheet is completed they also appear on the official printed Form 8853.

26 **TAXABLE PAYMENTS.** (*auto-calc, supported by the Long-Term Care Worksheet, Figure 2-70.*) The total from all worksheets appears here. *This total is posted to the LTC component of line 21 of Form 1040 for inclusion with other income.*

**Long-Term Care Worksheet.** (*Figure 2-70*) Use a separate worksheet for each separate insured or policy. See the chart in IRS instructions titled "Filing Requirements for Section C" to determine which lines to complete.

14a **Name of insured.** Enter the name in 25 characters or less.

14b **SSN of insured.** Enter in the standard xxx-xx-xxxx format.

15 **In 2014, did anyone other than you receive payments?** Answer Yes only if another person received per diem or periodic payments under a qualified LTC contract for the same insured person or received accelerated death benefits for the same person. *If Yes, you must follow special procedures detailed in the IRS instructions.*

16 **Was the insured terminally ill?** The insured must have been certified by a physician as reasonably expected to die within 24 months of the diagnosis of illness. If Yes, and accelerated death benefits were received, you should *complete only lines 16a through 19* of the worksheet.

17 **Gross LTC payments received.** Enter total payments received on a per diem or other periodic basis. The amount should be shown in box 1 of a Form 1099-LTC that has the "Per diem" box checked in box 3.

18 **Part of line 17 from qualified LTC insurance contracts.** If zero and no accelerated death benefits were received, you should NOT be completing Form 8853 for the LTC payments. Instead, you should report them all as income in a supporting statement for "Other Unearned" at line 21 of Form 1040.

LONG-TERM CARE WORKSHEET	
14a Name of insured	
14b SSN of insured: .....	
15 In 2014, another rcvd pmts? No	
16 was insured terminally ill? No	
17 Gross LTC payments received	0
18 Part from QLFD LTC contract	0
19 Accel'd death benefits rcvd	0
20 Add lines 18 and 19.....	0
No. of days in LTC period	0
21 Multiply 330 by days in per	0
22 Costs for qlfd LTC services	0
23 Larger of line 21 or ln 22.....	0
24 Reimb's for qlfd LTC srvcs.	0
25 Per diem limitation.....	0
26 TAXABLE PAYMENTS.....	0
This worksheet counted.....	0

19 **Accelerated death benefits received.** Enter total payments received on a per diem or other periodic basis. Do *not* include payments for the terminally ill.

2-70 Figure 2-70. Long-Term Care Worksheet

**20 Add lines 20 and 21. *(auto-calc)*** Computed as indicated.

**Number of days in the LTC period.** You can base this entry on either the Contract Period method or the Equal Payment Rate method. See IRS instructions for details.

**21 Multiply \$330 by the number of days in the LTC period.. *(auto-calc)***  
Computed as 330 times the preceding entry.

**22 Costs incurred for qualified LTC services.** Enter the amount for services for the insured in the LTC period.

**23 Larger of line 21 or line 22. *(auto-calc)*** Computed as indicated.

**24 Reimbursements for qualified LTC services provided.** Enter the amount for services for the insured in the LTC period.

**25 Per diem limitation. *(auto-calc)*** Computed as line 23 less line 24, but no less than zero.

**26 TAXABLE PAYMENTS. *(auto-calc)*** Computed as line 25 less line 20, but no less than zero. This is the amount that must be reported as income on the return.

**This worksheet counted. *(auto-calc)*** Answer Yes if line 16, 17, 18, or 19 has an entry. If No, the worksheet will not be counted and will not be printed with the return.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8862\* / Information to Claim Earned Income Credit  
After Disallowance**

**\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is required in conjunction with a claim for the Earned Income Credit (From 1040, line 66a) if any earned income credit you claimed since 1996 was reduced or disallowed by the IRS for any reason other than a math or clerical error. It is *not required unless your earned income credit was reduced or disallowed after 1996*. The form is an informational form only and is not used in the calculations of any other form. Accordingly, Form 8862 is *accessible only from the Forms Menu (as Form 71) and not through the Road Map*.

**When it is NOT required.** This form should *not* be filed if your Earned Income Credit (EIC) was never reduced or disallowed by the IRS after 1996, *or* you have already filed a Form 8862 and had your EIC allowed since the event, *or* your disallowance was because you had no qualifying child and you are now claiming only the childless EIC, *or* you have no valid claim for EIC on the current return.

**Complete the return FIRST.** Because this form is not relevant if you are not eligible for the EIC on the current return, the software prevents you from completing the form if you are not eligible for the EIC. Therefore, you *must* complete the return before you make any entries on this form. Once the return is complete and final calculations have been performed, the automation built into Form 8862 will be proper and your entries will be accepted when appropriate. (You can force final calculations by pressing the Recalc Key, shift-F8 or ctrl-B, while viewing the return.)

**PART I, ALL FILERS.** Your eligibility to use Form 8862 form is checked here.

**1 Enter the year for which you are filing this form.** *(auto-calc)* Taken from your entry on the Control Form, this is the tax year of the return.

**Were you a qualifying child of another person during the tax year?** *(auto-calc)* Taken from your entry on the first screen of Form 1040. You are not eligible for the EIC or Form 8862 if Yes.

**Was spouse a qualifying child of another person during the tax year?** *(auto-calc)* Taken from your entry on the second screen of Form 1040. If married filing jointly you are not eligible for the EIC or Form 8862 if the answer for spouse is Yes.

**2 Was the ONLY reason your EIC was reduced or disallowed in an earlier year because you incorrectly reported your earned income or investment income?** If Yes, you do *NOT* have to complete the rest of Form 8862, but you *DO* have to file the form to show this answer.

**3 Could you (or your spouse if filing jointly) be claimed as a qualifying child of another person for the year shown in line 1?** *(auto-calc)* If married filing jointly, answered Yes if either of the answers to the questions following line 1 is Yes. Otherwise taken as the answer for you alone.

**Schedule EIC must show eligibility before using Form 8862:**

**Eligible for childless credit.** *(auto-calc)* Taken from screen 2 of Schedule EIC, this determination is based on the age(s) of the taxpayer(s) in accordance with IRS Form 8867.

**Eligible for child credit.** *(auto-calc)* Taken from screen 2 of Schedule EIC, this determination is based on the Dependent Worksheets completed for line 6c of Form 1040 in accordance with IRS Form 8867.

**Eligible for EIC this year.** *(auto-calc)* Answered Yes if either of the preceding two answers is Yes.

**Past EIC disallowed or reduced?** Answer Yes only if you are required to file Form 8862 because of a prior disallowance or reduction of EIC as explained previously (after 1996).

**If Yes, was nonqualifying child the reason?** Answer Yes if your full claim for EIC would have been allowed in the year it was disallowed or reduced if the claimed children were qualified.

**ELIGIBLE TO USE FORM 8862.** *(auto-calc)* Normally taken as your answer to "Past EIC disallowed or reduced." However, *if qualified for the childless credit*, a Yes answer to "If Yes, was nonqualifying child the reason" will cause the answer here to be No. Form 8862 should not be filed and cannot be completed if the answer is No.

**PART II, FILERS WITH A QUALIFYING CHILD OR CHILDREN.** You must be eligible for the child credit and be required to file Form 8862 to use this part. You must complete this part for up to 3 children (depending on the number of children you are claiming this year).

**ANSWERS FOR CHILD 1.** You must supply the following information for the EIC-qualified child that is first among the Dependent Worksheets you completed for Form 1040 line 6c.

**Eligible to use this part?** *(auto-calc)* Answered Yes only if at least one qualifying child is used on Schedule EIC.

**4 Enter the number of days child 1 lived with you in the United States during the year shown on line 1.** If you enter less than 183 (184 for leap years), you cannot take the EIC for this child, unless the child was born or died during the year as indicated by your entries on line 5.

**5 (1) If child 1 was born during the year shown on line 1:**

**Enter month of birth.** Enter the 2-digit number for the month born.

**Enter day of birth.** Enter the 2-digit number for the day born.

**(2) If child 1 died during the year shown on line 1:**

**Enter month of death.** Enter the 2-digit number for the month died.

**Enter day of death.** Enter the 2-digit number for the day died.

\* **Is child 1 eligible for EIC?** *(auto-calc)* Answered Yes only if "Eligible to use this part?" above is Yes and either line 4 is at least 183 (184 for leap years) or you have an entry on line 5.

**6 Enter addresses where you and child 1 lived together during the year shown on line 1 by itemizing addresses here.** *(Supported by the Address Where Lived with Child Worksheet, Figure 2-71)* You must enter all addresses in the supporting worksheets. If only one address is entered it will be printed directly on the form; otherwise all addresses will appear in a supporting statement for Form 8862 and cross-referenced on the form.

**7 Did any other person live with child 1 for more than half the year shown in line 1?** Answer No if the only other person was a spouse with whom you file jointly and the child was under age 19. If you answer Yes here you must identify the person(s) in a supporting statement for the next line.

If "Yes," enter that person's name and relationship to child 1 **by itemizing identity here.** *(Supported by the Other Person Who Lived with Child Worksheet, Figure 2-72)* You must identify all other applicable persons in the supporting worksheets. If only one person is identified, the identity will be printed directly on the form; otherwise all identities will appear in a supporting statement for Form 8862 and cross-referenced on the form.

**ANSWERS FOR CHILD 2.** You must supply the following information for the EIC-qualified child that is second among the Dependent Worksheets you completed for Form 1040 line 6c. This part is similar to that for child 1 except for additional questions that make it unnecessary to duplicate entries for lines 6 and 7 when they are the same as those for child 1.

**Eligible to use this part?** *(auto-calc)* Answered Yes only if at least two qualifying children are used on Schedule EIC. If No, you cannot complete this part of the form.

**4 Enter the number of days child 2 lived with you in the United States during the year shown on line 1.** If you enter less than 183 (184 for leap years) you cannot take the EIC for this child, unless the child was born or died during the year as indicated by your entries on line 5.

**5 (1) If child 2 was born during the year shown on line 1:**

**Enter month of birth.** Enter the 2-digit number for the month born.

**Enter day of birth.** Enter the 2-digit number for the day born.

**(2) If child 2 died during the year shown on line 1:**

**Enter month of death.** Enter the 2-digit number for the month died.

**Enter day of death.** Enter the 2-digit number for the day died.

\* **Is child 2 eligible for EIC?** *(auto-calc)* Answered Yes only if "Eligible to use this part?" above is Yes and either line 4 is at least 183 (184 for leap years) or you have an entry on line 5.

**6 Are addresses where you and child 2 lived together during the year shown on line 1 the same as for child 1?** If “Yes,” you do not have to enter the addresses again here.

**If No, supply address(es) *by itemizing addresses here.*** *(Supported by the Address Where Lived with Child Worksheet, Figure 2-71)* You must enter all addresses in the supporting worksheets unless you answered “Yes” to the preceding question.

**7 Did any other person live with child 2 for more than half the year shown in line 1?** Answer No if the only other person was a spouse with whom you file jointly and the child was under age 19. If you answer Yes here you must identify the person(s) in a supporting statement for the next line.

**If “Yes,” are all persons the same as for child 1?** If “Yes,” you do not have to enter the information again here.

**If “No,” enter person’s name and relationship to child 2 *by itemizing identity here.*** *(Supported by the Other Person Who Lived with Child Worksheet, Figure 2-72)* You must identify all other applicable persons in the supporting worksheets unless you answered “Yes” to the preceding question.

**ANSWERS FOR CHILD 3.** You must supply the following information for the EIC-qualified child that is third among the Dependent Worksheets you completed for Form 1040 line 6c. This part is similar to those for child 1 and child 2 *except for* additional questions that make it unnecessary to duplicate entries for lines 6 and 7 when they are the same as those for child 1 or 2.

**Eligible to use this part?** *(auto-calc)* Answered Yes only if at least three qualifying children are used on Schedule EIC. If No, you cannot complete this part of the form.

**4 Enter the number of days child 2 lived with you in the United States during the year shown on line 1.** If you enter less than 183 (184 for leap years) you cannot take the EIC for this child, unless the child was born or died during the year as indicated by your entries on line 5.

**5 (1) If child 3 was born during the year shown on line 1:**

**Enter month of birth.** Enter the 2-digit number for the month born.

**Enter day of birth.** Enter the 2-digit number for the day born.

**(2) If child 3 died during the year shown on line 1:**

**Enter month of death.** Enter the 2-digit number for the month died.

**Enter day of death.** Enter the 2-digit number for the day died.

**\* Is child 3 eligible for EIC?** *(auto-calc)* Answered Yes only if “Eligible to use this part?” above is Yes *and* either line 4 is at least 183 (184 for leap years) or you have an entry on line 5.

6 Are addresses where you and child 2 lived together during the year shown on line 1 the same as for child 1? If "Yes," you do not have to enter the addresses again here.

If "No," are addresses same as for child 2? If "Yes," you do not have to enter the addresses again here.

If the answer to both questions is "No," supply address(es) by itemizing addresses here. (Supported by the Address Where Lived with Child Worksheet, Figure 2-71) You must enter all addresses in the supporting worksheets unless you answered "Yes" to either of the preceding two questions.

7 Did any other person live with child 2 for more than half the year shown in line 1? Answer No if the only other person was a spouse with whom you file jointly and the child was under age 19. If you answer Yes here you must identify the person(s) in a supporting statement for the next line.

If "Yes," are all persons the same as for child 1? If "Yes," you do not have to enter the information again here.

If "No," are all persons the same as for child 2? If "Yes," you do not have to enter the information again here.

If the answer to both questions is "No," enter person's name and relationship to child 2 by itemizing identity here. (Supported by the Other Person Who Lived with Child Worksheet, Figure 2-72) You must identify all other applicable persons in the supporting worksheets unless you answered "Yes" to one of the preceding two questions.

Address Where Lived with Child Worksheet, Figure 2-71. Supports line 6, separately for each child. You must complete a separate worksheet for each place you lived with the child during the year shown on line 1:

If a U.S. address:

Street address. Enter the street address in 30 characters or less. If you are completing this worksheet for a foreign address, leave this and the following 3 entries blank and enter the foreign address below. CAUTION: Do not enter both U.S. and foreign addresses; you must use a separate worksheet for each separate address.

```

ADDRESS WHERE LIVED W/CHLD
Use 1 worksheet for ea.address
where you lived with the child
If a U.S. address:
  Street address .....:
  City .....
  State .....
  ZIP code .....
If a foreign address:
  Street address .....:
  City .....
  Province or state .....
  Country .....
  Postal code .....

```

Figure 2-71. Address Where Lived with Child Worksheet

City. Enter the city in 22 characters or less.

State. Enter the standard 2-letter state code.

**ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**If a foreign address:**

**Street address.** If you entered a U.S. address above, leave this and the following 4 lines blank. (You must use a separate worksheet for each separate address.) Otherwise, enter the foreign street address here in 30 characters or less

**City.** Enter foreign city in 25 characters or less.

**Province or state.** Enter the foreign province or state in 15 characters or less.

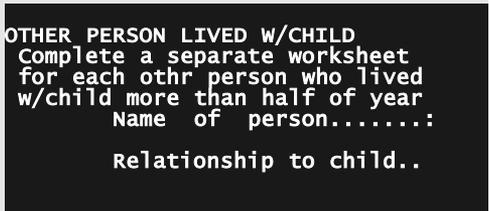
**Country.** Enter 2-letter country code. See Table 2-6 on page 2-22 for Official Country Codes.

**Postal code.** Enter the foreign postal code in 15 characters or less.

**Other Person Who Lived with Child Worksheet, Figure 2-72.** Supports line 7, separately for each child. You must complete a separate worksheet for each other person who lived with the child for more than half of the year shown on line 1:

**Name of person.** Enter the name of the person in 30 characters or less.

**Relationship to child.** Enter the relationship in 11 characters or less. See our details for the Dependents' Worksheet for Form 1040, line 6c, for a list of allowed recognized relationships. Leave blank if not related.



**Figure 2-72. Other Person Who Lived with Child Worksheet**

**PART III, FILERS WITHOUT A QUALIFYING CHILD.** You must be eligible for the childless credit and required to file Form 8862 in order to use this part.

**Eligible to use this part?** *(auto-calc)* Answered Yes only if Schedule EIC shows that you are qualified for the childless credit.

**8 Enter the number of days during the year shown on line 1 that you lived in the United States.** If you enter less than 183 (184 for leap years) you *cannot* take the childless credit. *TIP: You can include your active duty time in your entry here if you were on extended active duty outside the United States and your home is considered to be in the United States.*

**9 If married filing jointly, enter the number of days during the year shown on line 1 that your spouse lived in the United States.** If you enter less than 183 (184 for leap years) and your filing status on Form 1040 is married filing jointly, you *cannot* take the childless credit. *TIP: You can include your spouse's active duty time in your entry here if your spouse was on extended active duty outside the United States and your spouse's home is considered to be in the United States.*

**Eligible for the childless EIC?** *(auto-calc)* The answer will be Yes only if "Eligible to use this part?" above is Yes, your entry for line 4 is 183 (184 for leap years) or more and, if married filing jointly, your answer for line 5 is 183 (184 for leap years) or more.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8863 / Education Credits (American Opportunity and Lifetime Learning Credits)

**Purpose.** This form is used to claim credits for higher education expenses for you, your spouse, or your dependents. The *American Opportunity Credit* has replaced the *Hope Credit*, which last appeared on the 2010 Form 8863 (2010 was a transition year), and carries a refundable component. The *Lifetime Learning Credit* is still available, but it is limited by tax liability and cannot be carried over to the next year. Both credits are subject to phaseout for high-income taxpayers. The type of expenses that qualify are generally limited to tuition only. For both credits:

- your filing status cannot be married filing separately,
- you cannot be claimed on someone else's return,
- you (or spouse) cannot be a nonresident alien anytime in 2014 (unless you elected to be treated as a resident alien),
- you cannot take more than one credit for the same student, and
- you cannot take an education credit on Form 8863 and a tuition and fees deduction on Form 8917 for the same student in the same year.

In addition, your modified adjusted gross income (MAGI) must be:

- below \$90,000 for the *American Opportunity Credit* (\$180,000 if married filing jointly)
- below \$64,000 for the *Lifetime Learning Credit* for 2014 (\$128,000 if married filing jointly)

The maximum allowable credit is:

- \$2,500 for each student for the *American Opportunity Credit*.
- \$2,000 for all students combined for the *Lifetime Learning Credit*.

*Form 8863 is accessible through the Road Map at lines 50 and 68 of Form 1040.*

**CAUTION.** The requirements are stated in the previous paragraph, but two are worth repeating because they appear as cautions on the IRS form:

- **You cannot** take both the *American Opportunity Credit* and the *Lifetime Learning Credit* for the **same student** in the same year, and
- **you cannot** take both an education credit and a tuition and fees deduction for the **same student** in the same year.

The software guards against violating the first rule, but cannot guard against violating the second rule, so you must make sure you do not complete a worksheet on Form 8917 (*Tuition and Fees Deduction*) for any student for whom you complete a worksheet on this form.

**ELIGIBILITY.** As listed on the previous page, there are three other rules you must follow. The software guards against violating these rules through answers to the following questions:

**Are you married filing separately?** *(auto-calc)* Answered based on your entry for filing status on Form 1040.

**Are you a dependent on someone else's return?** *(auto-calc)* Taken from your answer on screen 1 of Form 1040 to the question "You dependent on other return?"

**Were you ever a nonresident alien in 2014?** Answer Yes if you were a nonresident for any part of 2014 and you did not elect to be treated as a resident alien.

**Was spouse ever a nonresident alien in 2014?** Answer Yes if spouse was a nonresident for any part of 2014 and did not elect to be treated as a resident alien.

**INELIGIBLE FOR AN EDUCATION CREDIT?** *(auto-calc)* Answered Yes if the answer to any of the above four questions is Yes. If Yes, you are not eligible to claim any credit on Form 8863.

**EDUCATION CREDIT WORKSHEETS.** All credits are combined into a single 1-page chart, which appears on page 2 of the 2014 form as Part III of the form. A complete page 2 must be completed for each student claimed. The software handles this with its 4-screen *Education Credit Worksheet* (Figures 2-73a through 2-73d). (*You must complete one worksheet for each student for whom you are claiming either credit.*) The worksheet handles the similarities and differences between requirements for the two education credits. However, the phaseouts and tax liability limitations on the credits are computed separately from the worksheets, on page 1, based on the worksheet entries. Part I on page 1 shows the computation of the refundable portion of the *American Opportunity Credit*. Part II on page 1 shows the computation of the *Lifetime Learning Credit* and the nonrefundable portion of the *American Opportunity Credit*. We provide access to the worksheet from the first screen of Form 8863, showing the important totals to be used in page 1 of Form 8863.

**AMERICAN OPPORTUNITY CREDIT.** The results on the worksheets are shown here for the *American Opportunity Credit*, and you can access the worksheets from the first two lines:

**Line 27 of all worksheets.** *(Supported by the Education Credit Worksheet, Figures 2-73a through 2-73d.)* Qualified expenses for all worksheets combined appears here, where the expense is limited on each worksheet to \$4,000.

**Line 30 of all worksheets.** *(Supported by the Education Credit Worksheet, Figures 2-73a through 2-73d.)* Only a portion of the qualified expenses is allowed as a credit, as computed in a complex way on each worksheet, and the limited credit appears here. The maximum credit is \$2,500 per student. Unlike the *Lifetime Learning Credit*, there is no overall limit on the *American Opportunity Credit* for all students combined, but there are phaseouts for high income taxpayers, which are

applied in Part I, and, for the nonrefundable part of the credit, a tax liability limitation, which is applied in Part II of Form 8863.

**ALLOWED for Part I, line 1.** *(auto-calc)* Taken from the preceding line as long as the answer to "INELIGIBLE FOR AN EDUCATION CREDIT?" is No. Otherwise, computed as zero. This amount is used for line 1 in Part I of Form 8863.

**LIFETIME LEARNING CREDIT.** The results on the worksheets are shown here for the *Lifetime Learning Credit*, and you can access the worksheets from the first line:

**Line 31 of all worksheets.** *(Supported by the Education Credit Worksheet, Figures 2-73a through 2-73d.)* Qualified expenses for all worksheets combined appears here without limitation. Unlike the *American Opportunity Credit*, no *per student* limitations apply to the *Lifetime Learning Credit*. However, the total credit from all students combined is limited to \$2,000, which is applied in Part II of Form 8863 along with a phaseout for high-income taxpayers.

**ALLOWED for Part II, line 10.** *(auto-calc)* Taken from the preceding line as long as the answer to "INELIGIBLE FOR AN EDUCATION CREDIT?" is No. Otherwise, computed as zero. This amount is used for line 10 in Part II of Form 8863.

**PART I, REFUNDABLE AMERICAN OPPORTUNITY CREDIT.** This part is fully automatic unless you are under 24 years of age at the end of 2014 (in which case you must answer two additional questions in Part I). First, the credit on line 1 (from line 30 of all worksheets) is subjected to phaseout limitations, then 40% of the result is identified as a refundable credit. For 2014 the phaseout results in:

- full credit when AGI is \$80,000 or less (\$160,000 if married filing jointly)
- no credit when AGI is \$90,000 or more (\$180,000 if married filing jointly)
- partial credit when AGI lies between these two extremes, pro rated over the \$10,000 difference between the two extremes (\$20,000 if married filing jointly).

The result of the phaseout is the credit at line 7. 40% of this result is identified as a refundable credit at line 8. The result on line 8 is posted to line 68 of Form 1040. The remaining 60% is carried to Part II, where it is for combining with the *Lifetime Learning Credit*.

**PART II, NONREFUNDABLE EDUCATION CREDITS.** The rest of the form is fully automatic. First, the credit on line 10 (from line 31 of all worksheets) is subjected to phaseout limitations. For 2014 the phaseout results in:

- full credit when AGI is \$54,000 or less (\$108,000 if married filing jointly)
- no credit when AGI is \$64,000 or more (\$128,000 if married filing jointly)
- partial credit when AGI lies between these two extremes, pro rated over the \$10,000 difference between the two extremes (\$20,000 if married filing jointly).

The resulting limited *Lifetime Learning Credit* and the remaining *American Opportunity Credit* from Part I are then limited to tax liability through the *Credit Limit Worksheet* in the *IRS 2014 Instructions for Form 8863*. The result is the combined nonrefundable credit (the *Lifetime Learning Credit* and the nonrefundable portion of the *American Opportunity Credit*), which appears on line 19 of Form 8863. The result on line 19 is posted to line 50 of Form 1040.

**Education Credit Worksheet.** (*Figures 2-73a through 2-73d*) This worksheet corresponds to Part III of Form 8863, which is comprised of the entire page 2 of Form 8863. You must complete a separate worksheet for each student you are claiming for an education credit. When you claim more than one student, additional copies of Form 8863, Part III, are printed with the official return – one for each student. Lines 20 through 26 of this worksheet apply to both the *American Opportunity Credit* and the *Lifetime Learning Credit*. Eligibility for each credit will be shown on screen 4, where you can choose which to claim if you are eligible for both.

**Special instructions for students who attended more than 2 educational institutions.** Each page of Form 8863, side 2 (and therefore each Education Credit Worksheet), provides space for you to supply information about only two educational institutions (at lines 22a and 22b). If the student attended more than two qualifying educational institutions during the tax year, you must complete an additional worksheet for each two additional institutions, skipping the entries in the bottom half of screen 1 and all of screen 4. That is, you must complete only lines 20, 21, and 22 on the additional worksheets. Your entries for lines 20 and 21 should be identical to the same entries on the worksheet that precedes an additional one.

**Screen 1:**  
**20 Name of student:**  
First name. Enter in 10 characters or less.

**EDUCATION CREDIT WORKSHEET**  
Use ONE worksheet per student.  
Entries are used to complete a separate copy of 8863, Part III (pg.2 of 8863) for each student

20 Name of student-First name  
Last name  
e-file name.....  
e-file name control.....

21 Student's SSN.....  
Number of prior years in which American Opp'y Credit claimed 0  
Dependent on another return...? No  
Claim tuition & fees deduction? No  
Total qlfd. expenses eligible for Lifetime Learning Credit: 0  
ADDITIONAL \$ allowed for American Opportunity Crd 0  
Total qlfd. expenses eligible for American Opportunity Crd: 0

Figure 2-73a. Education Credit Worksheet, Screen 1

**Last name.** Enter in 15 characters or less.

**e-file name.** *(auto-calc)* The name is displayed here in e-file format, with a < symbol to flag the last name and any suffix like Jr. Furthermore, suffixes like 3<sup>rd</sup> are changed to Roman numerals in accordance with IRS e-file specifications.

**e-file name control.** *(auto-calc)* The name control is displayed in accordance with IRS e-file specifications. This is usually the first four characters of the last name.

**21 Student's SSN.** Enter SSN in the standard xxx-xx-xxxx format.

**Number of prior years in which the American Opportunity Credit has been claimed.** You can claim the *American Opportunity Credit* for a student for up to 4 years, so any entry greater than 3 will cause the *American Opportunity Credit* to be zero (lines 27 through 30 on this worksheet). However, you may still be eligible to take the *Lifetime Learning Credit*. **CAUTION:** *When making this entry, you must include any prior claims for the Hope Credit, which the American Opportunity Credit replaced.*

**Dependent on another return?** You cannot claim either credit for a student claimed as a dependent on someone else's return.

**Claim tuition and fees deduction?** You cannot claim either credit for the same student in the same year as you claim the tuition and fees deduction (Form 1040, line 34) for that student.

**Total qualified expenses eligible for the Lifetime Learning Credit.** Enter only expenses for tuition and required enrollment fees (which can include expenses for source-related books, supplies, and equipment that are paid directly to the school). Room and board are not qualified, nor are course materials for which the student pays independently of the school. See IRS Instructions for Form 8863 for details. This is the amount that will be used for line 31 (at the end of this worksheet) if the *Lifetime Learning Credit* is claimed for this student.

**ADDITIONAL \$ allowed for the American Opportunity Credit.** Enter here expenses that are not allowed for the *Lifetime Learning Credit* but are allowed for the *American Opportunity Credit*. This includes course materials for which the student pays independently of the school. However, room and board are not qualified expenses for this credit either.

**Total qualified expenses eligible for the American Opportunity Credit.** (*auto-calc*) Computed as the sum of the preceding two amounts. This is the amount that will be used for line 27 (on the last screen of this worksheet), up to \$4,000, if the *American Opportunity Credit* is claimed for this student.

**Screen 2:**

**22 Educational institution.** Up to two schools can be entered on one worksheet for each student. *If this student attended more than two qualifying schools, see the preceding shaded box titled "Special instructions for students who attended more than 2 educational institutions."*

**a. Name 1<sup>st</sup> educational institution.** Identify the school in 30 characters or less.

**(1) Address (U.S. or foreign).** You must give only one address for the school, either domestic or foreign.

**U.S. street address.** If you are supplying the domestic address of the school, enter the U.S. street address here (in 30 characters or less) and make entires on the following 3 lines.

**U.S. city.** Enter the city in 22 characters or less.

**U.S. state.** Enter the standard 2-letter state code.

**U.S. ZIP code.** Enter the ZIP code in the standard xxxxx or xxxxx-xxxx format.

**Foreign address.** If you are supplying the foreign address of the

```

22 Educational institution
a. Name 1st educational instn:

(1) Address (U.S. or foreign):
U.S. street address.....:

U.S. city.....
U.S. state.....
U.S. ZIP code.....
Foreign address.....:

Foreign city.....:

Foreign province/state...
Foreign country code....
Foreign postal code.....
(2) Rcvd. 2014 Form 1098-T...? No
(3) Rcvd. 2013 1098-T w/ Box 2
filled in & Box 7 checked.? No
(4) If (2) or (3) Yes, insti-
tution's fed. ID number...

```

Figure 2-73b. Education Credit Worksheet, Screen 2

school rather than a domestic address, enter the foreign street address here (in 30 characters or less) and make entries on the following 4 lines.

**Foreign city.** Enter the foreign city in 30 characters or less.

**Foreign province or state.** Enter the foreign province or state in 15 characters or less.

**Foreign country code.** Enter the official 2-letter code for the country, as shown in Table 2-6 on page 2-22.

**Foreign postal code.** Enter the postal code in 15 characters or less.

- (2) **Received 2014 Form 1098-T?** Answer Yes if the student received a Form 1098-T (*Tuition Statement*) from this school for 2014. The form will show the amounts the school received for this student (box 1), or the amount billed by the school for this student (box 2), for qualified tuition and related expenses. *TIP: You should not rely on this form in determining expenses to enter on screen 1. Only amounts actually paid are entered on screen 1.*
- (3) **Received 2013 Form 1098-T with Box 2 filled in and Box 7 checked?** Answer Yes only if the student received a Form 1098-T (*Tuition Statement*) from this school for 2013 with Box 2 completed, showing the amount billed. 2, and Box 7 checked to indicate that the amount in Box 1 or 2 includes amounts for 2014.
- (4) **If (2) or (3) Yes, institution's federal ID number.** Enter the institutions EIN in the standard xx-xxxxxxx format only if you answered Yes to (2) or (3), above.

**Screen 3:**

**22 Educational institution.** If the student attended a second qualifying school during the same year, complete line b and (1) through (4), below.

**b. Name 2<sup>nd</sup> educational institution.** Identify the second school here in 30 characters or less.

(1) through (4). Complete these lines

**22 Educational institution**  
**b. Name 2nd educational instn:**

(1) **Address (U.S. or foreign):**  
 U.S. street address.....:

U.S. city.....

U.S. state.....

U.S. ZIP code.....

Foreign address.....:

Foreign city.....:

Foreign province/state....

Foreign country code.....

Foreign postal code.....

(2) Rcvd. 2014 Form 1098-T...? No

(3) Rcvd. 2013 1098-T w/ Box 2

filled in & Box 7 checked? No

(4) If (2) or (3) Yes, insti-

tution's fed. ID number...

**Figure 2-73c. Education Credit Worksheet, Screen 3** entered a name for a second institution in line b. See the details for screen 2 for details on these entries.

Screen 4:

23 Has the Hope Credit or the American Opportunity Credit been claimed for this student for any 4 tax years before 2014? (auto-calc) Answered Yes only if your entry on screen 1 for "Number of prior years in which American Opportunity Credit claimed" is 4 or more. If Yes,

23	Hope or Amer. Opp. claimed any 4 tax yrs. Before 2014?	No
24	Enrolled req'd min.time at elig.inst'n leading toward allowed postsecondary cred?	No
25	Completed 1st 4 yrs post-secondary educ.before 2014?	No
26	Convicted before 2015 of a controlled substnce felony?	No
	Eligible for Amer. Opp. Credit?	No
	Elig. for Lifetime Lng. Credit?	No
	Elect Lifetime Learning Credit Even when elig. for Amer.Opp.?	No
AMER. OPPORTUNITY CREDIT		
27	Qualified exp (\$4,000 max)	0
28	Subtract \$2,000 from 27...	0
29	Multiply line 28 by 25%	0
30	Line 27, or \$2,000 plus 29	0
LIFETIME LEARNING CREDIT		
31	Qualified expense.....	0
END of THIS student's w/s		

Figure 2-73d. Education Credit Worksheet, Screen 4

you cannot claim the *American Opportunity Credit* for this student. As a result, your entries for lines 24, 25, and 26 will be ignored and lines 27 through 30 will be zero. However, you may still be eligible for the *Lifetime Learning Credit*.

24 Enrolled the required minimum time in an eligible institution leading toward an allowed postsecondary credential? (Applies only to the *American Opportunity Credit*.) Answer Yes only if the student was enrolled at least half-time for at least one academic period that began in 2014 at an eligible institution leading to a recognized postsecondary educational credential. If No, you cannot claim the *American Opportunity Credit* for this student. As a result, your entries for lines 25 and 26 will be ignored and lines 27 through 30 will be zero. However, you may still be eligible for the *Lifetime Learning Credit*.

25 Did the student complete the first 4 years of post-secondary education before 2014? (Applies only to the *American Opportunity Credit*.) If Yes, you cannot claim the *American Opportunity Credit* for this student. As a result, your entry for line 26 will be ignored and lines 27 through 30 will be zero. However, you may still be eligible for the *Lifetime Learning Credit*. (There is no limit on the number of years of postsecondary education for the *Lifetime Learning Credit*.)

26 Was the student convicted before 2015 of a controlled substance felony? (Applies only to the *American Opportunity Credit*.) Answer Yes if the student was convicted before the end of 2014 of a felony for possession or distribution of a controlled substance. If Yes, you cannot claim the *American Opportunity Credit* for this student. As a result, lines 27 through 30 will be zero. However, you may still be eligible for the *Lifetime Learning Credit*. (A felony drug conviction does not disqualify a student for the *Lifetime Learning Credit*.)

**Eligible for the American Opportunity Credit?** *(auto-calc)* Answered Yes only if your answers on screen 1 for “Dependent on another return” and “Claim tuition and fess deduction” are both No, the answer for line 23 is No, your answer for line 24 is Yes, and your answers for lines 25 and 26 are both No.

**Eligible for the Lifetime Learning Credit?** *(auto-calc)* Answered Yes only if your answers on screen 1 for “Dependent on another return” and “Claim tuition and fess deduction” are both No.

**Elect to claim the Lifetime Learning Credit even when eligible for the American Opportunity Credit?** Unless you answer Yes here, if you are eligible for both credits the software will attempt to claim the *American Opportunity Credit* first and will attempt to claim the *Lifetime Learning Credit* only if no credit results for the *American Opportunity Credit*. However, you can force the *Lifetime Learning Credit* to always be used instead by answering Yes here. You may want to do so if you find that the *Lifetime Learning Credit* results in a higher credit after all limitations are applied in Parts I and II of Form 8863.

#### AMERICAN OPPORTUNITY CREDIT

**27 Qualified expenses (\$4,000 maximum).** *(auto-calc)* If the answer to “Eligible for the American Opportunity Credit?” is Yes and the answer to the answer to “Elect to claim the Lifetime Learning Credit even when eligible for the American Opportunity Credit?” is No, then this line is taken as the lesser of \$4,000 or the amount at the bottom of screen 1 of this worksheet for “Total qualified expenses eligible for the American Opportunity Credit.” Otherwise, zero.

**28 Subtract \$2,000 from line 27.** *(auto-calc)* Computed as indicated.

**29 Multiply line 28 by 25%.** *(auto-calc)* Computed as indicated.

**30 Line 27, or \$2,000 plus line 29.** *(auto-calc)* If line 28 is zero, taken as line 27. Otherwise, computed as \$2,000 plus the amount on line 29. This is the tentative *American Opportunity Credit* for this student (before any limitations or phaseouts are applied).

#### LIFETIME LEARNING CREDIT

**31 Qualified expense.** *(auto-calc)* If line 30 is zero and the answer to “Eligible for the Lifetime Learning Credit?” is Yes, taken as the amount on screen 1 of this worksheet for “Total qualified expenses eligible for the Lifetime Learning Credit.” Otherwise, zero. This is the tentative *Lifetime Learning Credit* for this student (before any limitations or phaseouts are applied).

Note that lines 30 and 31 will never both be nonzero for the same worksheet because you can claim only the *American Opportunity Credit* or the *Lifetime Learning Credit*, not both, for the same student in the same year, which the software ensures. But if the student is eligible for both credits, then you can control whether a credit appears on line 30 or line 31 by your answer to “Elect to claim the Lifetime Learning Credit even when eligible for the American Opportunity Credit?” Once you complete the worksheet, the credit on line 30 or line 31 is combined with the corresponding credits on other worksheets and

used in Parts I and II of Form 8863, where they are limited by phaseouts and tax liability.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8867 / Paid Preparer's Earned Income Credit Checklist

**Purpose.** This form is completed by paid preparers to meet the IRS's due diligence requirements for returns with a claim for the earned income credit (EIC). Starting with returns for tax year 2011, **Form 8867 is mandatory for all returns signed by a paid preparer that have a claim for the EIC (line 66a of Form 1040)**. Failure to meet the due diligence requirements can result in a \$500 fine, so the requirements cannot be taken lightly. Form 8856 is therefore automatically generated by the software when an EIC is claimed, but you must still complete the due diligence section at the end of the form. *Form 8867 is accessible through the Road Map from the bottom of screen 1 of Schedule EIC.*

**Automatically created.** Form 8867 is automatically created for the return once you have a Schedule EIC for the return (which is itself automatically created when eligibility for a credit looks likely). Furthermore, the first three parts of this four-part form are automatically completed for you based on the results on our Schedule EIC and your entries on the Dependent Worksheets for line 6c of Form 1040. However, **Part IV must be manually completed by the paid preparer**. Because of the mandatory nature of the form for some returns, you cannot block the automatic creation of this form. However, it will not be printed with the complete return if there is no EIC claimed on line 66a of Form 1040, or you have answered No to "Return signed by Paid Preparer?" on screen 1 of Form 8867.

**Dependent Worksheets and Schedule EIC control Form 8867.** Form 8867 gets many of its answers from the Dependent Worksheets (which support line 6c of Form 1040) and our Schedule EIC (which supports line 66a of Form 1040). It is therefore necessary to complete all Dependent Worksheets and our Schedule EIC before Form 8867 can be accurate. Furthermore, the results on Schedule EIC may not be accurate until the return is final since they depend on earned income, investment income, and adjusted gross income for the return. Nevertheless, because Form 8867 is automatically created and the transfers from the Dependent Worksheets and Schedule EIC are automatic, you can complete Part IV of Form 8867 as soon as you know the answers to the questions. If anything changes on Schedule EIC, Form 8867 will be automatically updated.

**Filing requirement.** Form 8867 is required only if the answers for the following two entries are Yes:

**EIC claimed on Form 1040? (auto-calc)** Answered Yes only if there is an amount on line 66a of Form 1040, indicating that an earned income credit is being claimed.

**Return signed by Paid Preparer?** You must answer Yes only if the bottom of page 2 of Form 1040 is signed by a paid preparer (or the electronic equivalent if an e-filed return). *TIP: When the software first creates a Form 8867 for this return, this answer is automatically Yes. Therefore, if you are completing this return for yourself, you will have to change the answer to No once Form 8867 exists so that it will not be included with an official printout of the return. )*

**Filing of Form 8867 required?** *(auto-calc)* Answered Yes only if the answers for both of the preceding two questions are Yes. *If No, the form will not be printed with the official return when you choose to print the complete return or "ALL forms" because it is not required.*

**PART I, ALL TAXPAYERS.** Except for line 1, this part is fully automatic based on the results on our on-screen Schedule EIC.

**1 Preparer's name and PTIN.** The preparer to whom this line refers is the preparer who determines the qualification for and determination of the earned income credit. Because this may not be the same person who signs the return (at the bottom of page 2 of Form 1040), you must identify the person here.

**Is signing preparer the one who determined EIC?** Answer Yes only if the preparer who signs the Form 1040 return is the same person who determines the qualification for and determination of the EIC. If Yes, the paid preparer's name and PTIN will be printed on the official return based on your entries for paid preparer information in your Program Settings. Otherwise, you must enter the preparer's name and PTIN below. *(When the software first creates a Form 8867 for this return, this answer is automatically Yes.)*

**If No, enter information below:**

**EIC preparer.** Enter the name of the preparer who determines the qualification for and determination of the earned income credit. *(If you answered Yes to "Is signing preparer the one who determined EIC?" then any entry you make here will be erased, and the information in your Program Settings will be used on the printouts.)*

**EIC preparer's PTIN.** Enter the Preparer Tax Identification Number (in the standard Pxx-xx-xxxx format) for the preparer who determines the qualification for and determination of the earned income credit. *(If you answered Yes to "Is signing preparer the one who determined EIC?" then any entry you make here will be erased, and the information in your Program Settings will be used on the printouts.)*

**2 Is the taxpayer's filing status married filing separately?** *(auto-calc)* Taken from Form 1040, the taxpayer cannot take the EIC if the answer is Yes.

**3 Does the taxpayer (and taxpayer's spouse if filing jointly) has a social security number (SSN) that allows him or her to work or is valid for EIC purposes?** *(auto-calc)* Taken from the answer on screen 1 of our Schedule EIC, SSN's that start with a 9 are not valid for EIC.

**4 Is the taxpayer filing Form 2555 or 2555-EZ?** *(auto-calc)* Taken from the answer on screen 1 of our Schedule EIC, taxpayers who file this form cannot take the EIC.

**5a Was the taxpayer a nonresident alien for any part of 2014?** *(auto-calc)* Taken from your answer on screen 1 of our Schedule EIC, if Yes you do not qualify unless married filing jointly (see next question).

**5b Is the taxpayer's filing status married filing jointly?** *(auto-calc)* Taken from Form 1040. If Yes, a No answer to line 5a does not disqualify you from the EIC. Otherwise, it does.

**6 Is the taxpayer's investment income more than \$3,350?** *(auto-calc)* Taken from screen 1 of our Schedule EIC, you cannot take the EIC if Yes. (\$3,350 is the maximum investment income allowed for 2014 in order to claim the earned income credit.)

**7 Could the taxpayer, or the taxpayer's spouse if filing jointly, be a qualifying child of another person in 2014?** *(auto-calc)* Taken from screen 1 of our Schedule EIC, you cannot take the EIC if Yes. (If married filing jointly, the answer will always be No.)

**PART II, TAXPAYERS WITH A CHILD.** The answers and entries for all but the last question in this part are based on your entries on the *Dependent Worksheets* for line 6c of Form 1040.

**Number of EIC-qualified children on Dependents' Worksheets.** *(auto-calc)* Taken from the "Number qualified for earned income credit" above line 6d of Form 1040, which is determined from your entries on the Dependents' Worksheets for line 6c of Form 1040.

**Number used for Schedule EIC (3 maximum).** *(auto-calc)* You get credit for no more than 3 children, so the IRS requires answers for no more than 3 qualifying children. The software therefore prints on the official Form 8867 only information on the first three Dependents' Worksheets that have qualifying children.

**See Dependents' Worksheets at Form 1040 line 6c for information used on Form 8867 lines 8 through 14.** All information for the referenced lines is carried by the Dependents' Worksheets. You should therefore refer to our details for that worksheet for more information.

**8 through 14 appear on official printout.** *(auto-calc)* Although not shown on the screen, all answers for lines 8 through 14 appear on the official printout of Form 8867 based on the Dependents' Worksheets.

**Earned income.** *(auto-calc)* Taken from line 4b of IRS Worksheet B as shown on our on-screen Schedule EIC.

**Adjusted gross income.** *(auto-calc)* Taken from Form 1040, line 37.

**15 Are the taxpayer's earned income and adjusted gross income each less than the limit that applies to the taxpayer for 2014?** *(auto-calc)* Answered based on the calculations and answers on our on-screen Schedule EIC. *The answer will be intentionally No if not qualified for the child-based credit, but neither Yes nor No will be checked on a printout of the official form.* See our details for Schedule EIC for the limits that apply.

**PART III, TAXPAYERS WITHOUT A QUALIFYING CHILD.** This part is fully automatic based on the results on our on-screen Schedule EIC. *All answers in this part will be intentionally No if not qualified for the childless credit, but neither Yes nor No will be checked on a printout of the official form.*

- 16 Was the taxpayer's main home, and the main home of spouse if filing jointly, in the United States for more than half the year?** *(auto-calc)* Taken from the answer on the on-screen Schedule EIC for "Main home in U.S. over 6 months?" If No, you cannot take the childless credit.
- 17 Was the taxpayer, or spouse if filing jointly, at least age 25 but under age 65 at the end of 2014?** *(auto-calc)* Taken from the answer on the on-screen Schedule EIC for "One age at least 25, under 65?" If No, you cannot take the childless credit.
- 18 Could the taxpayer be claimed as a dependent on anyone else's tax return for 2014?** *(auto-calc)* Taken from the answer on the on-screen Schedule EIC for "Eligible to be dependent on another return?" If Yes, you cannot take the childless credit. (If married filing jointly, the answer will always be No.)
- 19 Are the taxpayer's earned income and adjusted gross income each less than the limit that applies to the taxpayer for 2014?** *(auto-calc)* Based on the calculations and answers on our on-screen Schedule EIC, the answer will also be No if not qualified for the childless credit. *The answer will be intentionally No if not qualified for the childless credit, but neither Yes nor No will be checked on a printout of the official form.* See our details for Schedule EIC for the limits that apply. See our details for Schedule EIC for the limits that apply.

**PART IV, DUE DILIGENCE REQUIREMENTS.** This part must be manually completed because it relates to your own practices as a preparer. **CAUTION:** *If you cannot answer Yes to lines 20, 21, and any other lines among lines 22 through 25 that apply, you have not complied with the due diligence requirements and may be subject to a \$500 penalty for this return alone.* See IRS instructions for details.

- 20 Did you complete Form 8867 based on current information provided by the taxpayer or reasonably obtained by you?** Although the IRS question cites Form 8867, with *Tax Preparer* you are confirming by a Yes answer that you have completed our *Dependents Worksheet* for line 6c of Form 1040 and any additional entries on our on-screen Schedule EIC based on current information, since Form 8867 is automatically completed from them.
- 21 Did you complete the EIC worksheet found in the Form 1040 instructions?** *(auto-calc)* Automatically Yes because the IRS worksheet is built into the calculations performed by the software.
- 22 If any qualifying child was not the taxpayer's son or daughter, did you ask why the parents were not claiming the child and document the answer?** If any claimed child was not the taxpayer's son or daughter, you must be able to answer Yes here to satisfy due diligence requirements.

**OR Yes here if not applicable.** If all claimed children were the taxpayer's son or daughter, or no children were claimed, answer Yes here so that the "Does not apply" box will be checked on the official printout.

**23 If the answer to question 13a is "Yes," did you explain the tiebreaker rules and possible consequences of another person claiming your client's qualifying child?** If line 13a is Yes for any claimed child, implying that the child lived more than half of the tax year with someone else who could claim the child for the EIC, you must be able to answer Yes here to satisfy due diligence requirements.

**OR Yes here if not applicable.** If the answer to line 13a is Yes for all claimed children, or no children were claimed, answer Yes here so that the "Does not apply" box will be checked on the official printout.

**24 Did you ask this taxpayer any additional questions that are necessary to meet your knowledge requirement?** See the IRS instructions for liens 24 and 25 for clarification of the knowledge requirement. If you answer Yes, you must be able to answer Yes to line 25 as well to satisfy due diligence requirements.

**OR Yes here if not applicable.** If you did not require any additional information to meet your knowledge requirements, answer Yes here so that the "Does not apply" box will be checked on the official printout.

**25 Did you document the additional questions you asked and your client's answers?** If line 24 is Yes, you must be able to answer Yes here to satisfy due diligence requirements.

**OR Yes here if not applicable.** If the answer to line 24 is No or is not applicable to the return, answer Yes here so that the "Does not apply" box will be checked on the official printout.

**CAUTION:** If you did not answer Yes to lines 20, 21, and any other lines among lines 22 through 25 that apply, you have not complied with the due diligence requirements and may be subject to a \$500 penalty for the return alone. See IRS instructions and the bottom of page 3 of the official printed Form 8867 for details.

**26 Which documents below did you rely on to determine EIC eligibility for the qualifying children listed on Schedule EIC? Check all that apply.** Skip this line if you did not claim any children for the EIC; lines 26a and 26o will be checked answered Yes for you when no other parts of line 26 are answered Yes. If you did claim a child for the EIC, you must answer Yes to at least one of the questions below. You must keep a copy of all documents for which you answered Yes.

**Residency of Qualifying Child(ren).** Answer Yes for all that apply. If none apply, but at least one child was claimed, answer Yes to line n. (Answer Yes to any line for which the answer is Yes for any claimed child.)

a Line a is answered for you, but shown at the bottom of the on-screen list of documents.

**b School records or statement.**

**c Landlord or property management statement.**

**d Health care provider statement.**

**e Medical records.**

**f Child care provider records.**

**g Placement agency statement.**

**h Social services records or statement.**

**i Place of worship statement.**

**j Indian tribal official statement.**

**k Employer statement.**

**l Other (specify below).** If Yes, describe on the text line that follows line n.

**m Did not rely on any documents, but made notes in file.**

**n Did not rely on any documents.**

**Specify for 26l.** If you answered Yes to line l, you must describe the documentation here in 25 characters or less. (For a paper return, you can provide a longer description in a supporting statement for this line, but the IRS does not allow a longer description for e-file.)

**α No qualifying child. (*auto-calc*)** Answered Yes if your answers for lines b through n are all No. Otherwise, No

**Disability of Qualifying Child(ren).** Answer Yes for all that apply. If none apply, but at least one disabled child was claimed, answer Yes to line u. (Answer Yes to any line for which the answer is Yes for any claimed child.)

o Line o is answered for you, but shown at the bottom of the on-screen list of documents.

**p Doctor statement.**

**q Other health care provider statement.**

**r Social services agency or program statement.**

**s Other (specify below).** If Yes, describe on the text line that follows line u.

**t Did not rely on any documents, but made notes in file.**

**u Did not rely on any documents.**

**Specify for 26s.** If you answered Yes to line s, you must describe the documentation here in 25 characters or less. (For a paper return, you can provide a longer description in a supporting statement for this line, but the IRS does not allow a longer description for e-file.)

**o No disabled child. (*auto-calc*)** Answered Yes if your answers for lines p through u are all No. Otherwise, No

**27** If Schedule C is included with this return, which documents or other information did you rely on to confirm the existence of a business and to figure the amount of Schedule C income and expenses reported on the return? Skip this line if you are not filing any Schedule C with the return; line 27a will be answered Yes for you when no other parts of line 27 are answered Yes. If you are filing Schedule C, you must answer Yes to at least one of the questions below. You must keep a copy of all documents for which you answered Yes.

**Documents or Other Information.** Answer Yes for all that apply. If none apply, but Schedule C is being filed, answer Yes to line l.

**a** Line a is answered for you, but shown at the bottom of the on-screen list of documents.

**b** Business license.

**c** Forms 1099.

**d** Records or gross receipts provided by taxpayer.

**e** Taxpayer summary of income.

**f** Records of expenses provided by taxpayer.

**g** Taxpayer summary of expenses.

**h** Bank statements.

**i** Reconstruction of income and expenses.

**j** Other (specify below). If Yes, describe on the text line that follows line l.

**k** Did not rely on any documents, but made notes in file.

**l** Did not rely on any documents.

**Specify for 26j.** If you answered Yes to line j, you must describe the documentation here in 25 characters or less. (For a paper return, you can provide a longer description in a supporting statement for this line, but the IRS does not allow a longer description for e-file.)

**a** No Schedule C. (*auto-calc*) Answered Yes if your answers for lines b through l are all No. Otherwise, No

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8880 / Credit for Qualified Retirement Savings Contributions

**Purpose.** This form provides a credit against tax for your contributions to a retirement plan. The credit can amount to as much as \$1,000 per taxpayer, but is limited to low-income taxpayers. For 2014, there is NO credit for those who file as single, married filing separately, or qualifying widow(er) and have more than \$30,000 of AGI (\$45,000 for head of household, \$60,000 for married filing jointly), and the credit increases as AGI decreases. Form 8880 is accessible through the Road Map at line 51 of Form 1040

**Qualifications.** Only the following types of contributions or deferrals qualify for the credit:

- Contributions to traditional IRAs
- Contributions to Roth IRAs
- Elective deferrals to 401(k) plans
- Elective deferrals to 403(b) plans
- Elective deferrals to Governmental 457 plans
- Elective deferrals to SEP plans
- Elective deferrals to SIMPLE plans
- Voluntary employee contributions to plans defined in IRS sec. 4974(c)
- Contributions to a 501(c)(18)(D) plan

Furthermore, the taxpayer who made the contribution cannot be a dependent on someone else's return, cannot be under age 18 at year-end, and cannot have been a student for any 5-month period during the tax year.

**Automatically generated for qualified taxpayers with traditional IRAs.** If all your qualified contributions are to a traditional IRA, the credit is fully automatic based on your IRA contributions allowed on line 32 of Form 1040, plus any allowed voluntary contributions you entered on Form 8606, less IRA distributions received on line 15a. In that case the form is automatically created and completed for you when you exit the return when your AGI is low enough for a credit. However, contributions to other plans are not generally reported on the return, so you must supply information on your other contributions directly on Form 8880 yourself.

**YOUR RETIREMENT ACCOUNTS.** The form is completed automatically based on information you supply for you and spouse for lines 1, 2, and 4 of the form:

**Traditional IRA deduction on Form 1040.** *(auto-calc)* Taken from your part of Form 1040, line 32, this is your allowed nontaxable IRA contribution.

**Additional contributions on Form 8606, line 1.** *(auto-calc)* Taken from line 1 of your copy of Form 8606, this is the total of allowed voluntary (taxable) contributions you made to your IRA.

**Roth IRA contributions for 2014.** Enter allowed contributions only.

**Adjustment for Form 8880, line 1a.** Enter any adjustment required for the above amounts, such as a negative entry for rollover contributions included above.

**1a TOTAL IRA contributions for line 1a.** *(auto-calc)* Computed as the sum of the above four lines.

**Qualified elective deferrals.** Enter deferrals to 401(k), 403(b), governmental 456, SEP, and SIMPLE plans.

**Voluntary 4974(c) contributions.** Enter contributions to a qualified plan defined in IRC sec. 4974(c).

**501(c)(18)(D) contributions.** Enter contributions to 501(c)(18)(D) plans.

**2a TOTAL deferrals and contributions for line 2a.** *(auto-calc)* Computed as the sum of the above three lines.

**IRA distributions on Form 1040, line 15a.** *(auto-calc)* Taken from the worksheets you prepared for lines 15a through 16b of Form 1040 and identified as IRAs and as yours.

**Additional post-2011 distributions.** Enter any distributions to you not reflected in the preceding line from any plans of the type listed above lines 1a and 2a for January 1, 2012 through the due date of your return (including extensions). *CAUTION: Do NOT follow the IRS instruction to enter amounts for both spouses' in both columns. Instead, see the entry that follows line 4a.*

**Adjustment for Form 8880, line 4a.** Enter any adjustment required for the above amounts, such as a negative entry for rollovers or trustee-to-trustee transfers, loans from your plan, or distributions for excess contributions.

**4a TOTAL post-2011 distributions for line 4a.** *(auto-calc)* Computed as the sum of the above three lines.

**Part for years you filed married filing jointly with spouse on this return.** If you have filed married filing jointly with the same spouse every year after 2011, you would enter the full amount of line 4a here. Otherwise you must enter only distributions received for years you filed jointly with this spouse. This entry is used later to satisfy the IRS instruction to enter both spouses' amounts in both columns when appropriate.

**Age under 18 at end of year?** *(auto-calc)* Based on the entry for your age on Form 1040, the answer is Yes if you have not reached age 18 by January 1, 2014. (You must have been born after January 1, 1996 in order for the answer to be Yes.)

**Claimed as a dependent on another return?** *(auto-calc)* Taken from your answer on Form 1040 for "Were you a dependent on another return?"

**Student during 2014?** *(auto-calc)* Taken from your answer on Form 1040 for "Were you a student for 5 months or more?"

If you had contributions on line 1a or 2a and the answer to any of the preceding 3 questions is Yes, you are not qualified for the credit.

**SPOUSE RETIREMENT ACCOUNTS.** This section is identical to the one for YOU, so the instructions are not repeated here. You need not make any entries in this section unless married filing jointly.

**Remainder of form is automatic.** The form is completed for you in accordance with IRS instructions based on the information you supplied for you and spouse.

**Filing status (from Form 1040).** *(auto-calc)* Taken from Form 1040, as indicated.

**Qualified for this credit?** *(auto-calc)* If not married filing jointly, answered No only if you had contributions but the answer to at least one of the 3 questions at the bottom of screen 1 is Yes. But if married filing jointly,

answered No if either you had contributions and the answer to at least one of the 3 questions at the bottom of screen 1 is Yes or spouse had contributions and the answer to at least one of the 3 questions at the bottom of screen 2 is Yes. Otherwise, Yes. If No, the remainder of the form will be blank and no credit will be given.

**(a) Your reportable information.** The following lines will appear in column (a) of the official printout based on the information you provided about your retirement accounts as long as the answer to "Qualified for this credit?" is Yes:

- 1 Traditional and Roth IRA contributions for 2012.** *(auto-calc)* Taken from line 1a of the preceding section for your retirement accounts.
- 2 Elective deferrals to a 401(k) or other qualified employer plan, voluntary contributions, and 501(c)(18)(D) plan contributions for 2012.** *(auto-calc)* Taken from line 2a of the preceding section for your retirement accounts.
- 3 Add lines 1 and 2.** *(auto-calc)* Computed as indicated.
- 4 Certain distributions received after 2011 and before the due date of your 2014 tax return.** *(auto-calc)* If not married filing jointly, taken from line 4a of the preceding section for your retirement accounts. But if married filing jointly, taken as the sum of line 4a (for your retirement accounts) plus spouse's "Part for years you filed married filing jointly with spouse on this return" (below line 4b).
- 5 Subtract line 4 from line 3.** *(auto-calc)* Computed as indicated, but no less than zero.
- 6 Smaller of line 5 or \$2,000.** *(auto-calc)* Computed as indicated.

**(b) Spouse reportable information.** The following lines will appear in column (b) of the official printout based on the information you provided about your and spouse's retirement accounts as long as the answer to "Qualified for this credit?" is Yes and the filing status on the current return is married filing jointly:

- 1 Traditional and Roth IRA contributions for 2014.** *(auto-calc)* Taken from line 1b of the preceding section for your retirement accounts.
  - 2 Elective deferrals to a 401(k) or other qualified employer plan, voluntary contributions, and 501(c)(18)(D) plan contributions for 2012.** *(auto-calc)* Taken from line 2b of the preceding section for your retirement accounts.
  - 3 Add lines 1 and 2.** *(auto-calc)* Computed as indicated.
  - 4 Certain distributions received after 2011 and before the due date of your 2014 tax return.** *(auto-calc)* Taken as the sum of line 4b (for spouse's retirement accounts) plus your "Part for years you filed married filing jointly with spouse on this return" (below line 4a).
  - 5 Subtract line 4 from line 3.** *(auto-calc)* Computed as indicated, but no less than zero.
  - 6 Smaller of line 5 or \$2,000.** *(auto-calc)* Computed as indicated.
  - 7 Add amounts on line 6.** *(auto-calc)* Computed as the sum of line 6 for column (a) and line 6 for column (b). If zero, there is no credit available.
- AGI before Pub. 590-A modifications.** *(auto-calc)* Taken from line 38 of Form 1040, this is the AGI for the return.

**Excluded foreign income and housing deduction.** *(auto-calc)* Computed as the sum of the foreign earned income from Form 2555 or 2555-EZ that was excluded from line 21 of Form 1040 and the foreign housing deduction from Form 2555 that was included in line 36 of Form 1040.

**Excluded Puerto Rico income.** *(auto-calc)* Taken from the line "Puerto Rico income not reported" in the section of our Form 1040, page 1, labeled "CERTAIN NONTAXABLE INCOME" (below Form 1040, line 22).

**Excluded American Samoa income.** *(auto-calc)* Taken from the line "American Samoa income not reported" in the section of our Form 1040, page 1, labeled "CERTAIN NONTAXABLE INCOME" (below Form 1040, line 22).

**8 Amount from Form 1040, line 38\*.** *(auto-calc)* Computed as the sum of the preceding four lines, this is the modified AGI as defined in IRS Pub. 590-A (*Contributions to IRAs*) for this credit.

**9 Decimal amount that applies.** *(auto-calc)* Computed in accordance with the table that appears on the official IRS Form 8880, the result will be 0, 0.1, 0.2, or 0.5 depending on the modified AGI on line 8 and the filing status on the return. For 2014, the result will be zero if modified AGI exceeds \$60,000 if married filing jointly, \$45,000 if head of household, or \$30,000 for all others.

**10 Multiply line 7 by line 9.** *(auto-calc)* Computed as indicated.

**Amount from Form 1040, line 47.** *(auto-calc)* Taken from Form 1040 as indicated.

**Form 1040, lines 48 through 50.** *(auto-calc)* Computed as the sum of lines 48, 49, and 50 of Form 1040.

**Schedule R amount in Form 1040, line 54c.** *(auto-calc)* Taken as the Schedule R component of Form 1040, line 54c.

**Form 1040 lines 48 through 50 and Schedule R, line 22..** *(auto-calc)* Computed as the sum of the preceding two amounts.

**11 Liability based on tax liability.** *(auto-calc)* Computed in accordance with the *Credit Limit Worksheet* in the IRS instructions as "Amount from Form 1040, line 47" less "Form 1040 lines 48 through 50 and Schedule R, line 22, but no less than zero.

**12 CREDIT FOR QUALIFIED RETIREMENT SAVINGS CONTRIBUTIONS.** *(auto-calc)* Computed as the smaller of line 10 or line 11.

Any credit resulting at line 12 of this form is posted to line 51 of Form 1040.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8889\* / Health Savings Accounts (HSAs)

\* Included in Premium Level software ONLY. This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used for to report contributions to your HSAs (whether made by you, your employer, or someone else), to figure your HSA deduction (for line 25 of Form 1040), to report distributions from your HSAs (for line 21 of Form 1040) and to figure a penalty tax on them (for line 62 of Form 1040), and to figure income and a penalty tax for failure to maintain HDHP coverage (also for lines 21 and 62 of Form 1040, respectively). Because of the many uses for Form 8889, it is accessible through the Road Map at several lines on Form 1040: the HSA component of line 21, line 25, the HSA component of line 62c, and the HDHP component of line 62c. Two copies of Form 8889 are available, one for each spouse.

**Eligibility.** To be eligible to contribute to an HSA, you must be covered under a high deductible health plan (HDHP) with particular characteristics:

- ◆ **For self-only coverage:** minimum deductible is \$1,250 and maximum deductible plus annual out-of-pocket expense is \$6,350.
- ◆ **Family coverage:** minimum deductible is \$2,500 and maximum deductible plus annual out-of-pocket expense is \$12,700.

You must generally not be covered under another health plan, but there are exceptions listed in the IRS instructions for Form 8889. You must also not be enrolled in Medicare for any month you contribute to the plan, and cannot be a dependent on anyone else's tax return. If you have both a self-only plan and a family plan, the family plan must be used for Form 8889 and the other plan is ignored. (Eligibility is determined monthly, on the first day of each month.)

**Married taxpayers have extra complexities.** When married and either spouse has family coverage, the IRS requires you to follow particular rules to determine the plan to report on Form 8889. For example, if either spouse has a family plan, you must use the family plan for both spouses and ignore the other plan. If both spouses have family coverage, you must use the plan with the lower deductible for both spouses and ignore the other plan. (See the IRS Instructions for Form 8889 for umbrella and embedded deductibles in the same plan.) If married and both spouses had family coverage, you can make a different allocation among spouse's than we compute at line 6. See the IRS Instructions for Form 8889 and IRS Pub. 969, *Health Savings Accounts and Other Tax-Favored Health Plans*.

**Identification.** Two copies of Form 8889 are available, one for each spouse. The copy you are currently using is identified here.

**Social security number for this copy.** *(auto-calc)* This is the social security number entered on Form 1040 for the spouse whose copy you chose when you entered Form 8889.

**Is this spouse's copy (vs. you)?** *(auto-calc)* This answer is based on your choice when you entered this form.

**Dependent on another return.** *(auto-calc)* Taken from your answer on Form 1040. You cannot deduct any contributions to an HSA if you are claimed as a dependent on someone else's return.

**Your age (from Form 1040).** *(auto-calc)* Taken from your entry on Form 1040. This should be your age on January 1, 2015 accurate to 2 decimal places in order for age checks to be proper for this form.

**Information on YOUR HSA.** General information on your HSA as well as contributions and distributions are entered here.

**Number of months contributions NOT allowed.** Eligibility to make contributions to an HSA is determined monthly, on the 1<sup>st</sup> day of each month. Therefore, you must *enter here the number of full months in which you were ineligible to contribute to an HSA.* (This entry is used to proportionately reduce the limitation for line 3 of this form as your entry rises from 0 to 12, in accordance with the IRS *Line 3 Limitation Chart and Worksheet.*)

*Example 1:* You are ineligible for months in which you are enrolled in Medicare. Therefore, if you first enroll in Medicare on January 2 of the tax year, you should enter 11 here.

*Example 2:* You are ineligible to make contributions to an HSA if you are claimed as a dependent on someone else's return. Therefore, your entry here will always be forced to 12 if you are a dependent of another.

*Example 3:* You are ineligible for all months prior to establishing the HDHP. Furthermore, if you established it after the 1<sup>st</sup> of the month, you are ineligible for that month. Accordingly, if you established the HDHP on February 2, 2014, you must enter 2 here because you are ineligible for January and February, 2014.

**Does HDHP cover Family?** Answer Yes only if the coverage for this plan is family coverage rather than self-only. *If you have more than one plan and one is a family plan, answer Yes here and answer all succeeding questions for that plan alone.* If married and the other spouse has family coverage, only that plan is considered for the purposes of this form.

**Annual deductible for plan.** You are eligible to deduct contributions only if the deductible for the plan falls within allowed ranges: \$1,250 through \$6,350 for self-only coverage and \$2,500 through \$12,700 for family coverage. If your deductible is outside this range, the limitation for line 3 will be zero and all contributions will be considered excess contributions.

**Limitation per line 3 worksheet.** *(auto-calc)* The IRS instructions include a *Line 3 Limitation Chart and Worksheet* that helps you determine the limitation on contributions at line 3 of Form 8889. The software computes the limitation using that worksheet under the assumption that, for the months you are eligible, your deductible is the same every month throughout the year. If this assumption is not valid for your case, you may have to override the result that appears here with a manual calculation using the IRS worksheet. This result is proportionately reduced when "Number of months contributions NOT allowed" is greater than zero, and reduced to zero when the number is 12.

**Your HSA contributions for 2014.** Enter the contributions you made to your HSA (or someone else *other than your employer* made on your behalf), including those made for 2014 in the period January 1, 2015 through April 15, 2015, but do not include rollovers from other HSAs or Archer MSAs. *Be sure to include any direct deposits made to your HSA for economic stimulus payments.* Your entry here is used at line 2 of Form 8889.

**Excess timely withdrawn.** If you find that your contributions (or those made on your behalf, other than your employer) exceed the allowed amount, you can correct the excess contributions by withdrawing the excess (plus earnings on it) within 6 months of the regular due date of the return. You can then enter the amount withdrawn here and your contributions will be reduced for the purposes of the filed Form 8889 as if the excess had never occurred, all in accordance with IRS instructions. (If you file the return before withdrawing the excess, you should not make an entry here now. Instead, you will make an entry here when you prepare an amended return after withdrawing the excess within the allowed time.)

**Employer's 2014 HSA contributions.** Enter the contributions *your employer* made to your HAS for 2014. Include contributions made in 2015 for tax year 2014, but exclude contributions made in 2014 for tax year 2013. Your entry here is used at line 9 of Form 8889. **CAUTION:** *If both you and your employer made contributions during the year, you may exceed the allowed amounts and have to pay tax on the excess. See "How to handle excess contributions" in the shaded box following our details for line 13.*

**Excess timely withdrawn.** If you find that your employer's contributions exceeded the allowed amount, you can correct the excess contributions by withdrawing the excess (plus earnings on it) within 6 months of the regular due date of the return. You can then enter the amount withdrawn here and the contributions reported on Form 8889 will be reduced for the purposes of the filed Form 8889 as if the excess had never occurred, all in accordance with IRS instructions. (If you file the return before withdrawing the excess, you should not make an entry here now. Instead, you will make an entry here when you prepare an amended return after withdrawing the excess within the allowed time.) **CAUTION:** *If the employer contributed too much and recognizes this fact, the employer will generally include the excess as wages in box 1 of a Form W-2, and you will report it as income on Form 1040, line 7. If so, you must indicate this fact to the software on the last screen of Form 1040 so that the excess is not reported as income at Form 1040, 21 as well.*

**Total HSA distributions for 2014.** Enter the total distributions received. This amount should be reported to you in box 1 of a Form 1099-SA for which HSA is indicated in box 5. Your entry here is used at line 14a.

**Part for timely withdrawal.** Enter the part of the total distributions that was made in order to correct excess contributions (within 6 months of the regular due date of the return). This amount is not taxable and

will be reflected in line 14b. *Be sure to include any direct deposits made to your HSA for economic stimulus payments that you withdrew on time. TIP: Note that this entry applies ONLY to HSA amounts reported to you on Form 1099-SA for 2014. Therefore, any timely withdrawals made after the end of 2014 will be reported on line 12b of the 2015 Form 8889, not the 2014 form. Similarly, you could have an amount for this line for a withdrawal that corrected a 2013 excess because you made the withdrawal in 2014.*

**Part for allowed rollovers.** Enter the part of the total distributions that was a rollover into another HSA. This amount is not taxable and will be reflected in line 14b.

**Part received after died, disabled, or over 65.** Any amounts distributed after the benefactor died, or you became disabled or turned 65, are not subject to the additional 20% tax for not being used for qualified medical expenses. If "Your age at end of tax year" on our Form 1040 is 66.01 or more, this entry is automatically the same as the preceding entry. (Remember that the age entry is based on the age on January 1 of the following year.) Otherwise you can enter any amount up to the preceding entry. This amount is taken into account in the computation of the penalty at line 17b.

**FMV of benefactor's HSA at time of death.** If you inherited an HSA from someone other than your spouse, the entire HSA must be distributed to you. You must therefore enter the fair market value (FMV) of the account at the time of your benefactor's death, and the amount will be included in line 14a. In addition, no penalty applies to this distribution, so this amount is taken into account when computing the 20% additional tax at line 17b. *An entry here will cause "DEATH HSA ACCT HOLDER" to be printed above the taxpayer's name(s) near the top of Form 8889 to flag to the IRS that you are reporting a distribution from a deceased benefactor.*

**PART I, HSA CONTRIBUTIONS AND DEDUCTIONS.** This part is used to claim a deduction for contributions you make to your HSA. It is automatically completed based on the information you supplied above, but you may provide your own computation for line 6 if married and both spouses have family coverage under their own HSAs.

**1 Indicate your coverage under a high-deductible health plan (HDHP) during 2014.** *(auto-calc)* If you (or someone on your behalf, including your employer) made contributions for your HSA, either *Self-only* or *Family* is answered Yes depending on your prior answer to "Does HDHP cover family." Otherwise, both answers remain No and Part I of Form 8889 is not used.

**2 HSA contributions you made for 2014.** *(auto-calc)* Taken from your entry for "Your HSA contributions for 2014" on screen 1 less "Excess timely withdrawn" directly below that line.

**3 Deductible or limitation from worksheet for line 3.** *(auto-calc)* Taken from the previous result for "Limitation per line 3 worksheet."

**Your Form 8853, lines 3 and 4.** *(auto-calc, supported by Form 8853)*

Computed as the sum of lines 3 and 4 of the section of our Form 8853 entitled "Your Archer MSA for II."

**Spouse's Form 8853, lines 3 and 4.** *(auto-calc, supported by Form*

*8853)* Computed as the sum of lines 3 and 4 of the section of our Form 8853 entitled "Spouse Archer MSA for II."

**Did either spouse have family coverage for the Archer MSA?.** *(auto-calc, supported by Form 8853)* Answered Yes if either line 1c or line 2c of Form 8853 shows Yes for "Family."

**4 Amount you or employer contributed to your Archer MSA for 2014.** *(auto-calc)* If the preceding answer is Yes, computed as the sum of your and spouse's Form 8853 lines 3 and 4. Otherwise, computed as your Form 8853 lines 3 and 4 alone.

**5 Subtract line 4 from line 3.** *(auto-calc)* Computed as indicated, but no less than zero.

**Special amount for line 6, if any, from IRS instructions.** If married and the spouses have separate family-coverage HSAs, you can choose a different allocation than the software provides for line 6. *See IRS instructions for line 6.*

**6 Amount from line 5, or see instructions..** *(auto-calc)* Normally computed as line 5. However, if you made an entry on the preceding line, that entry is used here instead.

**7 If age 55 or older at the end of 2014, married, and you or spouse had family coverage under an HDHP anytime during 2014, additional contribution amount.** *(auto-calc)* If filing status is 2 or 3, family coverage was indicated, and your age on 1040 is 55.0 or more, computed as \$1,000 (for 2014) times the number of months of the year in which contributions were allowed divided by 12. Otherwise, zero.

**8 Add lines 6 and 7.** *(auto-calc)* Computed as indicated.

**9 Employer contributions made to your HSAs for 2014.** *(auto-calc)* Taken from your prior entry for "Employer's 2014 HSA contributions."

**10 Qualified HSA funding distributions.** Enter here any direct trustee-to-trustee transfer from your IRA to your HSA that are qualified HAS funding distributions. See IRS instructions for line 10 for detailed requirements for qualification.

**11 Add lines 9 and 10.** *(auto-calc)* Computed as indicated.

**12 Subtract line 11 from line 8.** *(auto-calc)* Computed as indicated, but no less than zero.

**Adjustment per Form 5329 line 43 instructions.** *(auto-calc)* Computed as the lesser of the amount by which Form 5329, line 42 exceeds Form 8889, line 16 (later) or the amount by which Form 8889, line 12 exceeds Form 8889, line 2. This is the additional deduction you are allowed this year (below) because of excess contributions in the past not offset by current-year distributions. **CAUTION:** *Because this computation depends on the later computation of Form 8889, line 16, this result may not be accurate until Form 8889 is complete.* (This computation automates the IRS Instructions for Form 5329, line 43.)

**13 HSA deduction.** *(auto-calc)* Computed as the smaller of line 2 or 12 plus "Adjustment per Form 5329 line 43 instructions." This result is automatically posted to line 25 of Form 1040 as an adjustment to income.

**Excess contributions.** If line 2 exceeds line 12 or line 11 exceeds line 8, you have an excess contribution that may be subject to taxes and penalties on Form 5329. See the last screen of our Form 8889 for details.

**PART II, HSA DISTRIBUTIONS.** This section is used to report distributions you receive from your HSA, which is subject to taxation and an additional penalty unless an exception applies.

**Distributions from all HSAs.** *(auto-calc)* Taken from your prior entry for "Total HSA distributions for 2014" on screen 1.

**FMV of benefactor's HSA at time of death.** *(auto-calc)* Taken from your prior entry for "FMV of benefactor's HSA at time of death." *If an amount appears here, "DEATH HSA ACCT HOLDER" will be printed above the taxpayer's name near the top of Form 8889 to flag to the IRS that you are reporting a distribution from a deceased benefactor.*

**14a Distributions you received in 2014 from all HSAs.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**Allowed rollovers in 14a.** *(auto-calc)* Taken from your prior entry for "Part for allowed rollovers" on screen 1.

**Timely withdrawal in 14a.** *(auto-calc)* Taken from your prior entry for "Part for timely withdrawal" on screen 1.

**14b Distributions included in line 14a that you rolled over into another HSA, etc.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**14c Subtract line 14b from line 14a.** *(auto-calc)* Computed as indicated.

**Unreimbursed qualified medical expenses.** Generally, enter the amount in line 14c that you used to pay for qualified medical expenses for you, your spouse, or your dependents. However, see IRS instructions for restrictions. **CAUTION:** *Any amount you enter here cannot be claimed as an itemized deduction on Schedule A.*

**Decedent's qualified medical expenses.** Enter the amount of qualified medical expenses incurred by the above benefactor before his or her death that you paid within 1 year of death. This entry can be no more than the FMV of the benefactor's HSA on the date of death. **CAUTION:** *Any amount you enter here cannot be claimed as an itemized deduction on Schedule A.*

**15 Unreimbursed qualified medical expenses.** *(auto-calc)* Computed as the sum of the preceding two amounts.

**Your taxable distributions.** *(auto-calc)* Computed as "Distributions from Archer MSAs" (without the decedent's amount) less line 8b and less "Unreimbursed qualified medical expenses" (without the decedent's amount). This amount is generally subject to a 20% penalty tax unless you previously identified an amount distributed due to death, disability, or age.

**Decedent's taxable distributions.** *(auto-calc)* Computed as "FMV of benefactor's Archer MSA at time of death" less "Decedent's qualified medical expenses." This entire amount is exempt from the 20% penalty tax.

**16 TAXABLE HSA DISTRIBUTIONS.** *(auto-calc)* Computed as line 14c less line 15, but no less than zero. This is the amount to be included in line 21 of Form 1040. *(See the last screen of Form 8889 for other amounts that may be included in the posting to line 21 of Form 1040, including an adjustment you may have to make.)*

**Your exception to the 20% additional tax.** *(auto-calc)* Taken from your prior entry for "Part received after died, or disabled, or over 65," which is the only part of your taxable distributions excepted from the penalty.

**Decedent's exception to the 20% additional tax.** *(auto-calc)* Computed as the entire amount for "Decedent's taxable distributions," all of which is excepted from this penalty.

**17a Do any of the distributions in line 16 meet an exception to the additional 20% tax.** *(auto-calc)* Answered Yes if there is an amount on either of the preceding two lines.

**17b ADDITIONAL 20% TAX.** *(auto-calc)* Computed as the amount on line 16, less the two exceptions that follow line 16, times 20%. This amount is posted to the HSA component of Form 1040, line 62c.

**PART III, INCOME AND ADDITIONAL TAX FOR FAILURE TO MAINTAIN HDHP COVERAGE.** This section is used to determine your additional taxable income and an additional penalty tax caused by your failure to be eligible for an HSA during the testing period. See page 7 of the IRS instructions for details. CAUTION: Make no entries in this section unless you failed to maintain HDHP coverage as required. Otherwise, you will be assessed an inappropriate penalty based on your entries.

**18 Last-month rule.** See the IRS instructions for this line. Enter the excess of the amount contributed over line 13 as revised in accordance with IRS instructions.

**19 Qualified HS funding distributions.** Enter the total of any qualified HSA funding distributions (see line 10) if you failed to be eligible during the testing period. Also enter the total of any qualified HSA distributions if you failed to be eligible during the testing period.

**20 TOTAL INCOME.** *(auto-calc)* Computed as the sum of lines 18 and 19, this amount will be reflected in line 21 of Form 1040 as taxable income.

**21 ADDITIONAL TAX.** *(auto-calc)* Computed as 10% of line 20, this tax is posted to the HDHP component of Form 1040, line 62c.

**Special Transfers to Form 5329.** If you have any excess contributions to your HSAs (shown below) or you had an amount on line 43 of the 2013 Form 5329, you must complete Part VII or Form 5329. The following amounts from this Form 8889 will be used in Part VII of Form 5329.

**Contributions allowed in line 12.** *(auto-calc)* Taken from line 12.

**Contributions you made in line 2.** *(auto-calc)* Taken from line 2.

→ **REMAINDER FOR FORM 5329, LINE 43.** *(auto-calc)* Computed as line 12 less line 2, but no less than zero, this is the Contribution Credit for Form 5329, which is automatically posted to the proper copy of Form 5329. *If you had an amount on the 2013 Form 5329, line 48 (and therefore have an entry for the current-year Form 5329, line 42), you must manually enter that amount on the copy of Form 5329 for the appropriate spouse to ensure that the additional tax on prior excess contributions is minimized in Part VII of Form 5329.*

→ **DISTRIBUTIONS FOR FORM 5329, LINE 44.** *(auto-calc)* Computed as the result on Form 8889, line 16, this amount is automatically posted to the proper copy of Form 5329.

**Your excess contributions.** *(auto-calc)* Computed as line 2 less line 12, but no less than zero, this is the amount by which your contributions (or those made on your behalf by someone else other than your employer) exceeded the allowed amount.

**Employer's excess contributions.** *(auto-calc)* Computed as line 9 less line 8, but no less than zero, this is the amount by which your employer's contributions exceeded the allowed amount.

→ **TOTAL EXCESS FOR FORM 5329, LINE 47.** *(auto-calc)* Computed as the sum of the above two amounts, this is the excess contribution that is subject to a 6% additional tax through Form 5329. This result is automatically posted to the proper copy of Form 5329.

**Extra time to correct excess contributions.** Note that you can also get credit for withdrawing excess contributions after you file your return. Withdrawals made up to 6 months after the regular due date of the return (excluding extensions) can be used to cancel excess contributions and eliminate taxes and penalties on the amount. You would generally have to revise Forms 1040, 5329, and 8889 on your amended return, entering the excess withdrawn on screen 1 of Form 8889.

**Income for Form 1040, line 21.** Although the taxable income on line 16 of Form 8889 and any excess contributions are automatically reflected in line 21 of Form 1040, you will have to enter an adjustment here if your employer reported excess contributions as taxable wages in box 1 of a Form W-2.

**Your excess contributions.** *(auto-calc)* Computed as line 2 less line 12, but no less than zero, this is the amount by which your contributions (or those made on your behalf by someone else other than your employer) exceeded the allowed amount.

**Employer's excess contributions.** *(auto-calc)* Computed as line 9 less line 8, but no less than zero, this is the amount by which your employer's contributions exceeded the allowed amount.

**Amount included in Form 1040, line 7.** If the employer reported excess contributions in box 1 of Form W-2, the amount will be reflected in line 7 of Form 1040 through your entry on the W-2 Worksheets for that line. In order to prevent the double taxation of that amount, you must enter the amount here.

**Net excess for Form 1040, line 21.** *(auto-calc)* Computed as your and employer's excess contributions less the amount included in Form 1040, line 7.

**Taxable amount on Form 8889, line 16.** *(auto-calc)* Taken from line 16, as indicated.

**Taxable amount on Form 8889, line 20.** *(auto-calc)* Taken from line 20, as indicated.

**TOTAL FOR FORM 1040, LINE 21.** *(auto-calc)* Computed as the sum of the preceding three amounts, this total is automatically posted to the HSA component of line 21 of Form 1040 as taxable income.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8910\*\* / Alternative Motor Vehicle Credit**

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of Tax Preparer and Partnership Edition. See the separate Partnership Edition manual for details on the version of Form 8910 that is built into the Partnership Edition software.

**Purpose.** This form has traditionally been used to claim a credit for special types of vehicles that are an alternative to the standard internal combustion engine. In the past, five categories of vehicles have been covered, including hybrids. However, the credit for all but one of them has expired, and their transition period has passed. You can now claim a credit only for qualified fuel cell vehicles on this form. Qualified fuel cell vehicles are vehicles that use cells that convert chemical energy into electricity by combining oxygen with hydrogen fuel. Even if you use the vehicle for personal use only, you are still eligible for a credit. The vehicle is identified in Part I, the business/investment use credit is computed in Part II (and posted to screen 3 of Form 3800), and the personal use credit is computed in Part III (and posted to Form 1040, line 54c). *Form 8910 is accessible through the Road Map from screen 3 of Form 3800 and the component of line 54c of Form 1040 labeled "Line 15 ONLY of Form 8910."*

**CAUTION: Additional entries may be required on Form 3800.** Unless you make additional entries on screen 3 of the main Form 3800, the business/investment use part of the credit is initially assumed to be a Category A credit (General Business Credit from a Non-passive Activity) and posted to line 1r of Copy 2 of Form 3800, Part III. (Copy 2 of Form 3800, Part III, is reserved for the General Business Credit from a Non-passive Activity.) If the credit stems from a passive activity, or you have any carryforwards or carrybacks, you must indicate on Form 3800 screen 3 that it is not a Category A credit and manually enter the credit on line 1r of the appropriate copy of Form 3800, Part III. Also, if the credit originated from a pass-through entity, you must enter the EIN of the entity on the copy of Form 3800, Part III, that you use.

**Certification is mandatory and can change.** The requirements for certification are complex and technical, so the IRS allows you to rely on the manufacturer's certification that the specific model year, make, and model qualifies for the credit. However, the IRS can withdraw certification at any time! The IRS adopts the policy that if you purchased the vehicle *before* the IRS announced the withdrawal of certification, you are still allowed the credit, even if you did not place the vehicle in service until after the announcement. However, it is your responsibility to keep up-to-date with IRS announcements.

**PART I, TENTATIVE CREDIT.** Qualifying vehicles are identified in this part and the maximum credit before limitation is computed. *All information for this part of the form is entered on supporting worksheets*, one for each qualifying vehicle. To qualify for the credit, the vehicle must be certified by the IRS as eligible for this credit, and must meet the following conditions:

- The vehicle is owned by the taxpayer.
- The vehicle was placed in service during the tax year of the taxpayer.
- The original use of the vehicle began with the taxpayer.
- The taxpayer acquired the vehicle for his or her own use or lease, and not for resale.

The requirement to meet these conditions is enforced on the supporting worksheets. Even though the worksheets are accessed from Part I, below, the worksheets also support certain lines in Parts II and III of this form.

**Vehicles claimed (itemize).** *(Supported by the Alternative Vehicle Information Worksheet, Figure 2-74.)* You must complete a separate worksheet for each qualifying vehicle. When you return from the worksheets, the number of qualified vehicles is shown on this line. (Because all information for the credit is contained on the worksheets, no credit will be computed on Form 8910 without the worksheets being present and attached.) **Special limitation for e-file:** *The software supports no more than two vehicles for an e-file return. If you need to claim more than two vehicles, include Form 8948 with your paper return, explaining this limitation on line 1c of that form.*

1 -4: These lines appear only on the worksheets, not here, because they relate to the individual vehicles that you detail on the worksheets.

**Alternative Vehicle Info Worksheet.** *(Figure 2-74; supports entire Form 8910)* You must complete a separate worksheet for each qualifying vehicle.

**1 Year, make, and model of vehicle.** This entry is split into 3 parts in order to fit on the printed form and conform to the IRS e-file format.

**Model year (YYYY).** Enter the manufacturer's model year as a 4-digit number.

```

ALTERNATIVE VEHICLE INFO
1  Model year (YYYY).....
   Make.....
   Model.....
   Credit per manufacturer.      0
   (see certification)
   QUALIFICATION:
   Are you owner of vehicle..? No
   Did orig. use begin w/ you? No
   Acq'd to use or lease out? No
   Use primarily in U.S.A. ..? No
   Qlfd. fuel cell vehicle..? No
   Qlfd. for Form 8936 credit? No
2  Vehicle ID (VIN)
   Date purchased.....
3  Date placed in service...
11 TENTATIVE CREDIT.....      0
12 Business/investment use %  0
13 Multiply line 4 by line 5.  0
17 Subtract line 6 from ln 4.  0
   VEHICLE COUNTED FOR 8910.. No

```

Figure 2-74. Alternative Vehicle Information Worksheet

**Make.** Enter the make in 18 characters or less. You can include part of the model here, as noted below, but the make should be the first word of this entry.

**Model.** Enter the model in 18 characters or less. If you need more room, you can start your entry on the preceding line. For example, for a Honda Civic Hybrid CVT you would enter Honda Civic for the make and Hybrid CVT for the model. See IRS instructions for Form 8910 for the make and model information that you must supply.

**Credit per manufacturer (see certification).** The maximum credit amount varies by the year, make, and model of the vehicle, and appears on the manufacturer's certification. You can generally rely on the manufacturer's certification that you receive when you purchase the vehicle, which will show the make, model, and model year and the amount of credit for which the vehicle qualifies. Unlike hybrid vehicles that formerly qualified for Form 8910, the maximum credit for fuel cell vehicles does *not* phase out as the manufacturer reaches specific total sales levels.

**QUALIFICATION.** A number of conditions must be met in order to claim the credit:

**Are you the owner of the vehicle?** Only the owner can claim the credit, even if leased to someone else. *If you cannot answer Yes here, no credit will be allowed.*

**Did the original use of the vehicle begin with you?** Only new vehicles qualify for a credit. *If you cannot answer Yes here, no credit will be allowed.*

**Did you acquire the vehicle to use or lease out?** Vehicles that you acquire for resale generally do not qualify. However, if you sold the vehicle to a tax-exempt organization, governmental unit, foreign person, or foreign entity, see IRS *2014 Instructions for Form 8910* for an exception to this requirement. Answer Yes here if you qualify for the exception. *If you cannot answer Yes here, no credit will be allowed.*

**Are you using the vehicle primarily in the United States?** If you use the vehicle, you must use it primarily in the U.S. to qualify. If not, see IRS *2014 Instructions for Form 8910* for an exception to this requirement, which applies for certain sales to tax-exempt organizations, governmental units, and foreign persons or entities. Answer Yes here if you qualify for the exception. *If you cannot answer Yes here, no credit will be allowed.*

**Qualified fuel cell vehicle.** This is the only type of vehicle now eligible for a credit on Form 8910. *If you cannot answer Yes here, no credit will be allowed.*

**Qualified for Form 8936 credit?** Form 8936 takes precedence over Form 8910, so if you are qualified for the credit on Form 8936, you must claim the credit on that form, not Form 8910. If you answer Yes here, no credit will be allowed.

**2 Vehicle identification number (VIN).** Enter the vehicle's VIN in 17 characters or less. It will generally be a 17-character combination of

letters and numbers. You can generally find the vehicle's VIN on the vehicle itself, its registration, its title, or its insurance.

**Date purchased.** Enter the date you purchased the vehicle using the standard MM/DD/YYYY format. *(You must have purchased the vehicle to qualify for the credit. Vehicles you lease from someone else are not eligible.)* Although the vehicle must have been first placed in service during the tax year, the purchase can be made before that time.

**3 Date placed in service.** Enter date the vehicle was first placed in service using the standard MM/DD/YYYY format. *No credit will result if the date is before or after the tax year for this return, or before the preceding purchase date.*

**4 TENTATIVE CREDIT.** *(auto-calc)* Normally taken as your entry for "Credit per manufacturer," this line will be zero if you do not meet all the conditions detailed above, including the proper dates, or you have made no entry for "Make." This is the tentative credit for all eligible vehicles for 2014.

**5 Business/investment use percentage.** Enter 100 if the vehicle is used solely for business or investment. Otherwise, enter the percentage (from 0 to 100) that applies. If this entry is zero, no credit will be computed in Part II of this form, but credit may still be computed in Part III (for personal use).

**6 Multiply line 4 by line 5.** *(auto-calc)* Computed as indicated, this is the business/investment use credit before any amounts from pass-through entities are added.

**7 through 9 appear on 8910 form only.** These lines are not specific to any one vehicle, and therefore do not appear on this worksheet.

**10 Subtract line 6 from line 4.** *(auto-calc)* Computed as indicated, this is the personal use credit before limitations.

**VEHICLE COUNTED FOR FORM 8910.** *(auto-calc)* This answer will be Yes only if you have meaningful entries for the make of the vehicle and the date purchased, your entry of date placed in service lies in the tax year of the return, and you meet all qualifications.

The results on lines 6 and 10 are used on Form 8910 to compute the credit once you return to the form from the worksheets.

**PART II, CREDIT FOR BUSINESS/INVESTMENT USE PART OF VEHICLE.** The credit is computed here based on your worksheet entries plus any amount from pass-through entities.

**5 and 6:** These lines do not appear here on the screen here because they relate to individual vehicles, and therefore appear only in the worksheets and on the official printouts.

**7 Add columns (a) and (b) on line 6.** *(auto-calc)* Although the IRS label for this line implies that the credits from only two vehicles apply, this line is computed as the sum of line 6 of all worksheets combined. (The information appears in columns (a) and (b) of the official printout only when there are only one or two vehicles claimed. Otherwise, the information appears in a separate supporting statement.)

**Credit from pass-through entities:**

**Schedule K-1 (Form 1065), box 15, code P.** The amount for this line is the alternative motor vehicle credit passed through to the taxpayer from a partnership in which this taxpayer is a partner. However, code P is a generic code for all credits not identified as A through O. Therefore, you must take care to enter only the part of the code P amount that applies specifically to the alternative motor vehicle credit.

**Schedule K-1 (Form 1120S), box 13, code P.** The amount for this line is the alternative motor vehicle credit passed through to the taxpayer from an S corporation in which the taxpayer is a shareholder. However, code P is a generic code for all credits not identified as A through O. Therefore, you must take care to enter only the part of the code P amount that applies specifically to the alternative motor vehicle credit.

**8 Alternative motor vehicle credit from partnerships and S corporations.** *(auto-calc)* Computed as the sum of the preceding two entries. ***IMPORTANT:*** *If you have an amount on this line, be sure to read the CAUTION in the following shaded box.*

**CAUTION:** Additional entry on Form 3800 always required if you have an amount on line 8. Thanks to the IRS's complex design of Form 3800, manual entries are now required on Part III of that form when you have credit from a pass-through entity. You must enter the EIN of the entity in column (b) of line 1r of the copy of Form 3800, Part III, that applies to this credit. (There are 10 copies available to handle the 8 unique IRS categories plus a consolidated copy and an unattached copy.)

**9 BUSINESS/INVESTMENT USE PART OF CREDIT.** *(auto-calc)* Computed as the sum of lines 7 and 8, this is the business and investment part of the alternative motor vehicle credit.

The amount on line 9 is posted to screen 3 of Form 3800 (for use in line 1r of the appropriate copy of Form 3800, Part III) where it is combined with other business credits and subjected to tax liability and passive activity limitations before being reflected on Form 1040 as a credit.

**CAUTION: Additional entries may be required on Form 3800. If the credit on line 9 is a general business credit from a non-passive activity, you're done** (unless you have to enter an EIN as noted above). The credit will be automatically posted to screen 3 of Form 3800, and copy 2 of Form 3800, Part III (for category A) will be automatically created with the result from line 9, above, posted to line 1r of Form 3800, Part III. ***But if the credit is from a passive activity, you must indicate this fact by an entry on screen 3 of Form 3800 and then enter the result from line 9 of Form 8910 on the copy of Form 3800, Part III that applies to your credit.***

**PART III, CREDIT FOR PERSONAL USE PART OF VEHICLE.** The personal credit shown on line 10 of the worksheets is subject to tax liability limitations in this section before being reflected on Form 1040 as a credit.

- 10: See Part I worksheet.** This line does not appear on the screen here because it relates to the individual vehicles. Accordingly, it appears only in the worksheets and on the official printouts.
- 11 Add columns (a) and (b) on line 10. *(auto-calc)*** Computed as the sum of line 10 of *all* worksheets combined. (The information appears in columns (a) and (b) of the official printout only when there are just one or two vehicles claimed. Otherwise, the information appears in a separate supporting statement.)
- 12 Amount from Form 1040, line 47. *(auto-calc)*** Taken from Form 1040, as indicated, this is the regular tax plus the AMT.

**Credits that reduce tax before the Form 8910 credit:**

- Form 1040, lines 48 through 51. *(auto-calc)*** Taken from Form 1040, as indicated, these are the first four personal credits on Form 1040.
- Form 5695, line 30. *(auto-calc)*** Taken from the component of Form 1040, line 53, labeled "Line 30 of Form 5695."
- Schedule R, line 22. *(auto-calc)*** Taken from the component of Form 1040, line 54c, labeled "Elderly/diasedbled: Schedule R."
- 13 Personal credits from Form 1040. *(auto-calc)*** Computed as the sum of the preceding three lines, these are the credits that must be claimed before the credit from Form 8910.
- 14 Subtract line 13 from line 12. *(auto-calc)*** Computed as indicated, but no less than zero, this is the credit limitation.
- 15 PERSONAL USE PART OF CREDIT. *(auto-calc)*** Computed as the lesser of line 11 or line 14.

The result on line 15 is posted to the component of Form 1040, line 54c, labeled "Line 15 ONLY of Form 8910."

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8917 / Tuition and Fees Deduction

**Purpose.** This form is required to claim the tuition and fees deduction in the Adjustments to Income section of Form 1040, page 1. *Form 8917 is accessible through the Road Map at line 34 of Form 1040.*

**CAUTION: Form 8917 vs. Form 8863.** You cannot take a tuition and fees deduction for a student on Form 8917 in the same year as you or someone else claims an education credit for that same student on Form 8863. The software cannot prevent taking both, so you must make sure you don't violate this rule.

**QUALIFICATION.** Preliminary qualification depends on the answer to the following questions:

**For 2014, were you:**

**Married filing separately?** (*auto-calc*) Answered Yes if the filing status on Form 1040 is 3; otherwise, No.

**Dependent on another return?** (*auto-calc*) Answered Yes if the answer on Form 1040 for you (or spouse, if married filing jointly) is Yes; otherwise, No.

**Ever a nonresident alien anytime in the tax year?** Answer Yes, if applicable, unless you elected to be treated as a resident alien for tax purposes.

**Claimable by another?** Answer Yes if you (or spouse, if married filing jointly), can be claimed as a dependent by someone else who did not actually exercise the claim.

*If the answer to ANY of the preceding questions is Yes, you are not qualified for the tuition and fees deduction, and line 6 of this form will be zero.*

**1 Adjusted qualified expenses.** (*Supported by the Qualifying Student Worksheet, Figure 2-75.*) In the supporting worksheets, you must identify all students who qualify you for this claim and indicate the qualified expenses associated with each. **CAUTION: Do not complete a worksheet for any student for whom you or someone else claimed an education credit (Form 8863) for 2014.** When you return from the worksheets, the total expenses from all worksheets combined appears on this line.

**Qualifying Student Worksheet, Figure 2-75.** You must report expenses separately for each student:

**a. Student's name:**

**First name.** Enter the student's first name in 10 characters or less.

**Last name.** Enter the student's last name in 15 characters or less.

**e-file name.** (*auto-calc*) The name is reformatted for e-file as defined in IRS Pub. 1346.

**e-file name control.** (*auto-calc*) The name control is a 4-character code for the last name, usually the first four characters of the last name, as defined in IRS Pub. 1346.

**Claimed on Form 1040, line 6a, 6b or 6c?** If you cannot answer Yes, you cannot claim a deduction for expenses for this student. The student must be you, your spouse, or your dependent, and must be claimed as an exemption on Form 1040.

b. **Qualifying student's SSN.** You must enter the social security number (SSN) for the student. If you have no SSN for the student,

QUALIFYING STUDENT WORKSHT	
a. Student's name:	
First.....	
Last.....	
e-file name..	
e-file name control....	
Claimed on 1040, 6a, 6b, or 6c? No	
b. Qualifying student's SSN	
Fees & tuition pd in 2014	0
Tax-free assist & refunds	0
c. Adj. qlfd. expenses.....	0

Figure 2-75. Qualifying Student Worksheet

you cannot claim a deduction for expenses for this student.

**Tuitions and fees paid in 2014.** Enter only tuition and fees required for attendance or enrollment, not the cost of books or room and board. Include only expenses paid during the tax year for school terms starting before April 1, 2015.

**Tax-free assistance and refunds.** Enter any tax-free educational assistance, including tax-free scholarships, tax-free fellowships, Pell grants, etc. See the IRS 2014 Instructions for Form 8917 for specific details on what assistance and refunds must be entered here.

c. **Adjusted qualified expenses.** *(auto-calc)* Normally computed as "Tuition and fees paid in 2014" *less* "Tax-free assistance and refunds," but no less than zero. However, if the answer to "Claimed on Form 1040, line 6a, 6b, or 6c" is No, or the student's SSN is not entered on line b, the result will be zero.

When you return from the worksheets, line c of all worksheets combined is posted to line 1 of Form 8917.

**DEDUCTION.** The remaining lines of this form are automatic, computing the deduction based on your entries on the worksheets and amounts available elsewhere on the return.

**2 Add amounts on line 1(c).** *(auto-calc)* Taken from line 1, as indicated, this is the total of qualified expenses for all students identified in the worksheets.

**3 Amount from Form 1040, line 22.** *(auto-calc)* Taken from Form 1040, as indicated, this is the total income reported on Form 1040 before and adjustments are made.

**4 Total from Form 1040, line 23 through 33, plus any write-in adjustments on Form 1040, line 36.** *(auto-calc)* Taken from Form 1040, as indicated, this is the total adjustment to income on Form 1040 (line 36) excluding the deduction computed on this form and the deduction for domestic production activities (Form 1040, line 35).

**Modifications per IRS Pub. 970.** If you file Form 2555 (or 2555-EZ) or exclude income from Puerto Rico or American Samoa, the computation for line 5 of this form must be adjusted based on the following amounts:

**Amount from Form 2555 (or 2555-EZ) in Form 1040, line 21.** *(auto-calc)* Taken from the component of Form 1040, line 21, labeled "Form

2555 or Form 2555-EZ," this is the foreign earned income or housing exclusion from line 45 of Form 2555 (shown as a negative because it is taken from an income line of Form 1040).

**Amount from Form 2555 in Form 1040, line 36.** *(auto-calc)* Taken from the line above Form 1040, line 36, labeled "Form 2555," this is the foreign housing deduction from line 50 of Form 2555 (shown as a positive because it is taken from an "adjustment to income" line of Form 1040).

**Unreported Puerto Rico income.** *(auto-calc)* Taken from your entry for "Puerto Rico income not reported" in the CERTAIN NONTAXABLE INCOME section below line 22 of Form 1040, page 1.

**Unreported American Samoa income.** *(auto-calc)* Taken from your entry for "American Samoa income not reported" in the CERTAIN NONTAXABLE INCOME section below line 22 of Form 1040, page 1.

**Adjustment per IRS Pub. 970.** *(auto-calc)* Computed as the sum of the preceding three amounts plus a positive representation of the first of the above four amounts. This is the amount by which the computation on line 5, below, must be increased in accordance with Worksheet 6-1 on page 42 of IRS 2014 *Pub. 970, Tax Benefits for Education*.

**5 Subtract line 4 from line 3.** *(auto-calc)* Computed as line 3 less line 4 plus the preceding "Adjustment per IRS Pub. 970."

**Is line 5 more than \$80,000 (\$160,000 if married filing jointly)?** *(auto-calc)* Computed as indicated. If Yes, you cannot take the tuition and fees deduction, and line 6 will be zero.

**Tuition and fees deduction:**

**Is line 5 more than \$65,000 (\$130,000 if married filing jointly)?** *(auto-calc)* Computed as indicated, the answer determines the computation used for line 6.

**6 TUITION AND FEES DEDUCTION.** *(auto-calc)* If qualified for the deduction, computed as the smaller of line 2 or \$2,000 if the answer to the preceding question is Yes, or the smaller of line 2 or \$4,000 if the answer is No. Otherwise, zero. (You are disqualified if the answer to the question at line 5 is Yes OR the answer to ANY of the questions on screen 1 of this Form 8917 is Yes.)

The result on line 6 is posted to line 34 of Form 1040 as an adjustment to income.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8936\* / Qualified Plug-in Electric Drive Motor Vehicle Credit**

**\*\* Included in Premium Level software ONLY.** This form is only built into the Premium Level version of Tax Preparer.

**Purpose.** This form is used to claim a credit for purchasing and putting into service certain plug-in electric drive motor vehicles. The credit was expanded two years ago to include qualified 2 and 3-wheeled vehicles formerly claimed on Form 8834, so there are now two types of qualified vehicles for this form:

- *Qualified Plug-in Electric Drive Motor Vehicles* that have at least 4 wheels, are propelled by a battery with at least 4 KW of capacity, use an offboard source of energy to recharge the battery, and have a gross weight of less than 14,000 pounds.
- *Qualified Two- or Three-Wheeled Plug-in Electric Vehicles* that are capable of a speed of at least 45 miles per hour, are propelled by a battery with at least 2.5 KW of capacity, use an offboard source of energy to recharge the battery, and have a gross weight of less than 14,000 pounds. *This credit has expired for vehicles acquired after 2013. However, for vehicles acquired before 2014 (and after 2011), a credit is still available if first placed in service in 2014.*

The vehicle must be certified, you must be the owner of the vehicle, the original use must begin with you, and you must use it mainly in the United States. Computation of the credit is similar to that for the motor vehicle credits on Form 8910. However, if the vehicle is qualified for a credit on this form (whether or not you actually claim the credit), you cannot claim a credit on Form 8910. The *business use* part of the credit (figured in Part II) is claimed on Form 3800 (which posts its results to Form 1040, line 54a), but the *personal use* part of the credit (figured in Part III) is claimed directly on Form 1040, line 54c. Form 8936 is accessible through the Road Map from screen 3 of Form 3800 and the component of Form 1040, line 54c, labeled "Line 23 ONLY of Form 8936."

**Form 8936 takes precedence over Form 8910.** According to the IRS *2014 Instructions for Form 8936*, a vehicle that qualifies for credit on Form 8936 does not qualify for credit on Form 8910, irrespective of whether the credit is actually claimed on Form 8936.

**CAUTION: Additional entries may be required on Form 3800.** Unless you make additional entries on screen 3 of the main Form 3800, the business use part of the credit is initially assumed to be a Category A credit (General Business Credit from a Non-passive Activity) and posted to line 1y of Copy 2 of Form 3800, Part III. (Copy 2 of Form 3800, Part III, is reserved for the General Business Credit from a Non-passive Activity.) If the credit stems from a passive activity, or you have any carryforwards or carrybacks, you must indicate on Form 3800 screen 3 that it is not a Category A credit and manually enter the credit on line 1y of the appropriate copy of Form 3800, Part III. Also, if the credit originated from a pass-through entity, you must enter the EIN of the entity on the copy of Form 3800, Part III, that you use.

**PART I, TENTATIVE CREDIT.** Qualifying vehicles are identified in this part and the maximum credit before limitation is computed. All information for this part of the form is entered on supporting worksheets, one for each qualifying vehicle. To qualify for the credit, the vehicle must be certified by the IRS as eligible for this credit, and must meet the following conditions:

- The vehicle is owned by the taxpayer.
- The vehicle was placed in service during the tax year of the taxpayer.
- The original use of the vehicle began with the taxpayer.
- The taxpayer acquired the vehicle for his or her own use or lease, and not for resale.

Even though the supporting worksheets are accessed from Part I, they support certain lines in Parts II and III as well. For more information, including a list of vehicles that qualify and the allowed credit for each, go to the IRS website ([www.irs.gov](http://www.irs.gov)) and enter "IRC 30D" in the search bar. Vehicles from more than a dozen manufacturers qualify, with several models from each.

**Vehicles claimed (itemize).** (Supported by the Plug-in Electric Drive Vehicle Worksheet, Figures 2-76a and 2-76b.) You must complete a separate worksheet for each qualifying vehicle, fully identifying the vehicle and entering the credit amount shown on the vehicle's certification. (The credit will be reduced in future years when certain sales levels are reached, but none has reached that level yet.) When you return from the worksheets, the number of qualified vehicles on the worksheets is shown on this line. (Because all information for the credit is contained on the worksheets, no credit will be computed on Form 8936 without the worksheets being present and attached.)  
**Special limitation for e-file:** *The software supports no more than two vehicles for an e-file return. If you need to claim more than two vehicles, include Form 8948 with your paper return, explaining this limitation on line 1c of that form.*

**1 -4:** These lines appear only on the worksheets, not here, because they relate to the individual vehicles that you detail on the worksheets.

**Plug-in Electric Drive Worksheet.** (Figures 2-76a and 2-76b; supports entire Form 8936) You must complete a separate worksheet for each qualifying vehicle.

**Tax year on Form 1040.** (auto-calc) Taken from our Control Form, this is the tax year in which the vehicle must have been placed in service (as specified in line 2, below) to qualify for the credit on this return.

**1 Year, make, and model of vehicle.** This entry is split into 3 parts in order to fit on the printed form and conform to the IRS e-file format.

**Model year.** Enter the manufacturer's model year as a 4-digit number.

**Make.** Enter the make in 18 characters or less. You can include part of the model here, but the make (such as ASW, Bad Boy, Telsa, Titan, etc.) must be the first word of this entry. For a list of qualified vehicles and the allowed credit for each, go to the IRS website ([www.irs.gov](http://www.irs.gov)) and enter "IRC 30D" in the search bar.

**Model.** Enter the model in 18 characters or less. If you need more room, include the start of the model at the end of your entry for "Make."

**Number of wheels.** Vehicles with 2 or 3 wheels have different requirements from those with 4 or more wheels.

**Capacity of battery (KW-hours).** The minimum capacity allowed for a credit is 2.5 kilowatt-hours for 2- or 3- wheeled vehicles and 4.0 kilowatt-hours for 4 or more wheels.

**Cost if 2- or 3-wheeled vehicle, or credit per manufacturer if 4 and up.** For 2014, the credit is generally no more than \$2,500. You can generally rely on the certification from the manufacturer for the amount of credit to enter here. (Although the IRS provides tables of certified amounts on its website, the information is often not up-to-date. It is therefore generally best to trust the certification instead.)

**Are you the owner of the vehicle?** Only the owner can claim the credit,

even if leased to someone else.

**Did the original use of the vehicle begin with you?**

Only new vehicles qualify for a credit.

**Are you using the vehicle primarily in the United States?** For an exception to this requirement, see IRS instructions and answer

```

PLUG-IN ELECTRIC DRIVE W/S
      Tax year on Form 1040 2014
1  Model year.....
   Make.....
   Model.....
   Number of wheels.....
   Capacity of battery(KW-hr)
   Cost if 2 or 3-wheeled, or
   credit per mfr. If 4 & up           0
   Are you owner of vehicle..? No
   Did orig. use begin w/ you? No
   Use primarily in U.S.A. ..? No
   Uses ext. recharge source.? No
   Gross weight undr 14,000lb? No
   Capable of speed of 45 mph? No
2  Vehicle ID (VIN)
   Date acquired (mm/dd/yyyy)
3  Date placed in service...
4  Cost or tentative credit...       0
[Press PgDn or > for Ins 5-18]

```

Figure 2-76a. Plug-in Electric Drive Worksheet, Screen 1

Yes if qualified.

**Does the battery use an external source of energy for recharging?** If not, the vehicle does not qualify for the credit.

**Does the vehicle have a gross vehicle weight of less than 14,000 lbs?** If not, the vehicle does not qualify for the credit if acquired after 2009.

**Is the vehicle capable of a speed of 45 mph?** If not, the vehicle does not qualify for the credit if a 2-wheeled or 3-wheeled vehicle.

**2 Vehicle identification number (VIN).** Enter the vehicle's VIN in 17 characters or less. It will generally be a 17-character combination of letters and numbers. You can generally find the vehicle's VIN on the vehicle itself, its registration, its title, or its insurance.

**Date acquired.** The vehicle is considered "acquired" when title passes to you under state law. Enter the date using the standard mm/dd/yyyy format. Although the vehicle must have been first placed in service

during the tax year, the purchase can be made before that time. *For 2-wheeled or 3-wheeled vehicles, the date acquired must be after 2011 but before 2014.*

- 3 **Date placed in service.** Enter date the vehicle was first placed in service using the standard MM/DD/YYYY format. The date must be within the tax year shown at the top of the screen.
- 4 **Cost or tentative credit.** *(auto-calc)* Generally taken as your entry for "Cost if 2- or 3-wheeled, or credit per manufacturer if 4 and up" if the date on line 2 is within the tax year, your answer to the six questions is Yes, you satisfy the minimum battery capacity requirement, and you have made an entry for "Make." (Vehicles with 4 or more wheels are subject to phaseout once the manufacturer sells 200,000 of these vehicles to retailers. After that, the credit is 50% of full credit for the first half-year after that, 25% of full credit for the next half-year, and zero credit thereafter.)

**BUSINESS/INVESTMENT USE PART OF VEHICLE:**

- 5 **Business/investment use percentage.** Enter 100 if the vehicle is used solely for business or investment. Otherwise, enter the percentage (from 0 to 100) that applies. If this entry is zero, no credit will be computed in Part II of this form (which is comprised of lines 5 through 14).

- 6 **Multiply line 4 by line 5.** *(auto-calc)* Computed as indicated, this is the portion of the tentative credit on line 4 eligible for the credit for business or investment use.
- 7 **through 10** **Skipped if 4-wheeled (and up).** Lines 7 through 10

<b>BUSINESS/INVESTMT USE PART</b>		
5	Business/investment use %.	0
6	Multiply line 4 by line 5.	0
7-10	skipped if 4-wheel (& up)	
7	Sec. 179 deduction claimed	0
8	Subtract line 7 from ln 6.	0
9	Multiply line 8 by 10%...	0
10	Maximum credit per vehicle	0
11	If 2or3-wh., min. of 9or10	0
12, 13, 14	appear only on form	
<b>PERSONAL USE PART</b>		
15	Subtract line 6 from ln 4.	0
16-17	skipped if 4-wheel(& up)	
16	Multiply line 15 by 10% 4.	0
17	Maximum credit per vehicle	0
18	If 2or3-wh.,min. of 16or17	0
	VEHICLE COUNTED FOR 8936..	No

Figure 2-76b Plug-in Electric Drive Worksheet, Screen 2

- apply only to 2- and 3-wheeled vehicles.
- 7 **Section 179 expense deduction.** Your entry is always limited to the amount on line 6, and is forced to zero if not a 2- or 3-wheeled vehicle.
- 8 **Subtract line 7 from line 6.** *(auto-calc)* Computed as indicated if a 2- or 3-wheeled vehicle. Otherwise, zero.
- 9 **Multiply line 8 by 10%.** *(auto-calc)* Computed as indicated if a 2- or 3-wheeled vehicle. Otherwise, zero.

**10 Maximum credit per vehicle.** *(auto-calc)* Computed as \$2,500 if a 2- or 3-wheeled vehicle. Otherwise, zero.

**11 If 2- or 3-wheeled, minimum of line 9 or line 10.** *(auto-calc)* Computed as indicated if a 2- or 3-wheeled vehicle. Otherwise, zero. *This is the business/investment use part of the credit for this vehicle.*

**12, 13, and 14 appear only on form.** These lines do not relate to any one vehicle, so they appear only on Form 8936 itself, not this worksheet.

## PERSONAL USE PART OF VEHICLE:

**15 Subtract line 6 from line 4.** *(auto-calc)* Computed as indicated, this is the portion of the tentative credit on line 4 eligible for the credit for personal use.

**16 and 17 skipped if 4-wheeled (and up).** Lines 16 and 17 apply only to 2- and 3-wheeled vehicles.

**16 Multiply line 15 by 10%.** *(auto-calc)* Computed as indicated if a 2- or 3- wheeled vehicle. Otherwise, zero.

**17 Maximum credit per vehicle.** *(auto-calc)* Computed as line 10 less line 11, this is the portion of the \$2,500 maximum for a 2- or 3-wheeled vehicle still available after subtracting the business/investment use part. The result will always be zero if not a 2- or 3-wheeled vehicle.

**18 If 2- or 3-wheeled vehicle, smaller of line 16 or line 17.** *(auto-calc)* Computed as the lesser of line 16 or line 17 if a 2- or 3-wheeled vehicle. Otherwise, taken as line 15. *This is the personal use part of the credit for this vehicle.* (The IRS label for this line is misleading because it only cites the 2- or 3-wheeled case. But IRS instructions elsewhere make it clear that line 15 should be used here for vehicles with 4 or more wheels.)

**VEHICLE COUNTED FOR FORM 8936.** *(auto-calc)* This answer will be Yes only if you a business/investment use credit on line 11 or a personal use credit on line 18.

The results on lines 11 and 18 are used on Form 8936 to compute the credit once you return to the form from the worksheets.

**PART II, CREDIT FOR BUSINESS/INVESTMENT USE PART OF VEHICLE.** The credit is computed here based on your worksheet entries plus any amount from pass-through entities.

**5 - 11:** These lines do not appear on the screen here because they relate to individual vehicles. Accordingly, they appear only in the worksheets and on the official printouts.

**12 Add columns (a) and (b) on line 11.** *(auto-calc)* Although the IRS label for this line implies that the credits from only two vehicles apply, this line is computed as the sum of line 11 of all worksheets combined. (The information appears in columns (a) and (b) of the official printout only when there are only one or two vehicles claimed. Otherwise, the information appears in a separate supporting statement. However, no more than 2 vehicles are allowed for an e-file return.)

**Credit from pass-through entities:**

**Schedule K-1 (Form 1065), box 15, code P.** The amount for this line is the qualified plug-in electric drive motor vehicle credit passed through to the taxpayer from a partnership in which this taxpayer is a partner. However, code P is a generic code for all credits not identified as A through O. Therefore, you must take care to enter only the part of the code P amount that applies specifically to the plug-in electric drive motor vehicle credit for Form 8936.

**Schedule K-1 (Form 1120S), box 13, code P.** The amount for this line is the qualified plug-in electric drive motor vehicle credit passed through to the taxpayer from an S corporation in which the taxpayer is a shareholder. However, code P is a generic code for all credits not identified as A through O. Therefore, you must take care to enter only the part of the code P amount that applies specifically to the plug-in electric drive motor vehicle credit for Form 8936.

**13 Qualified plug-in electric drive motor vehicle credit from partnerships and S corporations.** *(auto-calc)* Computed as the sum of the preceding two entries.

**CAUTION: Additional entry on Form 3800 always required if you have an amount on line 13.** Thanks to the IRS's complex design of Form 3800, manual entries are now required on Part III of that form when you have credit from a pass-through entity. You must enter the EIN of the entity in column (b) of line 1y of the copy of Form 3800, Part III, that applies to this credit. (There are 10 copies available to handle the 8 unique IRS categories plus a consolidated copy and an unattached copy.)

**14 BUSINESS/INVESTMENT USE PART OF CREDIT.** *(auto-calc)* Computed as the sum of lines 12 and 13, this is the business and investment part of the alternative motor vehicle credit.

The amount on line 14 is posted to screen 3 of Form 3800 (for use in line 1y of the appropriate copy of Form 3800, Part III) where it is combined with other business credits and subjected to tax liability and passive activity limitations before being reflected on Form 1040 as a credit.

**CAUTION: Additional entries may be required on Form 3800.** If the credit on line 14 is a general business credit from a non-passive activity, you're done (unless you have to enter an EIN as noted above). The credit will be automatically posted to screen 3 of Form 3800, and copy 2 of Form 3800, Part III (for category A) will be automatically created with the result from line 9, above, posted to line 1y of Form 3800, Part III. But if the credit is from a passive activity, you must indicate this fact by an entry on screen 3 of Form 3800 and then enter the result from line 9 of Form 8936 on the copy of Form 3800, Part III that applies to your credit.

**PART III, CREDIT FOR PERSONAL USE PART OF VEHICLE.** The personal credit shown on line 18 of the worksheets is subject to tax liability limitations in this section before being reflected on Form 1040 as a credit.

**15 - 18: See Part I worksheet.** These lines do not appear on the screen here because they relate to the individual vehicles. Accordingly, they appear only in the worksheets and on the official printouts.

**19 Add columns (a) and (b) on line 18.** *(auto-calc)* Computed as the sum of line 18 of all worksheets combined. (The information appears in columns (a) and (b) of the official printout only when there are only one or two vehicles claimed. Otherwise, the information appears in a separate supporting statement.)

**20 Amount from Form 1040, line 47.** *(auto-calc)* Taken from Form 1040, as indicated, this is the regular tax plus the AMT.

**Credits that reduce tax before the Form 8936 credit:**

**Form 1040, lines 48 through 51.** *(auto-calc)* Taken from Form 1040, as indicated, these are the first four personal credits on Form 1040.

**Form 5695, line 30; Form 8910, line 15; and Schedule R, line 22.** *(auto-calc)* Taken from the corresponding components of Form 1040, line line 54c.

**21 Personal credits from Form 1040.** *(auto-calc)* Computed as the sum of the preceding two lines, these are the credits that must be claimed before the credit from Form 8936.

**22 Subtract line 21 from line 20.** *(auto-calc)* Computed as indicated, but no less than zero, this is the tax liability limitation.

**23 PERSONAL USE PART OF CREDIT.** *(auto-calc)* Computed as the lesser of line 19 or line 22.

The result on line 23 is posted to the component of Form 1040, line 54c, labeled "Line 23 ONLY of Form 8936."

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8941\*\* / Credit for Small Employer Health Insurance Premiums

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of Tax Preparer and Partnership Edition. See the separate Partnership Edition manual for details on the version of Form 8941 that is built into the Partnership Edition software.

**Purpose.** This form is used to claim a credit for providing health insurance to employees, as created by the *Health Care Reform Act of 2010*. The credit can now be as high as 50% of the amount paid by the employer for the insurance (raised from 35% prior to tax year 2014). The full credit is given to employers with no more than 10 employees and average wages no more than \$25,999. The credit is phased out as the number of employees increases or the average wages increase, resulting in no credit for a firm with 25 or more employees or average wages of \$51,000 or more. This form is also used to report credit passed on to you from partnerships, S corporations, cooperatives, estates, and trusts, but is not filed with your return if it is the only credit you are claiming on this form. *Form 8941 is accessible through the Road Map from screen 4 of Form 3800.* (Two copies of Form 8941 are available, one for each spouse.)

**NEW: The rules have changed!** Starting with tax year 2014, the credit is now restricted to insurance secured through a Small Business Health Options Program (SHOP) Marketplace. However, an exception applies to businesses in certain counties of Washington and Wisconsin, as detailed in our instructions for line A of this form. Furthermore, although it does not have an impact on this year's form, the credit can now be taken for no more than two consecutive tax years (starting with tax year 2014). See IRS *2014 Instructions for Form 8941* for details.

**CAUTION: Additional entries may be required on Form 3800.** Unless you make additional entries on screen 4 of the main Form 3800, the credit is initially assumed to be a Category A credit (General Business Credit from a Non-passive Activity) and posted to line 4h of Copy 2 of Form 3800, Part III. (Copy 2 of Form 3800, Part III, is reserved for the General Business Credit from a Non-passive Activity.) If the credit stems from a passive activity, you must indicate on Form 3800 screen 4 that it is not a Category A credit and manually enter the credit on line 4h of the appropriate copy of Form 3800, Part III. Also, if the credit originated from a pass-through entity, you must enter the EIN of the entity on the copy of Form 3800, Part III, that you use.

**Treated as a single employer.** If you are a taxpayer with more than one business, you must treat yourself as a single employer for all businesses combined when completing this form. As a result, taxpayers filing as single, married filing separately, head of household, or qualifying widower are allowed only one Form 8941 for the return. If married filing jointly, the spouse is also allowed only one

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## Form 8941

Form 8941 for her businesses combined, so a maximum of two Forms 8941 is allowed for the return.

**IRS Worksheets.** The IRS instructions for this form provide seven worksheets for use with Form 8941. Two of these worksheets (Worksheets 1 and 4) collect data for each employee concerning time worked, wages paid, insurance premiums paid, and related details. In the software, Worksheets 1 and 4 are included together on a single *Health Insurance Worksheet* (described later). All other IRS worksheets are intended as computational aids for a manually-prepared Form 8941, and are therefore not shown by the software, since the software achieves the proper results more efficiently without explicitly using the IRS worksheets.

**Screen 1: Data entry.** The first screen collects data required for the proper completion and printing of Form 8941, supported by our *Health Insurance Worksheet*, which integrates IRS Worksheets 1 and 4 into a single form.

**Social security number for this copy.** *(auto-calc)* Taken as the social security number entered on Form 1040 for the spouse whose copy you chose when you entered Form 8941.

**Is this spouse's copy (vs. you)?** *(auto-calc)* This answer is also automatic based on your choice when you entered the form.

**A Did you pay premiums during your tax year for employee health insurance coverage you provided through a Small Business Health Options Program (SHOP) Marketplace?** This new line on the form enforces the new requirement that the insurance you claim here be secured through a SHOP marketplace. However, if your principal place of business lies within certain counties of Washington or Wisconsin, you may be eligible for an exception to this requirement under transition rules for 2014. For the latter case, you would answer No here but Yes to the question that follows if the exception applies.

**Marketplace identifier.** If you answered Yes to the preceding question, identify here the marketplace in which you secured the insurance. Otherwise, leave this entry blank.

**OR do you qualify for an exception to this requirement?** If your principal place of business was in a qualified county of Washington or Wisconsin, you can still claim the credit even though you did not secure the insurance through a SHOP marketplace. See the shaded box for a list of eligible counties.

If your answer to both questions was No, you cannot claim the credit as an employer. However, if you have credit passed on to you (from a partnership, S corporation, cooperative, estate, or trust), you can claim that credit at line 15 of this form and skip lines 1 through 14.

<p><b>Exception for Washington and Wisconsin.</b> For 2014, SHOP Marketplaces in certain counties in the states of Washington and Wisconsin did not have qualified health plans available for employers to offer employees. Transition relief is therefore provided for those employers with their principal business in those counties so that, if the insurance qualifies except for the way it was acquired, the credit on this form still applies. Accordingly, you should answer Yes to the</p>
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second question for line A, above, if the principal place of business resides in any of the following counties:

For the state of Washinton: Adams, Asotin, Benton, Chelan, Clallam, Columbia, Douglas, Ferry, Franklin, Garfield, Grant, Grays Harbor, Island, Jefferson, King, Kitsap, Kittitas, Klickitat, Lewis, Lincoln, Lincoln, Mason, Okanogan, Pacific, Pend Oreille, Pierce, San Juan, Skagit, Skamania, Snohomish, Spokane, Stevens, Thurston, Wahkiakum, Walla Walla, Whatcom, Whitman, and Yakima.

For the state of Wisconsin: Green Lake, Lafayette, Marquette, Florence, and Menominee.

**B Employer identification number (EIN) used to report employments taxes for individuals on line 1.** Enter the EIN for the business that employed the employees listed on the worksheets for screen 1. If more than one EIN applies because you are reporting employees of more than one of your businesses, leave this line blank, press F10 or ctrl-Y, and enter the multiple EINs in a supporting statement for this line. *Exception for e-file: The IRS does not provide for more than one EIN in their e-file specifications. As a result, if you want to report more than one EIN, you must file a paper return and include Form 8948 with an explanation at line 6c of Form 8948 that cites the limitation. Otherwise, we recommend that you enter the EIN for the business applicable to the most employees in line 1.*

**Itemize any line below to access REQUIRED worksheets.** *(Supported by the Health Insurance Worksheet, Figure 2-77.)* The following lines show totals from the worksheets that support them, and are used to automatically complete lines 1 through 9 of Form 8941. You can access the worksheets by pressing the Itemize Key at any of the following seven data entry lines; the same set of worksheets appears irrespective of which line you itemize. (Even though the worksheets do not appear on the Form 8941 that you file with the IRS, you must use the worksheets to ensure that the proper totals are used in the computations for Form 8941. See the box that follows our details for the worksheets for information on printing the worksheets for your records.)

### **For Considered Employees:**

- (a) **Number of employees considered.** You must complete a separate worksheet for each employee. When you return from the worksheets, the number of worksheets completed is posted to this line. (Any worksheet for which you make no entry for "Total hours worked in 2014" is taken as not completed.) Seasonal employees are included in this count even though they are excluded from the totals on the next two lines. *(This total is used for line 1 of Form 8941.)*
- (b) **Total hours of service.** The sum of Worksheet 1, line b, for all worksheets combined is posted here, excluding seasonal employees. *(This total is used in the computation of line 2 of Form 8941.)*
- (c) **Total hours of service.** The sum of Worksheet 1, line c, for all worksheets combined is posted here, excluding seasonal employees. *(This total is used in the computation of line 3 of Form 8941.)*

### **For Enrolled Employees:**

- (a) **Number of employees enrolled.** The number of completed worksheets for which you answered Yes to “a. Above employee enrolled?” on Worksheet 4 is posted here. *(This total is used in the computation of line 13 of Form 8941.)*
- (b) **Total premiums paid.** The sum of Worksheet 4, line b, for all worksheets combined is posted here. This is the sum of premiums paid by the employer (or on behalf of the employer). *(This total is used for line 4 of Form 8941.)*
- (c) **Total state average premiums.** The sum of Worksheet 4, line c, for all worksheets combined is posted here. This is the sum of premiums that would have been paid if insurance for all enrolled employees were priced at the average premium for the small group market in the state the employee worked, as provided in IRS tables in the instructions. *(This total is used in the computation of line 5 of Form 8941.)*
- (d) **Total hours of service.** The sum of Worksheet 4, line d, for all worksheets combined is posted here, including seasonal employees. This is the total hours of service in 2014 for all enrolled employees combined. *(This total is used in the computation of line 14 of Form 8941.)*

**Health Insurance Worksheet.** *(Figure 2-77)* This worksheet supports the last seven lines on screen 1. You must complete a separate worksheet for each employee, including all employees who perform services for you during the tax year, whether or not you provide health insurance to them, except yourself, your partners, and family members. *(See IRS instructions for details on excluded employees.)*

**Employee number.** *(auto-calc)* Taken as the worksheet page you are completing. Each worksheet corresponds to a row in IRS Worksheets 1 and 4. As long as you make an entry for “Total hours worked in 2014,” below, the employee for whom you are completing the worksheet is considered in the calculations.

**For Considered Employees (IRS Worksheet 1):**

Except for excluded employees cited above, information for any employee must be considered in the computation of the credit, whether or not the employee participates (enrolls) in the health plan you offer.

- a. **Name of employee.** Enter the employee’s name in 25-characters for less. This entry is used only to help you identify the employee for whom you are completing this worksheet page. **CAUTION: Do NOT complete worksheets for family members,** including yourself and your spouse, because they are “excluded employees” for the purposes of Form 8941. But do include seasonal employees (defined below). For more information on these and other excluded employees, see *Excluded Employees* on page 2 of the IRS’s *2014 Instructions for Form 8941*.

**Total hours worked in 2014.** Enter the total number of hours the employee worked during the tax year. *Be sure to include hours for seasonal employees* (defined below), even though they will be excluded from some calculations in accordance with IRS instructions.

**Total wages earned in 2014.** Enter the total wages earned in the tax year. *Be sure to include wages for seasonal employees.*

**Seasonal (120 days maximum)?** A "seasonal employee" is an employee who works for you only for a period of time in the tax year no greater than 120 days. This definition includes retail workers who are employed only during holiday seasons. Health insurance premiums paid for these employees are included when computing the credit from Form 8941, even though their hours and wages are not included

<b>HEALTH INSURANCE WORKSHEET</b>	
Employee number.....	1
All entries below are totals	
For the entire 2014 tax year	
For Considered Employees	
(IRS Worksheet 1):	
a. Name of employee.....	
Total hours worked in 2014	0
Total wages earned in 2014	0
Seasonal (120 days max.)? No	
b. Employee hours of service.....	0
c. Employee wages paid.....	0
For Enrolled Employees	
(IRS worksheet 4):	
a. Above employee enrolled...? No	
b. Premiums paid by employer..	0
Family coverage(vs.single)? No	
State (for insurance).....	
Use table in IRS instr'n's:	
c. State average premiums.....	0
d. Employee hours of service.....	0

ed in the calculation of full-time equivalent hours and average wages. Accordingly, the preceding two entries are not used in lines b and c of Worksheet 1 (below) for a seasonal employee, but the hours are used in line d of Worksheet 4 (later).

Figure 2-77. Health Insurance Worksheet

(These rules are intended to prevent the use of seasonal employees to lower the average wages considered in the credit, which could otherwise partially mitigate the phaseout of the credit when average wages are more than \$25,400.)

- b. Employee hours of service.** *(auto-calc)* Computed as zero if you answered Yes to "Seasonal (120 days maximum)?" Otherwise, computed as the lesser of 2,080 and your entry for "Total hours worked in 2014." (2,080 is the number of hours for a full-time employee, which is 52 weeks times 40 hours per week. The IRS does not consider hours beyond 2,080 in any one year for any one employee when computing the credit for this form.) The sum of this amount for all worksheets combined is used to determine the number of "full-time equivalent employees" (FTEs), which is critical to the computation of the credit.
- c. Employee wages paid.** *(auto-calc)* Computed as zero if you made no entry for "Total hours worked in 2014" or you answered Yes to "Seasonal (120 days maximum)?" Otherwise, taken as your entry for "Total wages

earned in 2014.” The sum of this amount for all worksheets combined is used to determine the “average annual wages paid,” which is also critical to the computation of the credit.

### **For Enrolled Employees (IRS Worksheet 4):**

Any employee who participates in the employer’s health insurance program is reflected in this section, including seasonal employees.

- a. Above employee enrolled?** Answer Yes for any employee who was enrolled in your qualified health insurance plan during the tax year. If you answer No, Worksheet 4 does not apply to this employee, so lines b, c, and d, below, are zero.
- b. Employer premiums paid.** Enter all employer-paid premiums for this employee, whether paid by the employer directly or by some other person or organization on behalf of the employer. For example, premiums paid by a state premium subsidy should be included. You must not include any premiums paid by the employee, whether directly or through a salary reduction program. See page 3 of the IRS *2014 Instructions for Form 8941* for details. (You will not be allowed to make an entry here if your answer for line a is No.)

**Family coverage (vs. single)?** If the plan covers any member of the employee’s family in addition to the employee, answer Yes, even when the entire family is not covered. Answer No only for insurance that covers the employee alone. *This entry is for recording-keeping only; it does not affect line c, which is not automatically computed.*

**State (for insurance).** Enter the 2-character state code for the state where the employee worked. (Use DC for Washington, D.C., even though it is not a state.) *This entry is for recording-keeping only; it does not affect line c, which is not automatically computed.*

**Use table in IRS instructions.** The following line is NOT computed automatically. Because the table has expanded from 51 entries (50 states plus D.C.) to more than 2,000 counties, it is impractical for the software to determine the amount. Instead, you must find your county in the 15-page table at the end of the IRS’s *2014 Instructions for Form 8941* and enter the table amount on the following line.

- c. State average premiums.** ***CAUTION:*** *This line is NOT computed automatically; you must find the amount to enter in the IRS table as described here.* You are allowed to make an entry here only if your answer for line a of IRS Worksheet 4 is Yes. Enter the amount for your county from the 15-page table at the end of the IRS’s *2014 Instructions for Form 8941*. It represents the average premium for the small group market in the county in which the employee worked. The allowed Form 8941 credit is reduced when employer-paid premiums exceed this amount.
- d. Employee hours of service.** (*auto-calc*) Computed as zero if the answer to line a is No. Otherwise, computed as your entry for “Total hours worked in 2014” below line a of Worksheet 1.

The results on lines b and c of Worksheet 1 and a, b, c, and d of Worksheet 4 are used along with the number of worksheets completed to compute the credit once you return to the form from the worksheets.

**TIP: How to print out completed Health Care Worksheets.** Since the IRS Form 8941 does not show worksheet entries, and the IRS does not want these details included with the return, an official printout of Form 8941 will not give you a printed record of the worksheet data. However, you can get a compact printout of completed worksheets as follows: from the Main Menu choose 3 (PRINT Official Returns), then 3 (PRINT on Printer or Disk), then 2 (GRAPHIC) or 3 (DRAFT), then 4 (PERSONAL & Other Support), then 82 (8941). All completed worksheets will then be printed.

**Screens 2 and 3: Form 8941.** The next two screens show the official Form 8941. Most lines of the form are completed automatically based on the data collected on screen 1, but lines A, B, 10, and 15 must be completed manually.

**1 Number of individuals employed during the tax year who are considered employees for purposes of this credit.** *(auto-calc)* Computed as "Number of employees considered" on line (a) under the *Considered Employees* heading on screen 1, which is the number of worksheets completed to support screen 1.

**2 Number of full-time equivalent employees you had for the year.** *(auto-calc)* Computed as "Total hours of service" on line (b) under the *Considered Employees* heading on screen 1, divided by 2,080, rounded down to the nearest whole number (except rounded up to 1 if the result is greater than zero but less than one). *(This result corresponds to line 3 of IRS Worksheet 2 for a manually-prepared return.)* This result is what the IRS calls the number of full-time equivalent employees (FTEs). If 25 or more, your business is not qualified for the credit, so lines 3 through 14 will be zero. However, you may have a credit from a pass-through entity for line 15.

**3 Average annual wages you paid for the tax year.** *(auto-calc)* Computed as zero if line 2 is 25 or more. Otherwise, computed as "Total employee wages" on line (c) under the *Considered Employees* heading on screen 1, divided by line 2, rounded down to the next \$1,000 if not a multiple of \$1,000. *(This result corresponds to line 3 of IRS Worksheet 3 for a manually-prepared return.)* If the result is \$51,000 or more, your business is not qualified for the credit, so lines 4 through 14 will be zero. However, you may have a credit from a pass-through entity for line 15.

**4 Premiums you paid during the tax year for employees included on line 1 for health insurance coverage under a qualifying arrangement.** *(auto-calc)* Computed as zero if line 2 is 25 or more, or line 3 is \$51,000 or more. Otherwise, computed as "Total premiums paid" on line (b) under the *Enrolled Employees* heading on screen 1.

**5 Premiums you would have entered on line 4 if total premium for each employee equaled the average premium for the small group market in which you offered health insurance coverage.** *(auto-calc)* Computed as zero if line 2 is 25 or more, or line 3 is \$51,000 or more. Otherwise, computed as "Total state average premiums" on line (c) under the *Enrolled Employees* heading on screen 1.

**6 Smaller of line 4 or line 5.** *(auto-calc)* Computed as indicated.

**7 Multiply line 6 by the applicable percentage.** *(auto-calc)* Computed as 50% of line 6. 50% is the applicable percentage for all small businesses other than tax-exempt organizations for 2014.

**8 If line 2 is 10 or less, amount from line 7. Otherwise, amount from Worksheet 5, line 6.** *(auto-calc)* Taken from line 7 if line 2 is 10 or less. Otherwise, computed using IRS Worksheet 5 in the *2014 Instructions for Form 8941* as line 7 less a fraction of line 7, where the fraction is the amount by which line 2 exceeds 10, divided by 15, but no more than one. *(This result corresponds to line 6 of IRS Worksheet 5.)*

**9 If line 3 is \$25,000 or less, amount from line 8. Otherwise, amount from Worksheet 6, line 7.** *(auto-calc)* Taken from line 8 if line 3 is \$25,000 or less. Otherwise, computed using IRS Worksheet 6 in the *2014 Instructions for Form 8941* as line 8 less a fraction of line 7, where the fraction is the amount by which line 3 exceeds \$25,000, divided by \$25,400, but no more than one. *(This result corresponds to line 7 of IRS Worksheet 6. TIP: Remember that line 3 is the average wages rounded down to the nearest \$1,000. Therefore, the full result on line 8 results here for unrounded wages as high as \$25,999.)*

**10 Total amount of state premium subsidies paid and any state tax credits available to you for premiums included on line 4.** Enter payments and credits from your state that reduced your actual cost for the premiums reported in line 4 (which are premiums you included in line b of IRS Worksheet 4 for all worksheets combined).

**11 Subtract line 10 from line 4.** *(auto-calc)* Computed as indicated, but no less than zero.

**12 Smaller of line 9 or line 11.** *(auto-calc)* Computed as indicated.

**13 If line 12 is NOT zero, number of employees in line 1 for whom you paid premiums for health insurance under a qualifying plan.** *(auto-calc)* Computed as "Number of employees enrolled" on line (a) under the *Enrolled Employees* heading on screen 1.

**14 Number of full-time equivalent employees you would have entered on line 2 if you only included employees included in line 13.** *(auto-calc)* Computed as zero if line 12 is zero. Otherwise, computed as "Total hours of service" for enrolled employees on line (d) under the *Enrolled Employees* heading on screen 1, divided by 2,080 and rounded down to the nearest whole number (except rounded up to 1 if the result is greater than zero but less than one). *(This result corresponds to line 3 of IRS Worksheet 7 for a manually-prepared return.)*

**15 Credit for small employer health insurance premiums from partnerships, S corporations, cooperatives, estates, and trusts.** Enter any credit reported to you from a pass-through entity. **CAUTION:** Enter only the amount that applies to the spouse for whom this copy of Form 8941 applies. **TIP:** If you are completing this form only to report an amount on this line, so lines 1 through 14 are zero, this form will not be printed with the complete return because the IRS does not want it filed.

**CAUTION: Additional entry on Form 3800 always required if you have an amount on line 15.** Thanks to the IRS's inconvenient design of Form 3800, manual entries are required on Part III of that form when you have credit from a pass-through entity. You must enter the EIN of the entity in column (b) of line 4h of the copy of Form 3800, Part III, that applies to this credit. (There are 10 copies available to handle the 8 unique IRS categories plus a consolidated copy and an unattached copy.)

**16 Add lines 12 and 15.** *(auto-calc)* Computed as indicated. For partnerships, this is the amount to be reported to partners for their own Forms 8941.

**Credit for Form 3800, Part III, line 4h.** *(auto-calc)* Normally taken from line 16. However, if this is spouse's copy of Form 8941 and the filing status for the return is not married filing jointly, this line will be zero, since only the primary taxpayer's forms apply for any filing status other than married filing jointly. This is the available credit from Form 8941 before tax liability and passive loss limitations are applied. Although the IRS form indicates that this result should be posted to line 4h of Form 3800, Part III, it is instead posted to screen 4 of the on-screen Form 3800, as explained below, from which it is posted to the appropriate copy of Form 3800, Part III, line 4h..

**CAUTION: Additional entries may be required on Form 3800.** If this is a general business credit from a non-passive activity, you're done (unless you have to enter an EIN as noted above). The credit will be automatically posted to screen 4 of Form 3800, and copy 2 of Form 3800, Part III (for category A) will be automatically created with the above result posted to line 4h of Form 3800, Part III. But if the credit is from a passive activity, you must indicate this fact by an entry on screen 4 of Form 3800 and then enter the result from line 16, above, on the copy of Form 3800, Part III that applies to your credit.

**17 through 20.** *(auto-calc lines)* Computed as zero because these lines apply only to cooperatives, estates, trusts, and tax-exempt employers. They are not relevant to the Form 1040 returns for which this software is designed.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Screen 4: Allocation.** The final screen provides the means to allocate your credit among your multiple businesses so that your deductions for employee benefit expenses are reduced by the proper portion of the credit claimed.

**Credit on this copy of Form 8941.** *(auto-calc)* Taken from the line "Credit for Form 3800, line 4h," this is the credit you must allocate among your businesses.

**Allocation to Schedule C.** Enter the part of the above credit that applies to your nonfarm business (sole proprietorship). Unless you specify otherwise by your entries below, this amount will be assumed to apply to copy 1 of Schedule C. The amounts shown on the next 5 lines will be used to reduce the deduction for employee benefit programs at line 14 of each Schedule C.

- Part for Schedule C, copy 2.** Enter the part of "Allocation to Schedule C" that applies to copy 2 of the schedule.
- Part for Schedule C, copy 3.** Enter the part of "Allocation to Schedule C" that applies to copy 3 of the schedule.
- Part for Schedule C, copy 4.** Enter the part of "Allocation to Schedule C" that applies to copy 4 of the schedule.
- Part for Schedule C, copy 5.** Enter the part of "Allocation to Schedule C" that applies to copy 5 of the schedule.
- Remainder for Schedule C, copy 1. *(auto-calc)*** Computed as "Allocation to Schedule C" less the sum of the preceding four entries.
- Allocation to Schedule F.** Enter the part of the above credit that applies to your farm business (sole proprietorship). Unless you specify otherwise by your entries below, this amount will be assumed to apply to copy 1 of Schedule F. The amounts shown on the next 5 lines will be used to reduce the deduction for employee benefit programs at line 15 of each Schedule F.
- Part for Schedule F, copy 2.** Enter the part of "Allocation to Schedule F" that applies to copy 2 of the schedule.
- Part for Schedule F, copy 3.** Enter the part of "Allocation to Schedule F" that applies to copy 3 of the schedule.
- Part for Schedule F, copy 4.** Enter the part of "Allocation to Schedule F" that applies to copy 4 of the schedule.
- Part for Schedule F, copy 5.** Enter the part of "Allocation to Schedule F" that applies to copy 5 of the schedule.
- Remainder for Schedule F, copy 1. *(auto-calc)*** Computed as "Allocation to Schedule F" less the sum of the preceding four entries.
- Allocation to Form 4835.** Enter the part of the above credit that applies to your farm rental business. This amount will be used to reduce the deduction for employee benefit programs at line 13 of Form 4835.
- Allocation to Other. *(auto-calc)*** Computed as "Credit on this copy of Form 8941" less "Allocation to Schedule C" less "Allocation to Schedule F" less "Allocation to Form 4835." This is the remainder not allocated to any form. ***CAUTION:*** *If an amount appears here, you must manually reduce your deduction for employee benefit programs when reporting income and expenses for the applicable business.*

## Form 8948\*\* / Preparer Explanation for Not Filing Electronically

**\*\* Included in Standard and Premium Level software ONLY.** This form is only built into the Standard and Premium Level versions of Tax Preparer.

**Purpose.** This form is used for a preparer to explain why he or she is not e-filing the return to which it is attached. It is used only by preparers who are generally required to e-file returns because they expect to prepare and file 11 or more eligible returns in 2015. The form lists a number of common exceptions to the general rule and also provides for your own explanation for exceptions not on the list. However, there is one common case for which you should not file Form 8948, even though you are filing a paper return: a return that includes a form not supported by the IRS e-file program. Presumably, the exception will be automatically known to the IRS without a Form 8948. *Form 8948 is accessible only from the Forms Menu (as Form 83) and not through the Road Map.*

**Specified Tax Preparers.** Preparers who may be required to file Form 8948 with a client's return are defined by the IRS as "specified tax preparers." These are preparers of returns in the Form 1040 series (and certain others, such as Form 1041) who expect to file 11 or more such returns in 2015. Preparers who do not meet this definition are not required to e-file returns and should not prepare Form 8948 for any returns in 2015. *CAUTION: The IRS applies these rules to your entire firm in addition to individual preparers. As a result, even though you prepare less than 11 returns, you are still required to e-file if your firm as a whole prepares 11 or more returns.* Note that when counting returns you do not have to count returns that the client mails or otherwise delivers to the IRS rather than you. Those returns are exempt.

**File completed form with the Form 1040 tax return.** This form must be included with the paper return that is filed with the IRS. The software will automatically print this form with the return in the proper order when you choose to print "COMPLETE Tax Returns" when you generate an official printout of the return.

**Top of form completed automatically.** The information at the top of the form is not shown on the screen because the top of the form is automatically completed when the official form is printed. The taxpayer's name, SSN, and tax year are taken from Form 1040, page 1, and the preparer's name and tax identification number (PTIN) are taken from your Program Settings. As a result, the only information you must supply for the form is your choice of reason for not e-filing and relation information.

**Choose only one reason.** Even though more than one reason for not e-filing applies to you, *the IRS requires you to give only one reason* on Form 8948. As a result the software will not allow you to answer Yes for any line that follows another Yes answer.

**1 Taxpayer chose to file this return on paper?** Answer Yes only if the client has chosen to file a paper return and the client will mail the return to the IRS. If Yes, you should obtain a signed statement from the taxpayer for your files to confirm this choice.

**2 Preparer received a waiver from the requirement to electronically file the tax return. (*auto-calc*)** Automatically Yes if you make an entry on either of the following two lines and you answered No to line 1. Otherwise, No. This question is relevant to you only if you applied for a waiver from your requirement to e-file your returns by filing Form 8944 (*Preparer e-file Hardship Request*) and received approval from the IRS.

**Waiver Reference Number.** Enter the waiver number shown on the approval letter you received from the IRS in response to your Form 8944 application.

**Approval Letter Date.** Enter the date on the approval letter in the standard mo/dy/year format.

**3 Preparer is a member of a recognized religious group that is conscientiously opposed to filing electronically?** You can generally answer Yes only for a religious group that has existed continuously since December 31, 1950. (The answer will be forced to No if you answered Yes to line 1 or line 2.)

**4 Return was rejected by IRS e-file and reject condition could not be resolved. (*auto-calc*)** Automatically Yes if you enter at least one reject code below and you answered No to lines 1, 2, and 3. Otherwise, No.

**Reject code.** Enter the 4-digit code(s) listed in the IRS rejection message. You can list up to five error reject codes, separated by commas.

**Number of attempts to resolve reject.** Enter the number of transmissions attempted.

**5 Preparer's e-file software package ...**

**does not support Form.** Enter the forms supported by IRS e-file that prevent you from e-filing this return because they are not fully supported for e-file by this software. Do not make an entry here if any of the forms is not supported by the IRS for e-filing, and do not file this form with the return; you are neither required to e-file nor required to explain in this case.

**does not support Schedule.** Enter the schedules supported by IRS e-file that prevent you from e-filing this return because they are not fully supported for e-file by this software.

**... attached to this return. (*auto-calc*)** Automatically Yes if you made an entry on either of the preceding two lines and you answered No to lines 1, 2, 3, and 4. Otherwise, No.

**6 Indicate one that applies:**

**a Preparer is ineligible to file electronically because IRS e-file does not accept foreign preparers without social security numbers who live and work abroad?** In order to answer Yes here you must not only be a foreign person without an SSN but must also have applied for a PTIN and filed Form 8946 (*PTIN Supplemental Application for For-*

*eign Persons Without a Social Security Number*). (The answer will be forced to No if you answered Yes for line 1, 2, 3, 4, or 5.)

- b Preparer is ineligible to participate in IRS e-file due to an IRS sanction.** In order to answer Yes here you must have received a letter from the IRS indicating that you have been dropped from the e-file program and that the sanction is in effect at least part of 2014. (The answer will be forced to No if you answered Yes for line 1, 2, 3, 4, 5, or 6a.)
- c Other. Describe below the circumstances that prevented you from filing this return electronically.** (*auto-calc*) Automatically Yes if you itemize the following line and you answered No to lines 1, 2, 3, 4, 5, 6a, and 6b.

**ITEMIZE HERE to explain.** If you choose 6c as your reason for not e-filing, explain in a supporting statement for this line. Once you itemize to provide the supporting statement, the answer to line 6c is automatically Yes (provided all other answers are No). In order to change the answer to line 6c back to No, you must detach or remove the support for this line (using the *Detach Support Key* or *Remove Support Key* described in Chapter 7 of the separate *User's Guide*). *TIP: If there is a limitation imposed by the software on a particular form or schedule that prevents you from e-filing a return, this is the place to identify the limitation. For example, if you are required to provide a supporting statement that is not supported by the software for e-file (such as line 2 of Form 8283), or you exceed the limits of the software (such as the number of vehicles for an alternative vehicle credit exceeds two), you would identify the form and line that are not supported for your case.*

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8949 / Sales and Other Dispositions of Capital Assets

**Purpose.** This form is used to show the details of transactions for Schedule D (*Capital Gains and Losses*) that are not reported elsewhere. These are short-term and long-term transactions resulting in capital gains and losses that are reported on lines 1b, 2, 3, 8b, 9, and 10 of Schedule D. The IRS requires that transactions for the three separate categories (determined by status with regard to Form 1099-B) in two holding period categories (short-term vs. long-term) be reported on separate Forms 8949 pages, so there can be as many as six pages of Form 8949. The data for lines 1b, 2, and 3 of Schedule D (short-term transactions) relate to separate copies of page 1 of Form 8949, and the data for lines 8b, 9, and 10 of Schedule D (long-term transactions) relate to separate copies of page 2 of Form 8949. (Pages with no data are not printed.) The sole purpose of Form 8949 is for official printouts, and it is fully automatic based on worksheets you complete on our Schedule D. Because it has no user entries, it is not accessible through the Road Map. Although it is accessible from the Forms Menu, the only numbers you will see on the screen are those for the totals for each category in each holding period.

**Form 8949 is fully automatic.** Form 8949 is automatically created and completed based on entries you make on the Gain/Loss Worksheets for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D. You must enter all data on these worksheets, which are accessible only from Schedule D, not Form 8949. There is no need to view Form 8949 on the screen. It is intended only for official printouts.

**PART I, SHORT-TERM.** All entries for this part come from data you entered on worksheets for lines 1b, 2, and 3 in Part I of Schedule D.

**A Short-term transactions reported on Form 1099-B with basis reported to the IRS.** This category is reported on line 1b of Schedule D. If any amounts are reported in this section, Form 8949, page 1, will be printed with box A checked and the below information detailed with data from the Schedule D worksheets.

**1 Transactions.** The official printed Form 8949 will show on line 1 the list of transactions reported on the worksheets for line 1b of Schedule D. They are not shown on the screen, but are automatically printed on the official Form 8949, page 1, with box A checked. Up to 28 transactions are shown on this page. If you have more than 28 transactions for this category, all transactions will be shown in a supporting statement for this line.

**2 TOTALS.** The totals for 4 columns of Form 8949, line 1, are shown here.

**(d) Sales price.** *(auto-calc)* Taken from line 1b(d) of Schedule D, this is the sum of all amounts in column (d) of line 1 of the official printout of Form 8949 for 1099-B category A.

**(e) Cost or other basis.** *(auto-calc)* Taken from line 1b(e) of Schedule D, this is the sum of all amounts in column (e) of line 1 of the official printout of Form 8949 for 1099-B category A.

**(g) Adjustments.** *(auto-calc)* Taken from line 1b(g) of Schedule D, this is the sum of all amounts in column (g) of line 1 of the official printout of Form 8949 for 1099-B category A.

**(h) GAIN or LOSS.** *(auto-calc)* Taken from line 1b(h) of Schedule D, this is the sum of all amounts in column (h) of line 1 of the official printout of Form 8949 for 1099-B category A.

**B Short-term transactions reported on Form 1099-B but basis not reported to the IRS.** This category is reported on line 2 of Schedule D. If any amounts are reported in this section, Form 8949, page 1, will be printed with box B checked and the below information detailed with data from the Schedule D worksheets.

**1 Transactions.** The official printed Form 8949 will show on line 1 the list of transactions reported on the worksheets for line 2 of Schedule D. They are not shown on the screen, but are automatically printed on the official Form 8949, page 1, with box B checked. Up to 28 transactions are shown on this page. If you have more than 28 transactions for this category, all transactions will be shown in a supporting statement for this line.

**2 TOTALS.** The totals for 4 columns of Form 8949, line 1, are shown here.

**(d) Sales price.** *(auto-calc)* Taken from line 2(d) of Schedule D, this is the sum of all amounts in column (d) of line 1 of the official printout of Form 8949 for 1099-B category B.

**(e) Cost or other basis.** *(auto-calc)* Taken from line 2(e) of Schedule D, this is also the sum of all amounts in column (e) of line 1 of the official printout of Form 8949 for 1099-B category B.

**(g) Adjustments.** *(auto-calc)* Taken from line 2(g) of Schedule D, this is also the sum of all amounts in column (g) of line 1 of the official printout of Form 8949 for 1099-B category B.

**(h) GAIN or LOSS.** *(auto-calc)* Taken from line 2(h) of Schedule D, this is the sum of all amounts in column (h) of line 1 of the official printout of Form 8949 for 1099-B category B.

**C Short-term transactions for which you cannot check box A or B.** This category is reported on line 3 of Schedule D. If any amounts are reported in this section, Form 8949, page 1, will be printed with box C checked and the below information detailed with data from the Schedule D worksheets.

**1 Transactions.** The official printed Form 8949 will show on line 1 the list of transactions reported on the worksheets for line 3 of Schedule D. They are not shown on the screen, but are automatically printed on the official Form 8949, page 1, with box C checked. Up to 28 transactions are shown on this page. If you have more than 28 transactions for this category, all transactions will be shown in a supporting statement for this line.

**2 TOTALS.** The totals for 4 columns of Form 8949, line 1, are shown here.

**(d) Sales price.** *(auto-calc)* Taken from line 3(d) of Schedule D, this is also the sum of all amounts in column (d) of line 1 of the official printout of Form 8949 for 1099-B category C.

- (e) **Cost or other basis.** *(auto-calc)* Taken from line 2(e) of Schedule D, this is also the sum of all amounts in column (e) of the official printout of line 1 of Form 8949 for 1099-B category C.
- (g) **Adjustments.** *(auto-calc)* Taken from line 2(g) of Schedule D, this is the sum of all amounts in column (g) of line 1 of the official printout of Form 8949 for 1099-B category C.
- (h) **GAIN or LOSS.** *(auto-calc)* Taken from line 2(h) of Schedule D, this is the sum of all amounts in column (h) of line 1 of the official printout of Form 8949 for 1099-B category C.

**PART II, LONG-TERM GAINS AND LOSSES—ASSETS HELD MORE THAN ONE YEAR.** All entries for this part come from data you entered on worksheets for lines 8b, 9, and 10 in Part II of Schedule D.

**D Long-term transactions reported on Form 1099-B with basis reported to the IRS.** This category is reported on line 8b of Schedule D. If any amounts are reported in this section, Form 8949, page 2, will be printed with box D checked and the below information detailed with data from the Schedule D worksheets.

**1 Transactions.** The official printed Form 8949 will show on line 1 the list of transactions reported on the worksheets for line 8b of Schedule D. They are not shown on the screen, but are automatically printed on the official Form 8949, page 2, with box D checked. Up to 28 transactions are shown on this page. If you have more than 28 transactions for this category, all transactions will be shown in a supporting statement for this line.

**2 TOTALS.** The totals for 4 columns of Form 8949, line 1, are shown here.

- (d) **Sales price.** *(auto-calc)* Taken from line 8b(d) of Schedule D, this is also the sum of all amounts in column (d) of line 1 of the official printout of Form 8949 for 1099-B category A.
- (e) **Cost or other basis.** *(auto-calc)* Taken from line 8b(e) of Schedule D, this is also the sum of all amounts in column (e) of line 1 of the official printout of Form 8949 for 1099-B category A.
- (g) **Adjustments.** *(auto-calc)* Taken from line 8b(g) of Schedule D, this is also the sum of all amounts in column (g) of line 1 of the official printout of Form 8949 for 1099-B category A.
- (h) **GAIN or LOSS.** *(auto-calc)* Taken from line 8b(h) of Schedule D, this is the sum of all amounts in column (h) of line 1 of the official printout of Form 8949 for 1099-B category A.

**E Long-term transactions reported on Form 1099-B but basis not reported to the IRS.** This category is reported on line 9 of Schedule D. If any amounts are reported in this section, Form 8949, page 2, will be printed with box E checked and the below information detailed with data from the Schedule D worksheets.

**1 Transactions.** The official printed Form 8949 will show on line 1 the list of transactions reported on the worksheets for line 9 of Schedule D. They are not shown on the screen, but are automatically printed on the official Form 8949, page 2, with box E checked. Up to 28 transactions are shown on this page. If you have more than 28 trans-

actions for this category, all transactions will be shown in a supporting statement for this line.

**2 TOTALS.** The totals for 4 columns of Form 8949, line 1, are shown here.

**(d) Sales price.** *(auto-calc)* Taken from line 9(d) of Schedule D, this is also the sum of all amounts in column (d) of line 1 of the official printout of Form 8949 for 1099-B category B.

**(e) Cost or other basis.** *(auto-calc)* Taken from line 9(e) of Schedule D, this is also the sum of all amounts in column (e) of line 1 of the official printout of Form 8949 for 1099-B category B.

**(g) Adjustments.** *(auto-calc)* Taken from line 9(g) of Schedule D, this is also the sum of all amounts in column (g) of line 1 of the official printout of Form 8949 for 1099-B category B.

**(h) GAIN or LOSS.** *(auto-calc)* Taken from line 9(h) of Schedule D, this is the sum of all amounts in column (h) of line 1 of the official printout of Form 8949 for 1099-B category B.

**F Short-term transactions for which you cannot check box D or E.** This category is reported on line 10 of Schedule D. If any amounts are reported in this section, Form 8949, page 2, will be printed with box F checked and the below information detailed with data from the Schedule D worksheets.

**1 Transactions.** The official printed Form 8949 will show on line 1 the list of transactions reported on the worksheets for line 10 of Schedule D. They are not shown on the screen, but are automatically printed on the official [Form 8949, page 2, with box F checked](#). Up to 28 transactions are shown on this page. If you have more than 28 transactions for this category, all transactions will be shown in a supporting statement for this line.

**2 TOTALS.** The totals for 4 columns of Form 8949, line 1, are shown here.

**(d) Sales price.** *(auto-calc)* Taken from line 10(d) of Schedule D, this is also the sum of all amounts in column (d) of line 1 of the official printout of Form 8949 for 1099-B category C.

**(e) Cost or other basis.** *(auto-calc)* Taken from line 10(e) of Schedule D, this is also the sum of all amounts in column (e) of line 1 of the official printout of Form 8949 for 1099-B category C.

**(g) Adjustments.** *(auto-calc)* Taken from line 10(g) of Schedule D, this is also the sum of all amounts in column (g) of line 1 of the official printout of Form 8949 for 1099-B category C.

**(h) GAIN or LOSS.** *(auto-calc)* Taken from line 10(h) of Schedule D, this is the sum of all amounts in column (h) of line 1 of the official printout of Form 8949 for 1099-B category C.

## Form 8959\*\* / Additional Medicare Tax

**\*\* Included in Standard and Premium Level software ONLY.** This form is built into the Standard and Premium Level versions of Tax Preparer.

**Purpose.** This form is used to figure the amount of Additional Medicare Tax that high-income taxpayers owe because of a new 0.9% surtax and to report any withholding taken by an employer for that tax. The surtax applies to the amount of wages plus self-employment income that exceeds a threshold that depends on filing status: \$250,000 if married filing jointly, \$125,000 if married filing separately, and \$200,000 for all others. However, an employer will withdraw 0.9% on wages above \$200,000 for all taxpayers. The tax from this form is reported on Form 1040, line 60a, and the withholding is included in Form 1040, line 64. Therefore, once installed, Form 8959 will be accessible through the Road Map at Form 1040, line 60a, and the line above Form 1040, line 64, that references Form 8959.

**IMPORTANT INSTRUCTIONS.** The IRS has designed this form under the unrealistic assumption that all Forms W-2 that a taxpayer receives are completed precisely as the IRS intended in their *2014 General Instructions for Forms W-2 and W-3*. However, those instructions omit critical details in some of their line-by-line instructions, so the form is often improperly prepared. You may therefore have to make adjustments for use in this form. In addition, the calculations for this form have access only to the totals on screens 5 and 6 of Form 1040 from the W-2 Worksheets rather than all the details on the worksheets themselves. These totals are sufficient for a fully automated Form 8959 for most taxpayers, but there are many exceptions that will require you to enter adjustments on this form:

- Unreported tips (not shown on Form W-2) subject to Medicare tax.
- Elective deferrals excluded from box 1 of Form W-2 but subject to Medicare tax.
- RRTA compensation and withholding reported in box 14 rather than boxes 3 through 8 of Form W-2.
- Any other factor that makes Medicare wages and tips differ from wages and tips subject to income tax.

As a result, you will see entries related to these exceptions on the accessible data entry lines on this form. Since some of the adjustments require information on the W-2 Worksheets you prepared for Form 1040, line 7, edited copies of those worksheets are accessible here for easy access while preparing Form 8959:

**W-2 Worksheets for you.** (Attached to the W-2 Worksheets for line 7a of our on-screen Form 1040.) When you itemize this line, you will see copies of the W-2 Worksheets you prepared for the primary taxpayer with most lines that are irrelevant to Form 8959 removed. They are available here for your viewing, but you cannot change any of their entries here.

**W-2 Worksheets for spouse.** (Attached to the W-2 Worksheets for line 7b of our on-screen Form 1040.) When you itemize this line, you will see copies of the W-2 Worksheets you prepared for the secondary

taxpayer with most lines that are irrelevant to Form 8959 removed. Again, they are available here for your viewing, but you cannot change any of their entries here.

Entries of particular interest for completing this form are those for elective deferrals (amounts in box 12 of Form W-2 that are identified with code D, E, F, G, or S), the Medicare lines for RRTA compensation in box 14, and the sum of allocated tips in box 8 plus the adjustment you entered for Form 1040.

**PART I, ADDITIONAL MEDICARE TAX ON MEDICARE WAGES.** If the wages in box 1 of all Forms W-2 are the same as Medicare Wages and Tips in box 5 of Forms W-2, and you have no unreported tips, you will generally not need to make any entries in this part of the form. *CAUTION: Otherwise, this part requires manual entries to properly complete lines 1, 2, and 3, and may require you to correct any incomplete entries on your W-2 Worksheets for Form 1040.*

**Wages and tips on Form 1040, lines 7a and 7b.** *(auto-calc, supported by Form 1040 page 1)* This total is shown at the top of screen 7 of Form 1040, page 1, as "Wages on W-2s (7a plus 7b)." It is the sum of amounts on the W-2 Worksheets for box 1, box 8, and the adjustment that follows box 8. If the adjustment was properly entered on all worksheets, this is the sum of taxable wages, reported tips, and unreported tips, which are subject to income tax. The following entries are adjustments to this total required for some taxpayers to arrive at the total subject to Medicare tax, presumably reported in box 5 of Forms W-2.

**Deferred compensation not in above.** Qualified deferred compensation is not subject to income tax, and is therefore not included in the previous line, but is subject to Medicare tax. It therefore must be added to the preceding amount through this entry. The proper amount will usually be shown in box 12 of Forms W-2 with the code D, E, F, G, or S.

**Unreported tips in above.** *(If Premium Level, Road Map line supported by Form 4137.)* Although unreported tips are included in the total for line 7 of Form 1040, they are not a part of Medicare wages for line 1 of this form because they are handled separately at line 2. You must therefore enter the unreported tips included above, which will be the amount on line 4 of Form 4137 (*Social Security and Medicare Tax on Unreported Tip Income*) if you properly included this amount in your adjustment below line 8 of the W-2 Worksheets. *CAUTION: If you enter an amount here, be sure to enter an offsetting amount on line 2 of this form as well.*

**Independent contract wages in above.** If any employer treated you as an independent contractor (and therefore collected no social security or Medicare tax on your behalf), but you do not (that is, you do not file Schedule C to report those wages), you must file Form 8919 (*Uncollected Social Security and Medicare Tax on Wages*) to pay the social security and Medicare taxes on the wages you received. You must also include those wages in line 7 of Form 1040 so that income tax is assessed on them. If you did so in the W-2 Worksheets, enter

those wages here, which are found on line 6 of Form 8919. But if you included them in line 7 of Form 1040 through an override of line 7 (or the total of line 7a and 7b), enter zero here. **CAUTION:** *If you enter an amount here, be sure to enter an offsetting amount on line 3 of this form as well.*

**RRTA compensation in above.** For Forms W-2 completed for RRTA compensation, the wages are included in the above total for line 7 of Form 1040, but they are not a part of Medicare wages for line 1 of this form because they are handled separately in Part III of this form. The amount you enter here will be excluded from line 1, below, and included in line 14 (in Part III) instead.

**Other adjustment for line 1.** If the Medicare wages and tips in box 5 of Forms W-2 differs from the above total for any other reason, you must enter that amount here. You can use this line to make corrections for an improperly prepared Form W-2 as well.

**1 Medicare wages and tips from Form W-2, box 5.** *(auto-calc)* Computed as "Wages and tips on Form 1040, lines 7a and 7b" plus Deferred compensation not in above" minus "Unreported tips in above" minus "RRTA compensation in above" plus "Other adjustment for line 1." This is the amount of Medicare wages and tips that were (or should have been) reported in box 5 of Forms W-2.

**2 Unreported tips from Form 4137, line 6.** *(If Premium Level, Road Map line supported by Form 8332.)* If you received more than \$20 of tips in any one month that you did not report to your employer, you must file Form 4137, when social security and Medicare taxes are imposed on those tips. The unreported tips reported on that form are reported here. (Line 6 of Form 4137, reported, can be slightly less than the amount you report on Form 1040, line 7, which is line 4 of Form 4137, because tips under \$20 in any month are not subject to social security or Medicare tax, yet they are taxable income for the purposes of regular income tax.)

**Your Form 8919, line 6.** Enter here the amount on line 6 of the Form 8919 filed for you, which is your total wages from employers that treated you as an independent contractor.

**Spouse's Form 8919, line 6.** Enter here the amount on line 6 of the Form 8919 filed for the spouse, which is spouse's total wages from employers that treated the spouse as an independent contractor.

**3 Wages from Form 8919, line 6.** *(auto-calc)* Computed as "Your Form 8919, line 6" plus, if married filing jointly, "Spouse's Form 8919, line 6."

**4 Add lines 1 through 3.** *(auto-calc)* Computed as indicated, this is the total wages subject to Medicare tax for you (and spouse, if married filing jointly), excluding RRTA compensation. It includes Medicare taxes withheld by employers and the taxes you are paying with this tax return via Forms 4137 and 8919.

**5 Amount for your filing status.** *(auto-calc)* The threshold that applies for your filing status appears here: \$250,000 if married filing jointly, \$125,000 if married filing separately, and \$200,000 otherwise. You

are liable for the Additional Medicare Tax on wages above this threshold.

**6 Subtract line 5 from line 4.** *(auto-calc)* Computed as indicated, this is excess of total Medicare wages over the above threshold.

**7 Multiply line 6 by 0.9%.** *(auto-calc)* Computed as indicated, this is the Additional Medicare Tax on wages, which will be reflected in line 62 of Form 1040.

**PART II, ADDITIONAL MEDICARE TAX ON SELF-EMPLOYMENT.** If self-employment income plus Medicare wages on line 4 exceeds the threshold on line 5, you are liable for yet more Additional Medicare Tax. *This part is fully automatic.*

**8 Self-employment income from Schedule SE, Section A, line 4, or Section B, line 6.** *(auto-calc, supported by Schedules SE)* Computed as the sum of the cited amount on your Schedule SE (but no less than zero) plus, if married filing jointly, the cited amount on spouse's Schedule SE (but no less than zero). Note that you cannot use one spouse's losses to offset the other spouse's profits. Only the net profit for each spouse is considered on this form.

**9 Amount for your filing status.** *(auto-calc)* The threshold that applies for your filing status appears here: \$250,000 if married filing jointly, \$125,000 if married filing separately, and \$200,000 otherwise. You are liable for the Additional Medicare Tax when wages and self-employment income combined exceeds threshold.

**10 Amount from line 4.** *(auto-calc)* Taken from line 4, as indicated.

**11 Subtract line 10 from line 9.** *(auto-calc)* Computed as indicated, but no less than zero.

**12 Subtract line 11 from line 8.** *(auto-calc)* Computed as indicated, but no less than zero.

**13 Multiply line 12 by 0.9%.** *(auto-calc)* Computed as indicated, this is the Additional Medicare Tax on self-employment income, which will be reflected in line 62 of Form 1040.

**PART III, ADDITIONAL MEDICARE TAX ON RAILROAD RETIREMENT TAX ACT (RRTA) COMPENSATION.** The high-income thresholds are applied separately for RRTA compensation. Therefore, there will be no Additional Medicare Tax on this compensation if it does not exceed the threshold on line 5. *This part is fully automatic.*

**14 Railroad retirement (RRTA) compensation and tips from Form(s) W-2, box 14.** *(auto-calc)* Taken from your entry above line 1 for "RRTA compensation in above)," this is the amount to be compared with the applicable threshold.

**15 Amount for your filing status.** *(auto-calc)* The threshold that applies for your filing status appears here: \$250,000 if married filing jointly, \$125,000 if married filing separately, and \$200,000 otherwise. You are liable for the Additional Medicare Tax when RRTA compensation exceeds threshold.

**16 Subtract line 15 from line 14.** *(auto-calc)* Computed as indicated, but no less than zero.

**17 Multiply line 16 by 0.9%. (*auto-calc*)** Computed as indicated, this is the Additional Medicare Tax on RRTA compensation, which will be reflected in line 62 of Form 1040.

**PART IV, TOTAL ADDITIONAL MEDICARE TAX.** Taxes computed in Parts I, II, and III are combined here. *This part is fully automatic.*

**18 Add lines 7, 13, and 17. (*auto-calc*)** Computed as indicated, this is the total *Additional Medicare Tax* that you owe (over and above any amount withheld on your behalf).

**PART V, WITHHOLDING RECONCILIATION.** The Additional Medicare Tax withheld by your employers is computed here. ***CAUTION: This part requires manual entries if any RRTA compensation applies. A problem in this part indicates that you have not accounted for all factors in completing Part I of this form.***

**Medicare and Tier 1 withholding. (*auto-calc*)** Taken from the amount for you for "Medicare & Tier 1 tax withheld" on screen 5 of Form 1040, page 1, plus, if married filing jointly, the corresponding amount for spouse on screen 6.

**RRTA part of above.** The preceding amount includes Medicare tax withholding for RRTA compensation, which is reported in box 14 of Form W-2 rather than box 6. However, line 19 of this form applies only to the amount in box 6, so you must deduct the RRTA portion here.

**19 Medicare wages tax withheld from Form W-2, box 6. (*auto-calc*)** Computed as "Medicare and Tier 1 withholding" less "RRTA part of above," but no less than zero.

**20 Amount from line 1. (*auto-calc*)** Taken from line 1 of this form, as indicated, this is the total for all wages and tips other than those reported for RRTA compensation.

**21 Multiply line 20 by 1.45%. (*auto-calc*)** Computed as indicated, this is the regular Medicare tax that applies to all wages and tips other than RRTA compensation. ***CAUTION: If this amount is more than the amount on line 19, you have not properly accounted for all factors above line 1 or on your W-2 Worksheets. Because of the IRS design for this form, your W-2 Worksheets must be completed more strictly in accordance with our instructions, even though the rest of the return may not require it.***

**22 Subtract line 21 from line 19. (*auto-calc*)** Computed as indicated, but no less than zero and no more than 0.9% of the excess of line 20 over \$200,000. ***CAUTION: If the result on this line is less than line 19 minus line 21, you have not properly accounted for all factors above line 1 or on your W-2 Worksheets because 19 less line 21 will never be more than 0.9% of the excess of line 20 over \$200,000 when line 1 is proper. Therefore, if this limit needs to be applied, you need to determine the reason why and correct it!*** (The limit that we apply is a safety factor that guards against claiming credit for Medicare tax that was not actually withheld.)

**23 Additional Medicare Tax withholding on railroad retirement (RRTA) compensation from Form W-2, box 14.** This amount does not appear

separately on our W-2 Worksheets, but the IRS expects the employer to state it separately from regular Medicare tax in box 14 of Form W-2. Nevertheless, employers can easily overlook the need for the separate statement of the two kinds of Medicare tax, so you may have to compute it from the total Medicare tax withholding. To do so, compute 1.45% of the amount identified as RRTA compensation in box 14 of Form W-2. If the amount identified in box 14 as the total Medicare tax withholding exceeds this result, the excess is your Additional Medicare Tax withholding and should be entered here. **CAUTION:** *You should have no amount here if no Form W-2 shows RRTA wages and tips that exceed \$200,000, since employers are required to withhold Additional Medicare Tax only on wages that exceed \$200,000.* Because of the potential for error, the software limits your entry here to be no more than 0.9% of the excess of line 14 over \$200,000 and no more than the RRTA withholding identified above line 19 less 1.45% of line 14.

**24 Total Additional Medicare Tax withholding.** *(auto-calc)* Computed as the sum of lines 22 and 23, this is the amount to be posted to line 64 of Form 1040 as Medicare tax already paid through withholding.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8960\*\* / Net Investment Income

**\*\* Included in Standard and Premium Level software ONLY.** This form is built into the Standard and Premium Level versions of Tax Preparer.

**Purpose.** This form is used to figure the amount of Net Investment Income Tax that high-income taxpayers owe because of a new 3.8% surtax. The surtax applies to the lesser of (a) net investment income (after certain expenses) or (b) modified adjusted gross income that exceeds a threshold that depends on filing status. The AGI threshold is \$250,000 if married filing jointly or qualifying widow(er), \$125,000 if married filing separately, and \$200,000 if single or head of household. Form 8960 is automatically created and completed when AGI exceeds the threshold for your filing status and net investment income (determined from Form 1040, Schedule A, and Form 4952) is greater than zero. However, you may have to make adjustments for special situations, as detailed here. The tax from this form is reported on Form 1040, line 60b. Therefore, *Form 8960 is accessible through the Road Map at Form 1040, line 60b.*

**PART I, INVESTMENT INCOME.** Investment income generally includes only interest, dividends, capital gains, net income from the sale of property, royalties, rents, income allocated from partnerships, S corporations, and trusts. However, there are exceptions including both additions and exclusions. A careful reading of the IRS *2014 Instructions for Form 8960* is therefore recommended.

**Elections.** The elections affect how you determine what to enter on Form 8960, but they apply only to relatively uncommon circumstances:

**Either spouse nonresident alien?** You should answer Yes here if (a) either spouse was a nonresident alien (NRA) at the end of the tax year (and married to a U.S. citizen or resident), or (b) either spouse (or both) was a nonresident alien at the beginning of the tax year, but was a U.S. citizen or resident at the end of the year (and married to a U.S. citizen or resident). In either case, you can elect to be treated as filing jointly or separately for the purposes of this form (under section 6013(g) for case (a), and section 6013(h) for case (b).) If you elect to be treated jointly, Form 8960 is completed in the normal way like any other joint filers. But if you do not choose this election, you must make adjustments on a number of lines in order to remove the entries attributable to the nonresident alien.

**Section 6013(g) election?** Form 8960 provides a checkbox only for the section 6013(g) election, so you should generally answer Yes only if you qualify for case (a), above. If you answer Yes, any entries you make on lines labeled "Adjustment for non-resident alien" will be ignored in the calculations. However, if you answer Yes to the preceding question and No to this question, your entries for "Adjustment for non-resident alien" will be used in the calculations. *Exception for e-file: The IRS implementation of the election for e-file requires that you consider the election to apply to section 6013(h) as well as*

6013(g). You should therefore answer Yes to this question if you elect joint filing under either section of the tax code.

**Section 1.1411-10(g) election?** This election applies only if you own stock of a controlled foreign corporation (CFC) or a qualified electing fund (QEF). Under the election, regular income from the entity is counted as net investment income but distributions from the entity are not. See the IRS *2014 Instructions for Form 8960* for detailed information on this election. If you make this election, you will make all adjustments relevant to this election on line 6 of Form 8960.

**1 Taxable interest.** No entry is required for this line unless either spouse is or was a nonresident and you did not choose the election.

**Interest from Form 1040, line 8a.** *(auto-calc, supported by Form 1040)*

Taken from Form 1040, as indicated, this line includes all taxable interest.

**Adjustment for non-resident alien.** An entry is appropriate here only if you answered Yes to the non-resident alien question but No to the election to file jointly. Otherwise, your entry is ignored in the determination of the amount for line 1. Your entry should remove any part of the preceding line that applies to the non-resident alien.

**1 Taxable interest.** *(auto-calc)* Normally taken as "Interest from Form 1040, line 8a," but modified by the preceding entry if you answered Yes to the non-resident alien question but No to the election to file jointly.

**2 Ordinary dividends.** No entry is required for this line unless either spouse is or was a nonresident and you did not choose the election.

**Interest from Form 1040, line 9a.** *(auto-calc, supported by Form 1040)*

Taken from Form 1040, as indicated, this line includes all taxable dividends, not just qualified dividends.

**Adjustment for non-resident alien.** An entry is appropriate here only if you answered Yes to the non-resident alien question but No to the election to file jointly. Otherwise, your entry is ignored in the determination of the amount for line 2. Your entry should remove any part of the preceding line that applies to the non-resident alien.

**2 Taxable dividends.** *(auto-calc)* Normally taken as "Dividend from Form 1040, line 9a," but modified by the preceding entry if you answered Yes to the non-resident alien question but No to the election to file jointly.

**3 Annuities from nonqualified plans.** Net investment income from annuities that applies to this line is generally shown on the Form 1099-R you receive, identified as code D in box 7. However, there are exceptions, so you should read the IRS instructions for this line in the IRS *2014 Instructions for Form 8960* before making an entry here.

**4 Rental real estate, royalties, partnerships, S corporations, trusts, etc.** No entry is required for this line unless either spouse is or was a nonresident and you did not choose the election.

**Rentals, partnerships, etc. from Form 1040, line 17.** (*auto-calc, supported by Form 1040*) Taken from Form 1040, as indicated, this line represents all income reported on Schedule E.

**Adjustment for non-resident alien.** An entry is appropriate here only if you answered Yes to the non-resident alien question but No to the election to file jointly. Otherwise, your entry is ignored in the determination of the amount for line 4a. Your entry should remove any part of the preceding line that applies to the non-resident alien.

**4a Rental real estate, partnerships, S corps, etc. from Form 1040, line 17.** (*auto-calc*) Normally taken as the total from Schedule E shown above, but modified by the preceding entry if you answered Yes to the non-resident alien question but No to the election to file jointly.

**4b Adjustment for net income or loss derived in the ordinary course of a non-section 1411 trade or business.** This entry is intended to remove from line 4a any amount attributable to a *bona fide* trade or business, as opposed to an investment. The definition of "trade or business" in this context is more restrictive than that used under the passive activity rules, so you may need to read the IRS instructions and section 162 of the tax code if you are not sure of the classification for all activities included in line 4a.

**4c Combine lines 4a and 4b.** (*auto-calc*) Computed as the sum of the preceding two entries.

**5 Net gain or loss from the disposition of property.** You may have to make an entry on line 4b or line 4c because the gains and losses in lines 13 and 14 of Form 1040 can contain a number of items that can be excluded from investment income for this form.

**Capital gains and losses from Form 1040, line 13.** (*auto-calc, supported by Form 1040*) Taken from Form 1040, as indicated, this line represents the net gain or loss resulting on Schedule D.

**Other gains and losses from Form 1040, line 14.** (*auto-calc, supported by Form 1040*) Taken from Form 1040, as indicated, this line represents the net gain or loss resulting on Form 4797.

**Adjustment for non-resident alien.** An entry is appropriate here only if you answered Yes to the non-resident alien question but No to the election to file jointly. Otherwise, your entry is ignored in the determination of the amount for line 5a. Your entry should remove any part of the preceding line that applies to the non-resident alien.

**5a Net gain or loss from the disposition of property from Form 1040, lines 13 and 14.** (*auto-calc*) Normally taken as the total from lines 13 and 14 of Form 1040, but modified by the preceding entry if you answered Yes to the non-resident alien question but No to the election to file jointly.

**Excludible part of above.** You should enter here the part of the amount on line 5a that is not subject to net investment income tax. A number of specialized gains and losses are excludible, as detailed in the IRS instructions for line 5b. We require you to enter the excludible amount here, rather than directly on line 5b, because the IRS label for line 5b is misleading. As the IRS instructions make clear, the

amount for line 5b is the *negative* of what the label implies. For example, if a gain of \$500 is excludible, you are instructed to enter minus \$500 on line 5b, not the excludible amount of \$500. We therefore negate your entry for you.

**5b Adjustment for disposition not subject to net investment income tax.** (*auto-calc*) Computed as the negative of the preceding entry (making this line negative if the preceding entry is positive, but positive if the preceding entry is negative). For the on-screen form, we have changed the IRS words "Net gain or loss from" to "Adjustment for" in order to clarify the meaning of this line.

**5c Adjustment from disposition of partnership interest or S corporation stock.** (*Supported by the Interest Disposition Worksheet, Figure 2-78.*) You must generally include in your net investment income the gain or loss you realize from disposing of all or part of your interest in a partnership or S corporation. The worksheet that supports this line itemizes the information that you must provide to describe the change in your interest, and reflects the components described by the IRS as "Required statements" on page 5 of the IRS 2014 Instructions for Form 8960. The last line of the worksheet (line i) is posted to this line as an adjustment for line 5. **CAUTION for e-file:** *Completion of the worksheet is mandatory for e-file returns.*

**5d Combine lines 5a through 5c.** (*auto-calc*) Computed as the sum of lines 5a, 5b, and 5c.

**6 Changes to investment income for certain CFCs and PFICs.** This line applies only to those who own stock of a controlled foreign corporation (CFC) or a passive foreign investment company (PFIC). Your entry for this line is intended to reflect additional rules that apply only to CFCs and PFICs. And what you enter here depends on whether or not you made the section 1.1411-10(g) election on screen 1. See the IRS *2014 Instructions for Form 8960* for details.

**7 Other modifications to investment income.** This line is a "catch all" line for all adjustments not reflected in any of the preceding lines. In the *2014 Instructions for Form 8960*, the IRS details several examples of the kind of adjustment that applies here. You should therefore read pages 10 through 12 of the IRS instructions before you make an entry here.

**8 Total investment income.** (*auto-calc*) Computed as the sum of lines 1, 2, 3, 4c, 5d, 6, and 7, this is the total income subject to the new tax *before* reduction by eligible expenses.

**Interest Disposition Worksheet, Figure 2-78.** This worksheet supports line 5c of Form 8960, where an adjustment for the net gain or loss from a disposition of interest in a partnership or S corporation is entered. You must complete a separate worksheet for each separate entity for which your interest in the entity was changed. TIP: This worksheet is patterned after the list in the *Required statements* paragraph on page 5 of the IRS 2014 Instructions for Form 8960, so you should refer to the IRS instructions if you need further guidance.

- a. **Description.** Describe the disposed interest on the two 25-character fields provided.
- b. **Name of partnership or S corp.** Enter the name of the entity for the disposed interest in the provided 30-character field.

INTEREST DISPOSITION WKSHT	
a. Description.....	
b. Name of partnrsHp or S corp:	
c. EIN of partnership or S corp	
d. FMV on date of disposition.	0
e. Adj.basis on date of disp'n	0
f. Allocable share of net g/l.	0
g. Sec. 1411 status.	
h. Net gain on disposition....	0
i. Adjustment for line 5c.....	0

**Figure 2-78. Interest Disposition Worksheet**

- c. **EIN of partnership or S corp.** Enter the employer identification number (EIN) of the entity in the standard xx-xxxxxxx format.
- d. **FMV on date of disposition.** Enter the fair market value of each property of the entity on the disposition date.
- e. **Adjusted basis on date of disposition.** Enter the adjusted basis of each property of the entity on the disposition date.
- f. **Allocable share of net gain or loss.** Enter your allocable share of gain or loss with respect to each property of the entity.
- g. **Section 1411 status.** In the two 25-character fields provided, state whether the property was in a trade or business in which you materially participated and was not trading in financial instruments or commodities.
- h. **Net gain on disposition.** Enter the amount of gain on the disposition of your interest in the entity that is included in line 5a of Form 8960.
- i. **Adjustment for line 5c.** Enter the amount of your adjustment for line 5c. For the simplest cases, this will be the negative of your entry on line h, above.

**PART II, INVESTMENT EXPENSES ALLOCABLE TO INVESTMENT INCOME AND MODIFICATIONS.** Most amounts are taken automatically from Schedule A and Form 4952, but you may have an adjustment for line 9a, 9b, or 9c.

**9 Investment expenses.** This line is fully automatic for most returns, but you may have to make adjustments if a non-resident alien is involved or one of the other special cases cited in the IRS instructions applies.

**Investment interest expense on Schedule A, line 14.** (*Road Map line supported by Schedule A.*) Taken from Schedule A, as indicated, this line represents the investment interest expense on line 8 of Form 4952 (*Investment Interest Expense Deduction*).

**Adjustment for non-resident alien.** An entry is appropriate here only if you answered Yes to the non-resident alien question but No to the election to file jointly. Otherwise, your entry is ignored in the determination of the amount for line 9a. Your entry should remove any part of the preceding line that applies to the non-resident alien.

**9a Investment interest expenses.** (*auto-calc*) Normally taken as the amount from line 14 of Schedule A, but modified by the preceding entry if you answered Yes to the non-resident alien question but No to the election to file jointly.

**State income tax for Schedule A, line 5a.** (*Road Map line supported by Schedule A.*) Taken from Schedule A, as indicated, this line represents the deduction on line 5 of Schedule A only if you did not choose the sales tax option. (Sales tax is not an option for Form 8960.)

**Adjustment for line 9b.** You may have to enter a negative adjustment here if your deduction on Schedule A was reduced either by AGI limitations or high-income limitations. See IRS instructions for line 9b for details.

**9b State income tax.** (*auto-calc*) Computed as the sum of the preceding two entries.

**Miscellaneous investment expense from Form 4952, line 5.** (*Road Map line supported by Form 4952.*) Taken from Form 4952, as indicated. See the IRS *2014 Instructions for Form 4952* for details.

**Adjustment for line 9c.** AGI limitations are already reflected in line 5 of Form 4952. However, you may have to enter a negative adjustment here if your deductions are reduced by high-income limitations. See IRS instructions for line 9c for details.

**9c Miscellaneous investment expenses.** (*auto-calc*) Computed as the sum of the preceding two entries.

**9d Combine lines 9a, 9b, and 9c.** (*auto-calc*) Computed as the sum of the indicated lines.

**10 Additional modifications.** This line is a “catch all” line for all adjustments not reflected in line 9d for investment expenses. In the *2014 Instructions for Form 8960*, the IRS details several examples of the kind of adjustment that applies here. You should therefore read pages 17 and 18 of the IRS instructions before you make an entry here.

**11 Total deductions and modifications.** (*auto-calc*) Computed as the sum of lines 9d and 10, this is the total of all deductions allowed to offset the investment income computed in Part I.

**PART III, TAX COMPUTATION.** This part is fully automatic for most taxpayers. However, you may have to make an adjustment to AGI if a special case cited below applies.

**12 Net investment income.** *(auto-calc)* Computed as line 8 less line 11, but no less than zero. This is the income subject to taxation for high-income taxpayers.

**INDIVIDUALS:** Only lines 13 through 17 of apply to Form 1040 returns.

**13 Modified adjusted gross income.** For this form, modified AGI is the same as AGI without modification for most taxpayers. However, modifications apply for two special cases, shown below.

**Adjusted gross income (from Form 1040, line 38).** *(auto-calc, supported by Form 1040.)* Taken from Form 1040, as indicated, this is AGI before any modifications.

**Adjustment under section 911.** If the above AGI reflects a reduction under section 911, you must add back that reduction here. See IRS 2014 Instructions for Form 8960 for details.

**Adjustment for CFCs and PFICs.** If you own stock of a controlled foreign corporation (CFC) or a passive foreign investment company (PFIC), you may have to increase AGI for certain special cases. See IRS 2014 Instructions for Form 8960 for details.

**13 Modified adjusted gross income.** *(auto-calc)* Computed as the sum of the preceding three lines.

**14 Threshold for filing status.** *(auto-calc)* Normally computed based on the filing status on Form 1040 as \$250,000 if married filing jointly or qualifying widow(er), \$200,000 if single or head of household, and \$125,000 if married filing separately. However, if you indicated a non-resident spouse on screen 1 but you did not indicate a joint filing election, this line is computed as \$125,000 rather than \$250,000 for joint filers.

**15 Subtract line 14 from line 13.** *(auto-calc)* Computed as indicated, but no less than zero.

**16 Smaller of line 12 or line 15.** *(auto-calc)* Computed as indicated, this is the amount subject to the new 3.8% surtax.

**17 Net investment income tax for individuals.** *(auto-calc)* Computed as 3.8% of line 16, this is the tax for line 60b of Form 1040.

**ESTATES AND TRUSTS:** The remainder of the form (lines 18 through 21) applies only to estates and trusts for a Form 1041 return, and are not relevant to this Form 1040 return.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Form 8962\*\* / Premium Tax Credit (PTC)**

**\*\* Included in Standard and Premium Level software ONLY.** This form is built into the Standard and Premium Level versions of Tax Preparer.

**Purpose.** This form is used to figure the amount of allowed *Premium Tax Credit* and the amount of tax owed because of excess *Advance Premium Tax Credit* received in the form of reduced insurance premiums. It *applies ONLY to those who enrolled (or whose family members enrolled) in a health plan offered through the government-run Marketplace* (popularly called a health insurance "Exchange"). The amount of credit you are allowed for tax year 2014 depends on the total 2014 income for you, spouse, and dependents you claim on your return. However, if your premiums were reduced by claiming a monthly advance on your credit, you must reconcile the amount your insurance premiums were reduced, which was based on estimated 2014 income, with the actual credit to which you are entitled. As a result, you could owe a tax if the reduction exceeded your allowed credit, or you could claim a credit if the reduction was less than your allowed credit. This form handles both cases. *Form 8962 is accessible through the Road Map at lines 46 and 69 of Form 1040.*

**TIP: Study IRS instructions ... and IRS Pub. 974 if unsure.** The rules for this form are extremely complex for some taxpayers, especially for shared insurance policies and mid-year changes in marital state. And some of parts of the form are contrary to intuition and traditional IRS designs, especially where rounding, percentages, and overflow statements are concerned. In additional, it is critically important that you understand who counts in your family for the purposes of this form and whose income you must report on this form. Unfortunately, the IRS instructions are not all-inclusive and they often refer you to IRS Pub. 974 (*Premium Tax Credit*) for explanations and worksheets (20 times!). This publication is indispensable for completing lines 12 through 23 of this form when you choose the *Alternative Calculation for Year of Marriage* at line 9. (IRS Pub. 974 was not released until March, 2015, so it was not included in our Standard Level and Premium Level software until release 2015.01h. Although we included an IRS advance draft of four pages that relate to the alternative calculation before that time, the final release differs from the draft in some of its details.)

**Relief from Married Filing Jointly requirement.** Married taxpayers are generally required to file jointly to use this form. However, there is are two exceptions: (1) you file as Head of Household (filing status 4) under the qualifications for married person who live apart; and (2) you file as Married Filing Separately (filing status 3) as a victims of domestic abuse or spousal abandonment. This section of the form is used to alert the IRS to the second situation.

**Filing status on Form 1040.** (*auto-calc, supported by Form 1040*) Taken from Form 1040, this section applies to you if filing status is 3 (Married Filing Separately).

**If 3 (MFS), were you a victim of domestic abuse or spousal abandonment?** See page 3 of the IRS *2014 Instructions for Form 8962* for definitions of these phrases for the purposes of this form. If you answer Yes, a checkbox is marked near the top of the official form to

indicate that you qualify for the Premium Tax Credit even though you are filing separately.

**PART 1: ANNUAL AND MONTHLY CONTRIBUTIONS.** This section is used to determine various requirements and limitations, which set the stage for determining the credit allowable and the amount of advance payments that may need to be repaid.

**1 Family Size: Number of exemptions from Form 1040, line 6d.** *(auto-calc)* Taken from Form 1040, as indicated, your claims on Form 1040 determine who you must include when completing this form.

**2a For your income on Form 1040:**

**AGI (Form 1040, line 38).** *(auto-calc)* Taken from Form 1040, line 38, as indicated.

**Adjustments from Form 8814.** If you filed Form 8814 to include your children's income on your return, you may have to add some of the child's untaxed income here. See the footnote to Worksheet 1-1 on page 4 if the IRS *2014 Instructions for Form 8962*.

**Tax-exempt interest.** *(auto-calc)* Taken from Form 1040, line 8b.

**Foreign income exclusions and deductions.** *(auto-calc)* Computed from amounts posted to Form 1040 from Forms 2555 and 2555-EZ, this is the foreign income exclusion subtracted from income at line 21 of Form 1040 and the foreign housing deduction subtracted from income at line 36 of Form 1040.

**Untaxed social security benefits.** *(auto-calc)* Computed as the social security benefits received on Form 1040, line 20a, less the taxable part on Form 1040, line 20b.

**2a Your modified AGI.** *(auto-calc)* Computed as the sum of the preceding 5 amounts, this is your AGI plus tax-exempt income, foreign exclusions and deductions, and the untaxed part of social security benefits received.

**2b For income of dependents required to file.** Analogous to line 2a, you must determine here the modified AGI for all dependents combined here, *excluding those who are not required to file a tax return of their own*. See IRS instructions for details.

**AGI of all dependents (Form 1040, line 38).** Enter the combined income of all required dependents, allowing both positive and negative amounts.

**Tax-exempt interest.** Enter the sum of Form 1040, line 8b, from the returns of all required dependents.

**Foreign income exclusions and deductions.** Enter the combined exclusions and deductions from Forms 2555 and 2555-EZ of all required dependents.

**Untaxed social security benefits.** Enter the sum of the social security benefits received on Form 1040, line 20a, less the taxable part on Form 1040, line 20b, for all required dependents combined.

**2b Dependents' modified AGI.** *(auto-calc)* Computed as the sum of the preceding 4 amounts.

**3 Household income: Add the amounts on lines 2a and 2b.** *(auto-calc)* Computed as indicated, this is the income that applies to this form.

**State of residence (for 4):** Classify your state of residence from the following 3 choices. If you moved during the year, make the choice that gives you the highest dollar amount for line 4.

**State of Alaska.** Alaska provides the highest dollar amount for line 4.

**State of Hawaii.** Hawaii provides the next highest dollar amount.

**Other 48 states and D.C.** *(auto-calc)* Automatically Yes if neither of the preceding two states are indicated. Otherwise, No. This choice gives the lowest dollar amount for line 4.

**4 Federal Poverty Line.** *(auto-calc)* Computed based on your state (above) and family size on line 1 from Tables 1-1, 1-2, and 1-3 in the IRS 2014 *Instructions for Form 8962*. as indicated, this is the income that applies to this form.

**5 Household income as a Percentage of Federal Poverty Line.** *(auto-calc)* Computed as 100% times line 4 divided by line 5 subject to special rounding rules. If between 100% and 400%, the result is rounded to the nearest whole percent. However, for numbers under 100% you must round down and for numbers over 400% you must round up! See IRS 2014 *Instructions for Form 8962* for the unconventional rounding rules that are applied.

**6 Is line 5 less than or equal to 400%?** *(auto-calc)* If No, you are not eligible for the credit on this form and lines 7, 8a, and 8b will be zero. However, you are still liable for a repayment of some or all of advance payments received in the form of reduced premiums, and must therefore still complete Parts 2 and 3 of this form.

**CAUTION:** If line 6 is No... you must enter zero for entries A and B in lines 11 through 23 in Part II, regardless of the amounts on Form(s) 1095-A. However, you must still enter the appropriate amount(s) from Form(s) 1095-A for entry F in line 11 or lines 12 through 23, whichever applies.

**7 Applicable Figure.** *(auto-calc)* Computed based on the percentage on line 5 from Table 2 in the IRS 2014 *Instructions for Form 8962*, but zero if line 5 is more than 400%.

**8a Annual Contribution for Health Care.** *(auto-calc)* Computed as line 3 multiplied by line 7, this is the amount that will be used for line 11C, when applicable.

**8b Monthly Contribution for Health Care.** *(auto-calc)* Computed as line 8a divided by 12, this is the amount that will generally be used for lines 12C through 23C, when applicable.

**PART 2: PREMIUM TAX CREDIT (PTC) CLAIM AND RECONCILIATION OF ADVANCE PAYMENT OF PREMIUM TAX CREDIT (APTC).** This section is used to report amounts reported to you on Form(s) 1095-A (*Health Insurance Marketplace Statement*). You will need a copy of that form for all family members in order to complete this part of the form.

**9 Shared policies and mid-year marriages.** The IRS combines two special cases into one question, but we must ask them separately in order to properly automate the calculations and printing for the form:

**Did you share a policy with another taxpayer?** *If Yes, you must complete Part 4 of this form before you proceed with the rest of Part 2.*

**Did you get married during the year and want to use the alternative calculation?** It may be to your benefit to use the alternative calculation, but the complex computations are required to determine your modified entries. While the IRS refers you to IRS Pub. 974 for this case, the publication was not released until the middle of the tax season! *If you answer Yes, you must complete Part 5 of this form before you proceed with the rest of Part 2.*

If you answer Yes to either question or both, the Yes box for line 9 is checked on the official printout of Form 8962.

**10 Do all Forms 1095-A for your tax household include coverage for January through December with no changes in monthly amounts shown on lines 21 to 32, columns A and B?** You can answer Yes here only if you answered No to both questions for line 9. If Yes, you must complete line 11 and leave lines 12 through 23 blank.

**11 Annual Calculation.** *CAUTION: Complete these lines (and skip lines 12A through 23F) ONLY if line 10 is Yes.* Otherwise, you must skip lines 11A through 11F and complete lines 12A through 23F instead.

- A. Form(s) 1095-A, line 33A.** Enter the annual premium amount as indicated for all Forms 1095-A combined. *Exception: If line 6 is No or line 10 is No, you must always enter zero for this line.*
- B. Form(s) 1095-A, line 33B.** Enter the annual premium amount of SLCSP as indicated for all Forms 1095-A combined. *Exception: If line 6 is No or line 10 is No, you must always enter zero for this line.*
- C. Form 8962, line 8a. (auto-calc)** Taken from line 8a if the answer for line 10 is Yes. Otherwise, zero.
- D. Subtract line 11C from line 11B. (auto-calc)** Computed as indicated, this is the annual maximum premium assistance.
- E. Smaller of line 11A or line 11D. (auto-calc)** Computed as indicated, this is the annual premium tax credit allowed.
- F. Form(s) 1095-A, line 33C.** Enter the annual advance payment of PTC as indicated for all Forms 1095-A combined. *Exception: If line 10 is No, you must always enter zero for this line.*

*TIP: If you completed this line, the rest of the form is automatic and you should make no entries on lines 12 through 23 nor Part 4 nor Part 5.*

**12-23 Monthly Calculation.** These 12 lines, one for each month of 2014, follow the same format, so we cite the *range* of lines from Form(s) 1095-A that

apply. **CAUTION:** Complete these lines (and skip lines 11A through 11F) ONLY if line 10 is No. Otherwise, you must skip lines 12A through 23F and complete lines 11A through 11F instead.

- A. Form(s) 1095-A, lines 21A through 32A.** Enter the monthly premium amount as indicated for all Forms 1095-A combined. **Exception:** If line 6 is No or line 10 is Yes, you must always enter zero for this line.
- B. Form(s) 1095-A, lines 21B through 32B.** Enter the monthly premium amount of SLCSF as indicated for all Forms 1095-A combined. **Exception:** If line 6 is No or line 10 is Yes, you must always enter zero for this line.
- C. Form 8962, line 8b or alternative marriage monthly contribution.** (auto-calc unless you answered Yes to the 2nd half of line 9) Normally taken from line 8b of this form, you are allowed to make your own entry here if you elected the alternative method at line 9. See IRS Pub. 974 for details on the alternative method. This is the monthly contribution amount. **Exception:** If line 6 is No or line 10 is Yes, you must always enter zero for this line.
- D. Subtract line xxC from line xxB.** (auto-calc) Computed as indicated, where xx represents the line number on this form from 12 to 23, this is the monthly maximum premium assistance.
- E. Smaller of line xxA or line xxD.** (auto-calc) Computed as indicated, where xx represents the line number on this form from 12 to 23, this is the monthly premium tax credit allowed.
- F. Form(s) 1095-A, line 21C through 32C.** Enter the monthly advance payment of PTC as indicated for all Forms 1095-A combined. **Exception:** If line 10 is Yes, you must always enter zero for this line.

**24-26 Computation of Credit.** The credit allowed over and above the advance payments you received (in the form of reduced premiums) is computed here.

- 24 Total Premium Tax Credit.** (auto-calc) If you answered Yes to line 10, taken as the amount on line 11E. Otherwise, computed as the sum of lines 12E through 23E.
- 25 Advance Payment of PTC.** (auto-calc) If you answered Yes to line 10, taken as the amount on line 11F. Otherwise, computed as the sum of lines 12F through 23F.
- 26 Net Premium Tax Credit.** (auto-calc) Computed as line 24 less line 25 but no less than zero.

The result on line 26 is *posted to line 69 of Form 1040* as a refundable credit.

**PART 3: REPAYMENT OF EXCESS ADVANCE PAYMENT OF THE PREMIUM TAX CREDIT.** This section is used to compute the part of any excess premium reductions that you must repay back to the government.

- 27 Excess Advance Payment of PTC.** (auto-calc) Computed as line 25 less line 24 but no less than zero. This is the premium reductions you received less the credit to which you are eligible.
- 28 Advance Payment of PTC.** (auto-calc) Computed based on your filing status and the percentage on line 5 from Table 5 of IRS 2014 Instructions for Form 8962. This number can range from \$300 to \$2,500 and is the maximum amount of premium reductions that you are required to repay. The rest of the excess is forgiven!

**29 Excess Advance Premium Tax Credit Repayment.** *(auto-calc)* Computed as the smaller of line 27 or line 28.

The result on line 29 is *posted to line 46 of Form 1040* as an additional tax.

**PART 4: SHARED POLICY ALLOCATION.** If you answered Yes to the shared policy part of the question at line 9, you *MUST* complete the worksheets provided for this part. Otherwise, you should skip this section.

**ITEMIZE shared policy worksheets.** *(Supported by the Shared Policy Allocation Worksheet, Figure 2-79.)* You must complete a separate worksheet for each separate person with whom you shared and each separate policy you shared. *TIP: If you complete these worksheets but the answer to shared policy at line 9 is No, the worksheets will be "detached" from Form 8962 and will not print on the official form. The worksheets will be reattached when you change your answer at line 9 to Yes.*

**30-33 Shared Policy Allocation.** *(hidden auto-calc lines)* Although not shown on the screen, lines 30 through 33 of Form 8962 are filled in based on the first four worksheets completed here. If you have more than four worksheets, they are all printed in a separate supporting statement instead and cross-referenced on the official form at line 30.

**34 Have you completed shared policy allocation information for all allocated Forms 1095-A?** *(hidden auto-calc lines)* Although not shown on the screen, this line is answered Yes when there are one to four worksheets completed and the answer to the shared policy question at line 9 is Yes. Otherwise, it is answered No if the answer to the shared policy question at line 9 is Yes, but both the Yes and No boxes are left unchecked if the answer at line 9 is No. *TIP: The presence of this line implies that the designer of this form is not familiar with the IRS convention of cross-referenced supporting statements, for which no such indicators are required.*

Once you complete all required worksheets, you must return to lines 12 through 23 and enter the appropriate portion of each Form 1095-A amount from all shared policies combined.

**Shared Policy Allocation, Figure 2-79.** This worksheet supports all of Part 4 of Form 8962. You must complete a separate worksheet for each separate policy number (line a) and each separate SSN (line b).

**a. Policy Number.**

Enter the policy number shown on Form 1095-A, line 2. If the number is longer than 15 characters, enter only the last 15 characters here (as specified by the IRS).

SHARED POLICY ALLOCATION	
Prepare one worksheet for each person sharing allocation &/or each policy shared.	
a	Policy Number(1095-A, ln 2)
b	SSN of taxpayer sharing....
c	Allocation start month.....
d	Allocation stop month.....
e	Premium % as decimal(0-1.0)
f	SLCSP % as a decimal(0-1.0)
g	Adv.Pmt of PTC % as decimal
	0
	0
	0
	0

Figure 2-79. Shared Policy Allocation Worksheet

- b. **SSN of taxpayer sharing allocation.** Enter SSN in the standard xx-xxxxxxx format.
- c. **Allocation start month.** Enter as a number from 1 to 12.
- d. **Allocation stop month.** Enter as a number from 1 to 12.
- e. **Premium Percentage.** Enter as a decimal from 0 to 1 rounded to the nearest .01.
- f. **SLCSP Percentage.** Enter as a decimal from 0 to 1 rounded to the nearest .01.
- g. **Advance Payment of the PTC Percentage.** Enter as a decimal from 0 to 1 rounded to the nearest .01.

**PART 5: ALTERNATIVE CALCULATION FOR YEAR OF MARRIAGE.** If you answered Yes to the alternative married calculation part of the question at line 9, you *MUST* complete the worksheets provided for this part. Otherwise, all entries must be zero, as ensured by the software. Be sure to read IRS Pub. 974 in addition to the IRS *2014 Instructions for Form 8962* for help in completing these lines.

**35 Alternative entries for your SSN.**

- a **Alternative family size.** Enter family size based on IRS instructions for this line.
- b **Monthly contribution.** Enter the alternative dollar amount.
- c **Alternative start month.** Enter a month from 1 to 12.
- d **Alternative stop month.** Enter a month from 1 to 12.

**36 Alternative entries for spouse's SSN.**

- a **Alternative family size.** Enter family size based on IRS instructions for this line.
- b **Monthly contribution.** Enter the alternative dollar amount.
- c **Alternative start month.** Enter a month from 1 to 12.
- d **Alternative stop month.** Enter a month from 1 to 12.

Once you complete Part 5, you must return to lines 12 through 23 and enter the appropriate alternative amounts as detailed in IRS Pub. 974.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

## Form 8965\*\* / Health Coverage Exemptions

**\*\* Included in Standard and Premium Level software ONLY.** This form is built into the Standard and Premium Level versions of Tax Preparer.

**Purpose.** This form is unique in that its separate instructions provide critical information that is not a part of the form:

- **Form 8965:** The form itself serves only one purpose: to document exemptions to the health care coverage requirements. Parts I and III document exemptions for individuals, granted and claimed, and Part II documents your claim for an entire household exemption based on household income or the filer's gross income.
- **Shared Responsibility Payment Worksheet:** The IRS's separate *2014 Instructions for Form 8965* include a worksheet for computing the amount of tax you must pay for household members who are neither covered (with minimum essential coverage) nor exempt. *It is used to compute the tax for Form 1040, line 61, even when the form itself is not used!*

In the software's implementation for Form 8965, the worksheet is structured as page 2 of Form 8965 but is not a part of the official form and is therefore not filed with the IRS. Page 1 will print with the complete return only when you have reported or claimed at least one exemption. Page 2 will print with the complete return only when you request it through your answer to our question at the beginning of the on-screen worksheet, and you must remove it before filing the printed return with the IRS. *Form 8965 is accessible through the Road Map at lines 61 of Form 1040.*

**Tax Household.** Before you can complete any part of the on-screen form, you must determine who is included in your household for the purposes of minimum essential health care coverage. For most people, your tax household is everyone for whom you claim an exemption on Form 1040, line 6d, including you, your spouse, and all dependents. However, it *can also include* those who you can claim on your return but choose not to, *and will exclude*, on a monthly basis, those who were not alive the entire year. For dependents of more than one taxpayer, you do not include those who are properly claimed on another return, including claims resulting from the tie-breaker rules (as detailed in IRS Pub. 501, *Exemptions, Standard Deduction, and Filing Information*).

**Complete all parts that apply to you.** The on-screen form is separated into four independent parts (Parts I, II, and III of the form plus the *Shared Responsibility Payment Worksheet* from the IRS instructions). You must complete all parts that apply to you. However, if exemptions are granted or claimed for all household members, the last part is not relevant and will compute to zero tax.

**PART I, MARKETPLACE-GRANTED COVERAGE EXEMPTIONS FOR INDIVIDUALS.** This part is used to report exemptions already granted to you or any tax household member by the Marketplace (popularly called the health care "Exchange"). You will identify each such grant by its Exemption Certificate Number.

**ITEMIZE exemptions via Marketplace.** (*Supported by the Marketplace-Granted Exemptions Worksheet, Figure 2-80.*) You must complete a separate worksheet for each separate person and certificate.

**Number of exemptions for:** (*auto-calc lines, supported by the Marketplace-Granted Exemptions Worksheet*) The exemptions reported on the worksheets are summarized here *on a month-by-month basis*. However, for certificates that cover an entire year, only the Full-Year count is affected.

The exemptions you report will be used later in the *Shared Responsibility Payment Worksheet*.

**Market-place-Granted Exemptions Worksheet, Figure 2-80.** Each granted exemption is identified here.

**a. Name of Individual.** Enter the complete name of the individual to whom the grant applies, in 30 characters or less. If you, your spouse, or a dependent on your return, enter the name as shown on Form 1040.

**b. SSN.** Enter the SSN of the individual in the standard xxx-xx-xxxx format.

**c. Exemption Certificate Number.** Enter the 7-character certificate number.

**Months grant applies:**

**Full Year?** If the exemption applies to all of 2014, answer Yes here and answer No for the separate month entries.

**January?** Answer Yes if the exemption applies to January, 2014, but not the entire year. (You cannot answer Yes here if you answered Yes to the *Full Year* question.)

MARKETPLACE-GRANTED EXEMPS	
Use one worksheet for ea. person granted exemption for 2014 each policy shared.	
a	Name of individual :
b	SSN.....
c	Exemption Certificate No.
Months grant applies:	
Full Year.....	? Yes
January.....	? No
February.....	? No
March.....	? No
April.....	? No
May.....	? No
June.....	? No
July.....	? No
August.....	? No
September.....	? No
October.....	? No
November.....	? No
December.....	? No

**Figure 2-80. Marketplace-Granted Exemptions Worksheet**

**February through December?** The questions for the remaining months function the same as the January question. If the answer to Full Year is No, answer Yes to as many months as apply.

When you return from the worksheets, the answers to the Full Year and monthly questions are totaled.

**PART II, COVERAGE EXEMPTIONS FOR YOUR HOUSEHOLD CLAIMED ON YOUR RETURN.** This part is used to claim an exemption for the entire tax household for the entire year based on low income. Two types of income exist: one based on the gross income on your return and one based on the modified AGI of all members of your household combined who are required to file a return.

**Filing status on Form 1040.** *(auto-calc)* Taken from Form 1040, lines 1 through 5. This and the next entry are used to determine the threshold to which your income is compared.

**Number claimed on Form 1040, line 39a.** *(auto-calc)* Taken from Form 1040, as indicated, this is the number of age and blind claims on Form 1040.

**Number claimed on Form 1040, line 6d.** *(auto-calc)* Taken from Form 1040, as indicated, this is the number of exemptions claimed included exemptions for you (line 6a), spouse (line 6b), and dependents (line 6c). This and the next entry are used to determine the size of your tax household at the end of the year.

**Others in household at year-end.** Enter the number of others who you claim but choose not to, excluding those properly claimed by someone else.

**Total number in tax household.** *(auto-calc)* Computed as the sum of the preceding two numbers, this is the nominal size of your tax household for the purposes of Form 8965,

**Gross income:**

**Gross income on Form 1040, line 22.** *(auto-calc)* Taken from Form 1040, as indicated, this is the gross income for the purposes of Form 1040. Gross income for the purposes of Form 8965 is generally higher than this amount because *various losses and deductions that affect Form 1040, line 22, are not allowed for the purposes of Form 8965, as shown in the lines that follow.*

**Additional for foreign exclusion.** *(auto-calc)* Computed as the foreign income from Form 2555 (or Form 2555-EZ) that is shown in Form 1040, line 21, as a negative number (an exclusion), this income must be added back to income for the purposes of Form 8965.

**Additional for Schedule C losses and deductions.** *(auto-calc)* For each Schedule C, computed as gross income on line 7 of Schedule C, but no less than zero, less the net profit or loss on line 31 of Schedule C.

**Additional for Schedule D losses.** *(auto-calc)* Computed as the sum of gains only shown on all separate line items of the on-screen Schedule D less the net gain or loss reported on Form 1040, line 13. **CAUTION:** *You may have to further increase gross income using the line "Other adjustment for gross income," later, if any of the line items*

on Schedule D are themselves reduced by losses not allowed in gross income for Form 8965.

**Additional for Schedule E losses and deductions.** *(auto-calc)* Computed as the sum of rental and royalty income on lines 3 and 4 less net income or loss on line 26; plus partnership and S corporation passive and nonpassive income on lines 29(g) and 29(j) less net income or loss on line 32; plus estate and trust income on line 35 less net income or loss on line 37; plus any REMIC loss on line 39 (as a positive number); plus gross income on line 7 of Form 4835, but no less than zero, less the net income or loss on line 40 of Schedule E.

**Additional for Schedule F losses and deductions.** *(auto-calc)* For each Schedule F, computed as gross income on line 9 of Schedule F, but no less than zero, less the net profit or loss on line 34 of Schedule F.

**Additional for Form 4797 losses.** *(auto-calc)* Computed as the sum of gains only shown on all separate line items of the on-screen Form 4797 less the net gain or loss reported on Form 1040, line 18. **CAUTION:** *You may have to further increase gross income using the line "Other adjustment for gross income," next, if any of the line items on Form 4797 are themselves reduced by losses not allowed in gross income for Form 8965.*

**Other adjustment for gross income.** Enter any other additions to gross income for the purposes of Form 8965, including amounts indicated in the CAUTIONS for Schedule D and Form 4797.

**Gross income for Form 8965.** *(auto-calc)* Computed as the sum of the preceding 8 lines, this is the income to be compared to a threshold at line 7b of this form.

### **Filing Threshold:**

**Filing status on Form 1040.** *(auto-calc)* Taken from Form 1040, lines 1 through 5. This and the next entry are used to determine the threshold to which your income is compared.

**Number claimed on Form 1040, line 39a.** *(auto-calc)* Taken from Form 1040, as indicated, this is the number of age and blind claims on Form 1040.

**Filing Threshold.** *(auto-calc)* Based on the above two entries and "Gross income for Form 8965" computed above, taken from the table in IRS 2014 Instructions for Form 8965 titled *Filing Threshold for Most People*. This threshold is used to determine the answers for questions 7a and 7b of this form.

### **Household income:**

**AGI (Form 1040, line 37).** *(auto-calc)* Taken from Form 1040, as indicated, this is the adjusted gross income on your tax return.

**Tax-exempt interest (Form 1040, line 8b).** *(auto-calc)* Taken from Form 1040, as indicated, this is the tax-exempt income to be included in household income for the purposes of this form.

**Foreign exclusion or deduction.** *(auto-calc)* Computed from the exclusion from Form 2555 (or Form 2555-EZ) that is reflected in Form 1040, line 21, but shown here as a positive number, plus the deduction

from Form 2555 included in Form 1040, line 36, these are tax benefits for foreign income not allowed to reduce household income for the purposes of Form 8965.

**Tax dependents required to file.** You must include in household income for Form 8965 modified AGI computed in the same way as the preceding 3 lines for each dependent in your tax household who is required to file. You do not include dependents who are filing voluntarily or only because they want to claim a refund:

**AGI (Form 1040, line 37).** Enter AGI for all dependents combined, taken from their Form 1040s, as indicated.

**Tax-exempt interest (Form 1040, line 8b).** Enter tax-exempt interest for all dependents combined, taken from their Form 1040s, as indicated.

**Foreign exclusion or deduction.** For all dependents combined, enter the exclusion from Form 2555 (or Form 2555-EZ) that is reflected in Form 1040, line 21, but shown here as a positive number, plus the deduction from Form 2555 included in Form 1040, line 36.

**Household income for Form 8965.** *(auto-calc)* Computed as the sum of the preceding 6 entries, this is the income to be compared to a threshold at line 7a of this form.

**7a Are you claiming an exemption because your household income is below the filing threshold?** *(auto-calc)* Computed as Yes if the above "Household income for Form 8965" is less than the "Filing Threshold" computed previously. If Yes, your entire household is exempt from required coverage, so you do not have to complete the worksheets in Parts I and III nor the *Shared Responsibility Payment Worksheet*, later. *No tax applies for Form 1040, line 61.*

**7b Are you claiming a hardship exemption because your gross income is below the filing threshold?** *(auto-calc)* Computed as Yes if the previously-computed "Gross income for Form 8965" is less than the previously-computed "Filing Threshold." If Yes, your entire household is exempt from required coverage, so you do not have to complete the worksheets in Parts I and III nor the *Shared Responsibility Payment Worksheet*, later. *No tax applies for Form 1040, line 61.*

**PART III, COVERAGE EXEMPTIONS FOR INDIVIDUALS CLAIMED ON YOUR RETURN.** This part is used to claim exemptions for members of your tax household who do not have exemptions granted by the Marketplace but for whom you wish to claim an exemption on your return. Eight types of exemptions are available, identified by 1-letter codes in the IRS *2014 Instructions for Form 8965*. They range from coverage that is considered unaffordable (code "A") to coverage by Medicaid or TRICARE that is not minimum essential coverage (code "H").

**ITEMIZE claims on this return.** *(Supported by the Claimed Coverage Exemptions Worksheet, Figure 2-81.)* You must complete a separate worksheet for each separate person and exemption.

**Number of exemptions for:** *(auto-calc lines, supported by the Claimed Coverage Exemptions Worksheet)* The exemptions reported on the worksheets are summarized here *on a month-by-month basis* on lines

e through p. However, for exemptions that cover an entire year, only the Full-Year count is affected (line d).

The exemptions you claim will be used later in the *Shared Responsibility Payment Worksheet*.

**Claimed Coverage Exemptions Worksheet, Figure 2-81.** Each claimed exemption is identified here.

- a. **Name of Individual.** Enter the complete name of the individual to whom the grant applies, in 25 characters or less. If you, your spouse, or a dependent on your return, enter the name as shown on Form 1040.

CLAIMED COVERAGE EXEMPS	
Use one worksheet for ea. person & exemption type for 2014.	
a	Name individual
b	SSN.....
c	Type of Exemption (A to H)
d	Full year claim (12 mos.)? Yes
OR months claim applies:	
January.....	? No
February.....	? No
March.....	? No
April.....	? No
May.....	? No
June.....	? No
July.....	? No
August.....	? No
September.....	? No
October.....	? No
November.....	? No
December.....	? No

**Figure 2-81. Claimed Coverage Exemptions Worksheet**

- b. **SSN.** Enter the SSN of the individual in the standard xxx-xx-xxxx format.

c. **Type of exemption (A to H).** Enter the 1-character code that identifies the type of exemption. See the last 5 pages of the IRS 2014 Instructions for Form 8965 for complete details on each type of allowable exemption. If none of the described exemptions apply, you are not eligible for an exemption. If a different exemption applies for different months, complete a separate worksheet for each.

d. **Full year claim (12 months)?** If the exemption applies to all of 2014, answer Yes here and answer No for the separate month entries that follow.

**OR months claim applies:**

**January?** Answer Yes if the exemption applies to January, 2014, but not the entire year. (You cannot answer Yes here if you answered Yes to the *Full Year* question.)

**February through December?** The questions for the remaining months function the same as the January question. If the answer to Full Year is No, answer Yes to as many months as apply.

When you return from the worksheets, the answers to the Full Year and monthly questions are totaled.

**SHARED RESPONSIBILITY PAYMENT WORKSHEET.** This part is used to compute the tax for line 61 of Form 1040. Although it is not a part of the official form, it's computations appear only in the IRS *2014 Instructions for Form 8965*, not in the Form 1040 instructions where it belongs. Therefore, as a convenience for tax preparers, we have structured the worksheet as page 2 of Form 8965 which can be printed with the return even though it is not filed with the IRS. Starting with the size of the tax household, the number of individuals upon whom the tax is based is reduced by exemptions granted and claimed in Parts I, II, and III of the official form. As a result, we have integrated the calculation with Form 8965 in order to automate the calculation as much as possible. All automatically calculated lines that follow are based on the results in Parts I, II, and III in your answer to the Full Coverage question at line 61 of Form 1040.

**Exemptions on Form 8965 line 7a or 7b?** *(auto-calc)* Answered Yes if either line 7a or line 7b of this form is Yes, indicating that you qualify for an exemption for the entire tax household for 2014.

**Full-year coverage indicated on Form 1040, line 61?** *(auto-calc)* Answered Yes if you answered Yes to "Full-year coverage" on Form 1040, line 61, indicating that all members of your tax household maintained minimum essential coverage for 2014.

**This worksheet may be required?** *(auto-calc)* Answered No if the answer to either of the preceding two questions is Yes. Otherwise No. If Yes, the following *Shared Responsibility Payment Worksheet* will have to be completed to determine any tax that may have to be reported on line 61 of Form 1040.

**Print worksheet with official return?** Since the worksheet appears only in the IRS instructions, it is not an official form to be filed with the IRS. However, we have structured it as page 2 of Form 8965 so that it can be printed with the official return for your records in a format similar to the worksheet in the IRS instructions. If you answer Yes, you must remember to remove it from the complete return before filing the return with the IRS.

If the answer to "This worksheet may be required?" is Yes, you must supply additional monthly information on the following screens.

**Monthly liabilities.** Lines 1 through 5 of the worksheet are computed on a month-by-month basis. For each month, you must determine the number of individuals for which a tax applies and identify the number of these individuals who are under age 18 for any part of the month. Once you do that for every month, the rest of the worksheet is automatic.

**January:**

**Number of individuals in your tax household at the end of the year.** *(auto-calc)* Taken from "Total number in tax household" in Part II of Form 8965, the same number appears for all months.

**Adjustment for household size or those covered.** Enter the number of members of the tax household who maintained minimum essential coverage for January, 2014, as a negative number. Include uncovered members who were not alive during the month. If the household

size temporarily increased for the month, enter the number of additional members for the month as a positive number.

**Individual exemptions granted and/or claimed.** *(auto-calc)* Computed as the number of full-year exemptions shown in Parts I and III of Form 8965 plus the number of January exemptions shown in Parts I and III.

**1 Number neither exempt nor covered.** *(auto-calc)* Computed as the "Number of individuals in your tax household at the end of the year" *plus* "Adjustment for household size or those covered" *less* "Individual exemptions granted and/or claimed," *but no less than zero and no more than 5*. However, if the answer to "This worksheet may be required" is No, indicating a household exemption in Part II of Form 8965 or a claim of full coverage for all members of the household at line 61 of Form 1040, the result for this line will be zero.

**Number in line 1 under 18 years of age.** Enter the number of children included in line 1 who are under 18 years of age *for the entire month*.

**5 Smaller of line 4 times \$95 or \$285.** *(auto-calc)* Lines 2 through 4 are not shown on the screen but the result for line 4, to which the label refers, is the part of line 1 for those 18 and over for the entire month plus half of the part of line 1 for those under 18. The amount for line 5 is that result multiplied by \$95, but limited to no more than \$285.

### **February through December:**

**Analogous entries for remaining months.** The structure of the entries for all months in 2014 is the same, but your entries may vary as coverage or family size vary.

**Tax for Form 1040, line 61.** The tax for Form 1040 is computed automatically based on the results for lines 1 and 5 for each month.

**6 Sum of the monthly amounts on line 1.** *(auto-calc)* Taken from line 1 for all 12 months.

**7 Household income.** *(auto-calc)* Taken from "Household income for Form 8965" computed in Part II of the on-screen form.

**8 Filing threshold.** *(auto-calc)* Taken from "Filing Threshold" computed in Part II of the on-screen form.

**9 Subtract line 8 from line 7.** *(auto-calc)* Computed as indicated, but no less than zero.

**10 Multiply line 9 by 1% (.01).** *(auto-calc)* Computed as indicated.

**11 Is line 10 more than \$285?** *(auto-calc)* Computed as indicated.

**Dollar amount based on answer.** *(auto-calc)* If the answer for line 11 is Yes, the dollar amount is computed as the number of months for which line 1 is greater than zero (from 0 to 12) multiplied by the amount on line 10. Otherwise, the dollar amount is computed, based on the *Flat Dollar Amount Worksheet* in the *IRS 2014 Instructions for Form 8965*, as the sum of the greater of line 10 or line 5 for each month, excluding months for which line 1 is zero.

**12 Divide line 11 by 12.0.** *(auto-calc)* Computed as indicated.

**13 Multiply line 6 by \$204.** *(auto-calc)* Computed as indicated.

**14 Smaller of line 12 or line 13. Tax for Form 1040, line 61.** *(auto-calc)*

Computed as indicated..

The amount on line 14 is posted to line 61 of Form 1040.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Schedule D Tax Worksheet

**Purpose.** Although this worksheet appears on the Forms Menu like IRS forms and schedules, it is not an IRS form but rather an aid to the computation of tax when qualified dividends, capital gain distributions, or capital gains are present on the return. This worksheet is automatically generated and completed when applicable, but is not printed with a complete return for filing with the IRS. This worksheet duplicates the IRS Schedule D Tax Worksheet that appears on the last page of the IRS *2014 Instructions for Schedule D*. When used for the tax at line 44 of Form 1040, the result of the worksheet is reflected on our line above Form 1040, line 44, labeled "Qlfd.Div./Cap.Gain/Sch. D" (modified by the *Foreign Earned Income Tax Worksheet* when applicable). While the Schedule D Tax Worksheet does not print with the return when you choose to print *Complete Returns* or *All Forms Prepared* (since the IRS doesn't want it filed with the return), you can get a complete printout of the Schedule D Tax Worksheet by choosing to print it alone from our Print Menu. Although there are simpler worksheets for some situations, this worksheet always provides an accurate computation of tax when qualified dividends, capital gain distributions, or capital gains exist on the return. *The Schedule D Tax Worksheet is accessible through the Road Map above line 20 of Schedule D.* However, the only reason to view it is to see how capital gains are computed. See the last page of the IRS *2014 Instructions for Schedule D* for details.

**Schedule D Tax Worksheet is fully automatic.** The Schedule D Tax Worksheet is automatically created and completed when the return includes qualified dividends or capital gains, which are taxed at a lower rate than the regular tax. *You must enter all data used on this worksheet elsewhere on the return. There are no user entries on the Schedule D Tax Worksheet.* There is no need to view the Schedule D Tax Worksheet unless you want to try to understand how tax is computed on returns with qualified dividends, capital gains, or capital gain distributions. It is intended only for calculations.

### Form 1040-ES / Estimated Tax for Individuals

**Purpose.** This form is not a part of the return, but is really just a worksheet for determining the quarterly estimated tax payments for 2015 that will avoid a penalty when you file your return in 2015. Only quarterly vouchers based on the results of this form are filed with the IRS. Form 1040-ES is accessible through the Road Map at the line below line 75 of Form 1040, page 2

**Adjustment lines are key to accuracy.** The Form 1040-ES Worksheet is automated to the extent that the current year's return is used as a starting point. As a result, it is best to defer entering data here until the current return is complete. You can then view Form 1040-ES with a Full-screen Method (Road Map or Normal) to see what income and deductions are assumed, and to make adjusting entries that turn them into next year's prediction.

**Recommendations for an accurate Form 1040-ES.** The IRS Estimated Tax Worksheet, on which our screens are based, sometimes require a great deal of manual computation because the IRS Form 1040-ES Worksheet is only a summary of the entire return you expect to file for the next tax year. Therefore, if you cannot easily determine the amounts to enter on our screens, we recommend that you use the tax planning capabilities of Tax Preparer to help. To do this, you will essentially prepare a complete return for 2015, as follows:

- ◆ Use Tax Preparer's file manager (choice 1 on the Main Menu) to make a COPY of the current return.
- ◆ Using the copy you just made, go to the Control Form (form 1 on the Forms Menu) and change the entry for tax year from 2014 to 2015.
- ◆ Make changes throughout the return that reflect what you expect for 2015.
- ◆ Exit the return normally, then print a DRAFT copy of the complete return. All forms will be marked "2015 PLAN" in their upper right corner so that there is no confusion about what return you are using.
- ◆ Return to the original return for the current year, and make entries on Form 1040-ES based on the DRAFT printout for 2015.

This approach will give you a much more accurate estimate of 2015 taxes than using the Form 1040-ES worksheet alone.

**FILING STATUS AND EXEMPTIONS.** Changes in filing status, age claims, blind claims, dependency, special status, and exemptions are entered in the first part of this form, but you needn't make an entry if you don't expect any of these items to change.

**EARNED INCOME.** If there is a change in wages, you must enter it two places: once for social security wages, and once for regular wages. The two will generally be the same for low-income wage-earners who are not statutory employees. Any change in other earned income must be separated into the regular part and the part for a statutory employee. TIP: Earned income other than wages is self-employment income subject to self-employment tax, as shown on line 11 of the 2015 Estimated Tax Worksheet.

**CAPITAL GAINS AND LOSSES.** Capital gains and losses affect how taxes are computed in a rather complex way because of their favorable treatment under the tax law. As a result, you must estimate not only your change in capital gains, but also how it breaks down into short-term, long-term, 28% rate gains and losses, and unrecaptured sec. 1250 gain, plus an amount from Form 4952. In all, there are eight numbers on Schedule D or its worksheets that must be estimated!

**UNEARNED INCOME.** Unearned income includes capital gains and other investment income, including as dividends. Qualified dividends (Form 1040, line 9b) are treated like capital gains, and must therefore be identified separately from other unearned income.

**ADJUSTMENTS TO INCOME.** These adjustments are the amounts you expect to report on lines 23 through 36 of the 2015 Form 1040. Although some amounts are called out on our 1040-ES screen for this category, you should look at Form 1040 lines 23 through 36 to see what else you may be able to deduct here. Note that deductions typically not repeated in subsequent years, such as adjustment to income for moving expenses, start with no amounts on Form 1040-ES and are left open for your data entry.

**ITEMIZED DEDUCTIONS.** These are amounts you expect to report on the 2015 Schedule A. Certain amounts are called out on our 1040-ES screen for this category because different categories are subject to different limitations, and some categories are exempt from phaseout at high incomes.

**IRS ESTIMATED TAX WORKSHEET.** Our worksheet follows the one in the IRS instructions for Form 1040-ES. Much of it is completed based on your entries on the previous screens, but there are additional amounts you may have to enter. We highlight here only selected lines on the worksheet with which you may need help:

**1 AGI you expect in 2015.** *(auto-calc)* Computed from the prior screens as "TOTAL INCOME BEFORE ADJUSTMENT" less "TOTAL ADJUSTMENTS for year 2015."

**PRIOR answer to Form 1040, line 39b.** *(auto-calc)* Taken from Form 1040, as indicated, a Yes indicates that you were required to itemize deductions for 2014.

**CHANGE answer for 2015?** If you answer Yes, the opposite of the preceding answer is used for 2015. *TIP: If you choose to use itemized deductions for 2015 even when they are less than the standard deduction, make Form 1040, line 39b, be Yes for 2015 through your answer here.*

**Itemized deductions (with phaseout).** *(auto-calc)* The result for "TOTALS before phaseout" is normally reduced in accordance with the *Itemized Deductions Worksheet—Line 29* in the IRS 2014 Instructions for Schedule A, with the thresholds indexed with inflation.

**Standard deduction.** *(auto-calc)* Computed using the answers on screen 1 of our Form 1040-ES. (Zero will appear here if the answer to Form 1040, line 39b, for 2015 is Yes.)

**2 Itemized or standard deduction.** *(auto-calc)* Computed as the greater of "Itemized deduction (with phaseout)" or "Standard deduction."

**Self-employment tax on line 11 may be lower than you expect.** Two factors make the computation of line 11 counterintuitive: **(a)** an automatic reduction of self-employment income to be taxed and **(b)** a higher social security base for 2015.

**Estimated 2015 net self-employment income.** *(auto-calc)* Based on earned income for 2015, other than wages, that you defined on screen 2, the amount shown here is 92.35% of your total self-employment income. This is the part of self-employment income on which social security and medicare taxes are figured on Schedule SE, that is taxed on Schedule SE.

**11 Self-employment tax.** *(auto-calc)* Computed as 2.9% of the preceding income plus 12.4% of the first \$118,500 (the social security wage base for tax year 2015) of income (reduced by wages on which social security tax has already been paid).

**Modifications after line 13c.** If you will pay equal amounts in all four quarters, don't expect your withholding to change, and qualify for no special exceptions, you need make no further entries on this form. The automatic results are ready for your use on official Form 1040-ES vouchers. But if there are special reasons why you are liable for less payment, or why your payments should be unequal, further adjustment lines are provided.

**Eligible for farmer/fisherman rules?** Most taxpayers are liable for estimated tax payments equal to at least 90% of the estimated tax due. But qualifying farmers and fishermen can use a 66-2/3% percent rule instead. If this return is for a farmer or fisherman who is qualified to use Form 2210-F in place of Form 2210, answer Yes here and 66-2/3% will be used in line 14a. See our instructions for Form 2210 for details on qualifying for Form 2210-F.

After you enter any expected changes in withholding above line 15 of the worksheet, the requirement to make estimated tax payments is determined:

**16a Subtract lien 15 from line 14c. Is the result zero or less?** *(auto-calc)* Computed as indicated, the answer will be No if the tax that must be pre-paid (line 14c plus your adjustment) is more than the expected withholding (line 15). *If Yes, you are not required to make estimated tax payments.*

**16b Subtract lien 15 from line 13c. Is the result less than \$1,000?** *(auto-calc)* Computed as indicated, the answer will be No if the expected tax after credits (line 13c) exceeds the expected withholding (line 15) by at least \$1,000. *If Yes, you are not required to make estimated tax payments.*

If you want to make estimated tax payments even though they are not required, you can use the adjustment line above line 15 labeled "Adjustment to line 14c" to increase the amount of estimated taxes until line 17 (the required quarterly payment) is the amount you want to prepay. Once you have a nominal quarterly payment on line 17, quarterly payments are shown, with any

amount applied from a 2014 overpayment, indicated by line 77 of Form 1040, applied first in accordance with IRS rules.

**Adjustment to 1st, 2nd, 3rd quarters.** If your income is expected to be extremely uneven during the year, and you can therefore justify the use of the annualized installment method in computing penalties on Form 2210, you can adjust the quarterly payments on these lines. You can also make adjustments for late payments on these lines as the year progresses. (The adjustment to the 4th quarter is automatic based on the balance remaining to be paid after the other three adjustments are applied.)

**Use IRS vouchers for estimated tax payments.** All the information needed for the IRS Form 1040-ES Vouchers is provided on the last screen of Form 1040-ES. Although the quarterly vouchers can be printed by the software, the IRS prefers that you use the preaddressed vouchers they send the taxpayer. Otherwise, you can send the graphic vouchers that the software produces at the Standard and Premium Levels. (The DRAFT printout of these vouchers is not accepted by the IRS because the IRS requires special optically-read forms to be used. You can use the preaddressed IRS vouchers, Laser-graphic or Windows-graphic vouchers printed with our Standard and Premium Level software, but not the text-based draft facsimiles.)

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

### Form 1040X / Amended Income Tax Return

**Purpose.** This form is not a part of the original return, but is used to accompany a return that is amended after it has been filed. When you file an amended return, you must also file with it copies of all forms that have changed, including Form 1040 and its schedules. Therefore, Form 1040X is really just a form that summarizes the differences between the original return and the new return. You can file it only after you have filed your original return. You generally have 3 years from the due date of your original return to amend that return. Form 1040X is not accessible through the Road Map because it supports no other form or schedule. Form 1040X is accessible only through the Forms Menu (as Form 89).

**Form 1040X cannot be e-filed.** Even if you filed the original return electronically, the IRS does not allow you to file an amended return the same way. You must always file a paper Form 1040X along with any forms for the return that are affected by the changes.

**Fully automatic for most taxpayers.** When used properly, this form is fully automatic and rarely requires an entry on your part. But you must follow these rules:

- **Use this Form 1040X ONLY to amend a 2014 return.** This copy of Form 1040X should NOT be used for other years because it is tied through our automation to the Form 1040 return that it amends.
- **Access Form 1040X for the first time ONLY when the Form 1040 return is identical to the one that was filed** with the IRS (or as previously adjusted).
- **Revise the Form 1040 return ONLY after you have created a Form 1040X** for the return.
- **Review Form 1040X and supply required explanations ONLY after your revisions to Form 1040 are complete.**

If you follow these rules, you will rarely have to access Form 1040X again once it has been created, except to supply the required explanations for the changes. If you do NOT follow these rules you may have to manually reenter amounts on Form 1040X for "Tax paid with original return" (above line 16) and "Overpayment on original return" (line 18), which are amounts from the original return as filed.

**How the software works.** The IRS Form 1040X is similar to an abbreviated Form 1040. When you access Form 1040X for the first time for a return, the amounts from the return in its current state is used to populate all amounts on Form 1040X (including lines 16 and 18). Thereafter, when you change Form 1040 only the amounts relating to the revised return are changed (not the amounts on lines 16 and 18 from the original return).

**What you must enter on Form 1040X when the revised return is complete.** If you create Form 1040X only when the return matches that of the return as filed with the IRS, then modify the return with your changes, *Form 1040X will already be nearly complete*, showing the original amounts, net changes, and

correct amounts. There are only a few entries you may still have to make, as highlighted here.

**If any carryback claim...** The IRS provides additional instructions for *Special Situations* on pages 3 and 4 of their *Instructions for Form 1040X (Rev. December 2014)*. They include specific instructions for returns to which the following questions apply. If you answer Yes to any of these questions, you should read the relevant instructions on page 3, column 1, to find out what other forms, schedules, or other documentation you must attach to the Form 1040X return. ***CAUTION: Because these questions relate only to carrybacks, and this Form 1040X is designed for tax year 2014 returns, you should not answer Yes to any of these questions if you are preparing this form during 2015. You will only have Yes answers after you have filed a return for tax year 2015 during 2016, and have carrybacks from that return (or a later return).***

**Any NOL carryback in line 1?** Answer Yes only if the corrected return includes any net operating loss (NOL) carryback from 2015 or later in line 21 of Form 1040. (This carryback would be included in one of the “unearned income” lines above line 21 of Form 1040 of the corrected return as a negative amount.) If you answer Yes, the phrase “CARRYBACK CLAIM” will be printed near the top right of the official Form 1040X, and the box at line 1 of Form 1040X will be checked.

**Any general business credit carryback in line 7?** Answer Yes only if the corrected return includes a carryback from 2015 or later of any general business credit in line 55 of Form 1040. (This carryback would generally be included on Form 3800 for the corrected return.) If you answer Yes, the phrase “CARRYBACK CLAIM” will be printed near the top right of the official Form 1040X, and the box at line 7 of Form 1040X will be checked.

**Any other credit or loss carryback claimed?** Answer Yes only if the corrected return includes a carryback from 2015 or later of any other credit in line 55 of Form 1040. (This carryback would generally be included in the corrected return on the carryback line of the form that relates to the underlying credit.) If you answer Yes, the phrase “CARRYBACK CLAIM” will be printed near the top right of the official Form 1040X.

**INCOME AND DEDUCTIONS.** This part of the form, comprised of lines 1 through 5, is fully automatic as long as you created Form 1040X when the return matched the original return as filed (or adjusted by the IRS). All entries for column A will automatically be the amounts on the original return, all amounts for column C will be the amounts on the current, corrected return, and all amounts for column B will be computed as the difference between the other two columns.

**TAX LIABILITY.** This part of the form, comprised of lines 6 through 11, is also fully automatic as long as you created Form 1040X when the return matched the original return as filed (or adjusted by the IRS). All entries for column A will automatically be the amounts on the original return, all

amounts for column C will be the amounts on the current, corrected return, and all amounts for column B will be computed as the difference between the other two columns. TIP for line 6: The "Method(s) used" for the tax computation on line 6 indicates to the FTB how you computed the tax. It is based on the answers and amounts above line 44 of the on-screen Form 1040 for the corrected return, plus any additional tax on line 45 or 46. If the Qualified Dividends and Capital Gain Tax Worksheet is used, it is indicated by the software as computed by the Schedule D Tax Worksheet by the flag "Sch D" because the latter worksheet applies to more scenarios than the worksheet. If tax from Form 8615 applies, the software indicates "F8615" as the method even when other methods are involved on Form 8615 itself because that tax replaces the tax computed by other methods. However, for taxes that are added to the regular tax, such as tax from Form 8814, the software identifies all such taxes separately at line 6.

**PAYMENTS.** This part of the form, comprised of lines 12 through 17, is fully automatic except for line 16 as long as you created Form 1040X when the return matched the original return as filed (or adjusted by the IRS). For line 16, you will have to enter payments made after the original return was filed:

**Amount paid with filing extensions.** (auto-calc) Taken from line 70 of the corrected return, this is the amount you paid with Form 2350 or 4868.

**Tax paid with original return.** This amount is determined when you first create Form 1040X as the amount below line 78 of Form 1040 for the original return labeled "Amount to be paid" limited to the amount on line 63 less the amount on line 74 (which is the amount owed excluding any penalty from Form 2210). *You should not change this entry if you properly created Form 1040X when the return matched the return as originally filed (or adjusted by the IRS).*

**Tax paid after original return was filed.** You must enter here any amounts paid to the IRS after the original return was filed. *This is normally the only entry you will need to make in the PAYMENTS section of Form 1040X.*

**16 Total amount paid with request for extension of time to file, tax paid with original return, and additional tax paid after return was filed.** (auto-calc) Computed as the sum of the preceding three amounts.

**REFUND OR AMOUNT YOU OWE.** This part of the form, comprised of lines 18 through 23, determines the underpayment or overpayment for the amended return. You can also choose here, through your entries above line 22, the amount of any refund you want to apply to next year's Form 1040 return (in the same way as you do above line 76a of Form 1040).

**PART I, EXEMPTIONS.** This part of the form, comprised of lines 24 through 30, is fully automatic as long as you created Form 1040X when the return matched the original return as filed (or adjusted by the IRS). For lines 24 through 29, all entries for column A will automatically be the

amounts on the original return, all amounts for column C will be the amounts on the current, corrected return, and all amounts for column B will be computed as the difference between the other two columns. For line 30, the dependents shown on the corrected Form 1040 are automatically shown on the official printout.

**PART II, PRESIDENTIAL ELECTION CAMPAIGN FUND.** This part consists of just two entries, which are analogous to those following the name and address section of Form 1040. If you already chose on the original return to have \$3 of your tax go to the fund, your answers here will have no effect. But if you did not make that choice on the original return, these entries give you a second chance to earmark \$3 for the fund.

**PART III, EXPLANATION OF CHANGES.** This part provides space for you to explain why you are filing an amended return. You must itemize the only line in this part to provide a supporting statement. ***Your use of this part of the form is mandatory.*** You must always explain why you are filing Form 1040X. For example, if you have changed your IRA deduction for line 32 of Form 1040, you should enter "IRA deduction" in the description column of the support, and the amount of increase or decrease in the amount column of the support (using a positive entry for an increase and a negative entry for a decrease). You should do this for all changes you made relative to the original return, using at least one line of the supporting page for each separate item. If you use no more than the first 7 lines of the first supporting page, your explanation will appear in the blank space provided on Form 1040X. If you exceed the first 7 lines, your explanation will appear in a separate supporting statement, cross-referenced on the form in the same blank space.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Sign and date Form 1040X.** When you file an amended return, Form 1040X is technically the return rather than Form 1040, and you must sign Form 1040X just like you signed Form 1040 for the original return. You must then send, with any payment, Form 1040X followed by the revised Form 1040 and any other forms or schedules that changed. ***CAUTION: The address to which you should send your Form 1040X return is not generally the same as the address to which you sent your Form 1040 return. See pages 4 and 5 of the 2014 Instructions for Form 1040X for the proper addresses.***

## ***e-file form* \*\* / Form 8453, 8879, etc.**

**\*\* Included in Standard and Premium Level software ONLY.** This form (and e-file) is only built into the Standard and Premium Level versions of Tax Preparer.

**ONLY for tax professionals.** The e-file form is designed for tax professionals who file returns for others. The professional *must apply to and be approved by the IRS* for acceptance into the e-file program. This e-file form is included in HowardSoft's Standard Level and Premium Level programs, and not only adds the form to your *Tax Preparer* software but also produces files for your returns in a special format for electronic filing. After preparing as many returns as you like in one session, you can transmit the returns to the IRS *using the EFI2014 transmission software you purchase from us.*

**Exceptions to mandatory e-file and the role of Form 8948.** *Most paid preparers are now required to e-file their returns* if they expect to file 11 or more returns that are eligible for e-file. However, there are exceptions that apply. When you have a return that you cannot e-file, you must generally include a completed Form 8948 with the paper return you file to explain why you cannot e-file the return. Valid reasons that require a Form 8948 include limitations of the software or a client's preferences. Reasons that do not require a Form 8948 include returns that use a form not supported by the IRS for e-file (such as Form 8839). *To help you decide whether a Form 8948 is necessary with a paper return, throughout this manual we have highlighted the software's limitations for e-file wherever a limitation applies that is not imposed by the IRS.*

**Main form for Electronic Filing.** This form is *required* to generate e-file output to be transmitted to the IRS. It has a number of functions:

- ◆ **Determines eligibility for e-file.** This form includes three screens of eligibility checks to help ensure that e-file output is not generated for a return that will undeniably be rejected by the IRS for e-file. The checks include checks for specific entries that are not allowed for e-file, but may be allowed for a paper return, checks that the number of copies of certain forms and worksheets do not exceed the number that the IRS's e-file system can handle, checks for special handling not allowed for e-file, and a check that the return is set for dollar rounding throughout, as required for e-file.
- ◆ **Collects information for required W-2, 1099-R, and W-2G forms.** Information you supply on the corresponding worksheets for lines 7a and 7b, 15a through 16b, and 21 of Form 1040 is collected and made a part of the e-file return through electronic Forms W-2, 1099-R, and W-2G.
- ◆ **Supports the return with electronic and paper attachments.** For information required by the IRS but not collected on any IRS form for the return, the IRS provides a means for providing the information. For some specific information, the IRS requires you to provide statements in paper form, using a printed Form 8453 as a cover letter.

- ◆ **Supports payment of amount due by direct debit (ACH) from your bank account.** You can identify the bank account, specify the amount to be paid (which can be less than the amount due), and specify the date the amount is to be withdrawn from your account.
- ◆ **Authenticates the return with PIN signatures.** Both the electronic return originator (ERO) and the taxpayer(s) must sign the return electronically using a 5-digit PIN code. *Paper signatures are no longer allowed.* Until the PIN signatures are entered, no e-file output will be generated by the software.
- ◆ **Provides hard copy printouts for e-file information.** Six different printed forms are available in the software. Only one of these forms is ever sent to the IRS; the rest are hard-copy records of forms that are being transmitted to the IRS as a part of the e-file return. They include Form 8453 (a cover letter for submitted paper attachments), Form 8879 (a record of PIN signatures, and taxpayer and ERO declarations), Form Payment Record (a record of ACH direct debit information transmitted to the IRS), and Forms W-2, W-2G, and 1099-R (copies of information transmitted to the IRS based on copies of these forms received by the taxpayer).

*The e-file form is accessible through the Road Map at the line below line 77 of Form 1040, page 2.*

**Preparing this e-file form.** The monetary part of the form is fully automatic, requiring no entries by you. However, *you must supply the EFIN issued to you by the IRS, your name as the ERO (electronic return originator), and any direct debit information, or PIN signatures that apply.*

**IDENTIFICATION.** In this section you identify the Electronic Return Originator (ERO), the tax return, and the taxpayer(s). Taxpayer identification comes from your entries on Form 1040, page 1, but you must identify the ERO by supplying his or her Electronic Filing Identification Number (EFIN). (You cannot identify the return until it is transmitted to and acknowledged by the IRS.) *TIP: The former Declaration Control Number (DCN) is now obsolete, so it is no longer entered on the e-file form. The Submission Identification Number (SID) in this section takes its place, but cannot be assigned by you and is not issued to you until the return is transmitted to the IRS.*

**EFIN number. (Mandatory.)** This 6-digit number is the *Electronic Filing Identification Number (EFIN)* that the IRS assigned you when they accepted you into their e-file program based on your application. This entry is mandatory because the EFIN is a required part of the electronic file that is transmitted to the IRS.

**Submission Identification Number (SID).** This 20-digit ID number is assigned when the return is transmitted to the IRS. You will therefore not know its value before you submit the return, so you should leave it blank. You will see the number in the acknowledgement from the IRS that it received the return. At that time you can return to this form to enter the number here. However, this is not mandatory. It is sufficient to keep a record of this number, even electronically, as long as its location is recorded. If you enter a number here, it will

appear only on the official Form 8879 (*IRS e-file Signature Authorization*), which is not sent to the IRS but kept with the ERO's records.

**Name(s) for paper Form 8453.** This section shows how names are formatted for e-file so that you can confirm that the names have been properly interpreted, and can abbreviate long first names when required. The formatting starts with the names that were entered for the return on Form 1040:

**Your first name & initial.** This and the next several entries come from Form 1040. You may need to modify the entries for proper e-file formatting, but you must do so on Form 1040 page 1, not here. Even though each entry allows up to 25 characters to be entered, IRS e-file formatting allows only 35 characters total for the name(s) on the return. This restriction is not particularly severe for a single filer, but can cause severe truncation of names for joint filers. You should therefore look carefully at the formatting that follows these entries to see if you need to change an entry in order for the 35-character format to be meaningful. For example, if the last names are especially long, you may find it necessary to use a single initial in place of the full first name and initial.

**Spouse's first name.** See above.

**Your last name.** See above.

**Spouse's last name (if different).** See above.

**Name(s) for e-file output.** The preceding four entries are formatting for e-file in the following lines. You should verify that the first < symbol precedes the last name of the taxpayer and that another < symbol appears at the end of that last name only if it is followed by a suffix (such as III, Jr., etc.) or the name of the spouse (for joint returns). *If any of these results are not what you expect, check your entries on Form 1040, page 1, then change any entry on Form 1040, page 2 and view this e-file form again.* (This procedure may be required if you changed the entries on Form 1040, page 1 after the numerical part of the return was complete.)

**Your name in e-file format.** (*auto-calc*) This e-file format is used on all forms for a single filer, and forms that apply only to the primary taxpayer on joint returns.

**Your name control for e-file.** (*auto-calc*) This is a 4-character entry showing the first four significant characters of the last name, with spaces skipped. The name control and SSN are generally all that the IRS uses to identify a taxpayer.

**Spouse's name in e-file format.** (*auto-calc*) This e-file format is used only on joint returns, for forms that apply only to the spouse.

**Spouse's name control for e-file.** (*auto-calc*) This is a 4-character entry showing the first four significant characters of the last name, with spaces skipped, for the spouse.

**Combined names for return ID.** (*auto-calc*) This is the name that identifies the entire return. For a joint return the last name of the primary taxpayer will appear in the middle of this entry bounded on both sides by the < symbol.

**OTHER TAXPAYER INFORMATION.** The social security numbers, address, and phone number for the taxpayer(s) are shown next, all from your entries on Form 1040. If you need to change any of these entries you will need to do so on Form 1040.

**Your social security number (SSN).** *(auto-calc)* Taken from your entry on Form 1040, screen 1, formatted with dashes.

**Spouse's social security number.** *(auto-calc)* Taken from your entry on Form 1040, screen 2, formatted with dashes. (An SSN may appear here for either joint or separate married filers.)

**Present home address (number and street).** *(auto-calc)* Constructed from your entries on Form 1040, screen 3, for "Street address" and "Apt., Suite, Bldg., etc." but truncated to 35 characters. When there is an entry for the latter, the two entries are separated by a comma and space. (The 35-character truncation is only for on-screen display. The original two entries that make up this combined entry are used for the official printout of Form 8453.)

**City or p.o.** *(auto-calc)* Taken from your entry on Form 1040, screen 3, for "City or p.o."

**State (2-letter code).** *(auto-calc)* Taken from your entry on Form 1040, screen 3, for "State."

**ZIP code.** *(auto-calc)* Taken from your entry on Form 1040, screen 3, for "ZIP code."

**Foreign address.** If you entered a foreign address on Form 1040 instead of a U.S. address, your entries appear here and are used on an official printout of Form 8453:

**Foreign street address.** *(auto-calc)* Taken from your entry for "Street address" in the foreign address section of Form 1040, screen 3.

**Foreign city.** *(auto-calc)* Taken from your entry for "City" in the foreign address section of Form 1040, screen 3.

**Foreign province/state.** *(auto-calc)* Taken from your entry for "Province/State" in the foreign address section of Form 1040, screen 3.

**Foreign country code.** *(auto-calc)* Taken from your entry for "Country" in the foreign address section of Form 1040, screen 3.

**Foreign postal code.** *(auto-calc)* Taken from your entry for "Postal code" in the foreign address section of Form 1040, screen 3.

**Daytime phone number.** *(auto-calc)* Taken from your entry on Form 1040, screen 3, this number is usually voluntary. However, you will need to supply the phone number if the tax on the return is to be paid by direct debit. (You will have a chance to change this entry later on this form, in the section for Direct Debit Info.)

**W-2, W-2G, 1099-R INFORMATION IS ENTERED ON FORM 1040.** Any Forms W-2, W-2G, and 1099-R received by the taxpayer(s) must be reported in the e-file return, so *ALL information from those forms must be entered into the worksheets accessible from Form 1040 lines 7a and 7b, 15a and 16a, and line 21*. The information you enter in these worksheets is automatically made a part of the e-file return. While they are not visible on the screen from this e-file

form, you can get a complete printout of these forms with all their entries when you generate an official printout of this e-file form with the proper answers in the PAPER PRINTOUT OPTIONS section of this form (described later). The IRS does not allow returns to be filed electronically if they have more than 50 Forms W-2, 30 Forms W-2G, or 20 Forms 1099-R, so the software limits the number of worksheets to these numbers.

**CHECKS FOR ELIGIBILITY.** A number of preliminary checks are built in and summarized on screens 4 and 5. If any of the checks fail, an electronic filing file will not be generated. The requirements upon which these checks are based are detailed in IRS Pubs. 1345, *Handbook for Electronic Filers*, and 1346, *Electronic Return File Specifications and Record Layouts*.

**CHECK FOR UNALLOWED ENTRIES.** (auto-calc lines) To be eligible for electronic filing a return can have *NO* entries for any of the lines identified on the screen in this section. A Yes at any of these lines will lead to rejection of the return with one exception: a missing spouse SSN is ignored if the filing status for the return is neither married filing jointly nor married filing separately.

**CHECK FOR NUMBER OF COPIES.** (auto-calc lines) The number of copies allowed for a number of forms and schedules is restricted. Forms shown on the screen for this section are only forms for which multiple copies are allowed on paper returns. Restrictions on these and all other forms supported by *Tax Preparer* are shown in Table 2-18 at the end of this chapter.

**CHECK FOR EXCESSIVE COUNTS.** (auto-calc lines) Some forms are limited in the number of items that can be reported on the form, such as the number of columns on the form.

**CHECK FOR SPECIAL HANDLING.** (auto-calc lines) A need for special handling by the IRS can also cause rejection. Just two checks are shown on the screen, but other factors can cause rejection, such as requesting the IRS to calculate your Earned Income Credit for you.

**TENTATIVE ELIGIBILITY.** This is the final determination for this form.

**Monetary amounts rounded.** (auto-calc) Taken from the entry on the Control Form. Only rounded returns can be filed electronically.

**May be eligible for e-file.** (auto-calc) Answered Yes only if the return is rounded and all of the preceding checks have been passed.

**If not eligible for e-file, you may have to include Form 8948 with the paper return.** *Most paid preparers are now required to e-file their returns if they expect to file 11 or more returns that are eligible for e-file. However, when you have a return that you cannot e-file, you must generally include a completed Form 8948 with the paper return you file to explain why you cannot e-file the return. Valid reasons that require a Form 8948 include limitations of the software. Reasons that do not require a Form 8948 include returns that use a form not supported by the IRS for e-file (such as Form 8839). To help you decide whether a Form 8948 is necessary with a paper return, throughout this manual we have highlighted the software's limitations for e-file wherever a limitation applies that is not imposed by the IRS.*

**Additional reasons for rejection of a return.** Even if a Yes appears at the last eligibility question, above, the return may be rejected when other checks are performed later in the filing process. For example, severe restrictions are placed on supporting statements, as detailed in Table 2-19 (at the end of this chapter), which are checked during *Tax Preparer's* generation of the electronic filing output (in a process analogous to the printing of a paper return). Still more restrictions are placed on how certain information is entered, some of which are checked by the EFI transmission software before the actual transmission takes place. The final round of checking is performed by the IRS, and the IRS acknowledgement of the return will include a list of errors found.

**PIN signatures required.** The IRS no longer allows you to submit a signed paper form in lieu of electronic (PIN) signatures. As a result, even if a Yes appears at "May be eligible for e-file" and all other aspects of the return are acceptable, the *e-file output will not be generated by the software if you do not supply the proper information and PIN signatures on the last two screens of this e-file form.*

**PAPER PRINTOUT OPTIONS.** Our on-screen e-file form is not only used to collect data required for the e-file output but also provides a number of useful printouts. In order to print any of the forms listed below, you must choose to print a single graphic form, selecting "90 e-file" from the Forms Menu for official printouts. Which forms print is controlled by your answers to the following questions:

**Omit Form 8453?** Unless you answer Yes, Form 8453 will be printed when you choose to print the e-file form. Form 8453 is now required ONLY if you are required to send paper documentation to the IRS as a part of the e-file return, as identified in the "Paper attachments" section of this e-file form, detailed later. It is no longer a signature form that summarizes the return, but is now just a cover letter for mailing paper documentation for the return.

**Omit Form 8879?** Unless you answer Yes, information you enter later relating to PIN signatures will be printed on an IRS Form 8879 (*IRS e-file Signature Authorization*). PIN signatures are now mandatory, so you MUST print a paper copy of this form for the taxpayer(s) to sign. You must keep the signed copy of the printed Form 8879 in your records. It is not filed with the IRS but provides the verification that the taxpayer has approved the transmitted return and, when appropriate, given the ERO permission to enter PIN(s) for the taxpayer.

**Omit ACH debit information?** Unless you answer Yes, any payment information you enter later relating to paying the tax due by debiting the taxpayer's bank account will be printed. You can use this printout to verify the information you enter and keep a paper record of it.

**Omit Form(s) W-2?** Unless you answer Yes, all W-2 Worksheets you completed will be printed in the format of an IRS Form W-2. You can use these printouts to verify your entries on the W-2 Worksheets that support line 7 of Form 1040.

**Omit Form(s) W-2G?** If you answer Yes, all W-2G Worksheets you completed will be printed in the format of an IRS Form W-2G. You can use these printouts to verify your entries on the W-2G Worksheets that support line 21 of Form 1040.

**Omit Form(s) 1099-R?** Unless you answer Yes, all 1099-R Worksheets you completed will be printed in the format of an IRS Form 1099-R. You can use these printouts to verify your entries on the 1099-R Worksheets that support lines 15a and 16a of Form 1040.

**Extra line for personal memos.** The supporting statement you create for this line will not be printed as a part of the official return. This line is provided only to allow you to make private notes or reminders.

**Paper attachments.** If any situations on the return require a paper attachment to the return, such as a copy of a certificate or a signed affidavit, *you must indicate the requirement from the list of questions in this section, and send the paper documentation with a printed Form 8453 as a cover letter.* The printed graphic Form 8453 provides more information about each of these items. Therefore, we recommend that you print a blank copy of the graphic Form 8453 before answering any questions in this section. Any Yes answer you give in this section will result in an X in the corresponding box on Form 8453, and will be made a part of the e-file output so that the IRS will expect the paper Form 8453 and attached documentation.

**BANK INFORMATION.** The next two sections relate to the electronic transfer of funds between the taxpayer and the IRS.

**Direct Deposit Information.** This section is relevant only when there is a refund shown on line 76a of the final Form 1040 for the return. If relevant and you want the refund automatically deposited, you must enter all bank information directly on Form 1040 lines 76b through 76d to identify the bank account into which you want the refund deposited. (The bank account will normally be the taxpayer's bank account, but it could be the account of a trustee or an intermediary, such as a bank that funds a refund authorization loan or QIK checks.)

**Amount to be refund.** *(auto-calc)* Taken from Form 1040, line 76a, this is the amount of any overpayment that you want refunded.

**DIRECT DEPOSIT USED?** *(auto-calc)* The answer will be Yes only if there is an amount on Form 1040, line 76a, and you have completed the bank information at Form 1040 lines 76b, 76c, and 76d.

**Direct Debit (ACH) Information.** This section is relevant only when there is an amount due shown on line 78 of the final Form 1040 for the return.

**Use Direct Debit if an amount is due?** Answer Yes only if the taxpayer authorizes a Direct Debit from his or her bank account.

**Amount to be paid (See Form 1040).** *(auto-calc)* Taken from your entry for "Amount to be paid" following line 78 of Form 1040.

**Requested payment date.** You must enter the date in the standard mm-dd-yyyy format, generally no later than the due date of the return, including extensions.

**Routing transit number.** Enter the 9 digit routing number for the bank from which the taxpayer's funds will be withdrawn. (If a personal checking account, the number is the first set of computer numbers printed at the bottom of checks for the account.)

**Bank account number.** Enter full account number, including the bank's branch number. (If a personal checking account, the number is the second set of numbers printed at the bottom of checks, excluding the last set of numbers that match the check number.)

**Account type: 1=Checking, 2=Savings.** Enter 1 or 2 to identify the type of bank account, or 0 if no direct debit is requested.

**Daytime phone number (required).** While otherwise voluntary, the taxpayer's phone number is a required entry for Direct Debit. This entry is taken from Form 1040, screen 3, but you can alter that entry here.

**DIRECT DEPOSIT USED?** *(auto-calc)* The answer will be Yes only if there is an amount to be paid, the requested payment date lies within the filing year, and you have completed the bank information at Form 1040 lines 76b, 76c, and 76d.

**Information for Form 8879.** The remainder of this e-file form relates to Form 8879 (*IRS e-file Signature Authorization*) and the Authentication Record of the e-file output. All parts must be completed in order for the return to be e-filed. (An official printout of Form 8879 is available for the ERO's files.)

**PART I, TAX RETURN INFORMATION.** (*auto-calc lines*) A 5-line summary of the Form 1040 tax return appears here, with no manual entries required.

- 1 **Adjusted gross income.** (*auto-calc*) Taken from Form 1040, line 38.
- 2 **Total tax.** (*auto-calc*) Taken from Form 1040, line 62.
- 3 **Federal income tax withheld.** (*auto-calc*) Taken from Form 1040, line 64.
- 4 **Refund.** (*auto-calc*) Taken from Form 1040, line 76a.
- 5 **Amount you owe.** (*auto-calc*) Taken from Form 1040, line 78.

**PART II, DECLARATION OF TAXPAYER.** The answers for this section are taken from the preceding banking information. The taxpayer must verify these answers by providing PINs on the last screen and signing Form 8879.

**I consent to direct deposit.** (*auto-calc*) Answered Yes only if a Yes appears at "DIRECT DEPOSIT USED?" under *Direct Deposit Info*.

**I authorize an ACH debit.** (*auto-calc*) Answered Yes only if a Yes appears at "DIRECT DEBIT USED?" under *Direct Debit Info*.

PIN signatures are entered on the last screen of this e-file form, and appear in Part II of the printed Form 8879.

**PART III, DECLARATION OF ELECTRONIC RETURN ORIGINATOR (ERO).** As the person filing the return electronically, you are the Electronic Return Originator (ERO). This is the person who transmits the return to the IRS by way of our e-file transmission software, and electronically signs this e-file form as the person preparing the return for electronic filing, but not necessarily the preparer of the return itself.

**ERO's Name.** Enter the name of the professional who is filing this return electronically. This is the person under whose EFIN this return is filed electronically, which may or may not be the same as the paid preparer who prepares the return. **This entry is NOT automatic. You must enter your name here for every e-file form you prepare.**

**ERO's PIN signature.** Paper signatures are no longer allowed for e-file returns. Only electronic signatures, by way of a PIN, are acceptable:

**Using Practitioner PIN Method?** Under this method, the ERO verifies the identity of the taxpayers and witnesses their PIN signatures so that the taxpayers do not have to supply their birthdate and prior-year AGI or prior-year or IRS-supplied PIN as verification.

**ERO's 5-digit PIN signature.** Enter any 5 digits except 00000. **This entry is mandatory, so no e-file output will be generated without an entry here.**

**ERO's IP address (automatic if blank).** The IRS requires the numerical internet address of the Internet Provider used to transmit the return to the IRS or a third party. If you leave this entry blank, as we recommend, the software will attempt to determine the IP address from your computer and will put it in the appropriate place in the e-file out-

put it generates. However, if you are preparing this return on a different computer from the one you will use when transmitting it to the IRS or a third party, or you are not connected to the internet while preparing this return, you will have to enter the IP address yourself. For further guidance, see the *Supplemental Instructions* on the *e-file Alerts* page of our *Check for Updates* website.

**ERO's EFIN/PIN (EFIN+5 digits).** *(auto-calc)* This 11-digit number is comprised of the 6-digit EFIN of the ERO and the 5-digit PIN he or she supplied. This is the complete signature required by the IRS.

The name of the person within the firm who is the paid preparer (which may be different from the ERO) is no longer entered on this e-file form. It is now entered on only on screen 1 of your *Program Settings*, along with the person's PTIN, the firm's name and address, and the firm's EIN, and is used on Form 1040.

**Taxpayers' PIN signatures.** Paper signatures are no longer allowed for e-file returns. Only electronic signatures, by way of a PINs, are acceptable. In providing a PIN signature, the taxpayer is agreeing to certain consents. Although we provide a shorter Taxpayer Declarations form later in this section, *we recommend that you print a blank copy of Form 8879 before the taxpayer supplies a PIN, so that he or she can read the lengthy jurats on the form. The taxpayer must then hand sign a completed Form 8879, which you must keep with your records.*

**Birthdate(s) & AGI(s) required?** *(auto-calc)* If the ERO has *not* selected the Practitioner PIN Method, each taxpayer must identify himself or herself by supplying a birthdate and prior-year AGI (or prior-year PIN or IRS-issued PIN) on this screen. Therefore, this question is answered Yes if the ERO has answered No to "Using Practitioner PIN Method?"

**Taxpayer 5-digit PIN signature.** Enter any 5 digits except 00000. See the *Taxpayer Declaration* following these instructions.

**Date signed.** Enter date signed in the standard mm/dd/yyyy format.

**Did taxpayer enter above PIN?** If you must answer No because the ERO entered the PIN into the computer, the ERO will use a copy of a signed Form 8879 on file to verify authorization to do so.

**Taxpayer date of birth.** Enter the date of birth in the standard mm/dd/yyyy format. *This entry, along with one of the following 3 entries, is mandatory if the ERO is not using the Practitioner PIN Method, in order to verify the identity of the taxpayer.* (Under the Practitioner PIN Method, the practitioner verifies the taxpayer's identity.)

**Taxpayer prior-year AGI.** Enter the AGI from the taxpayer's tax year 2013 return *as filed* (not as amended later). *If you do not know the entry, you must make an entry on one of the following 2 lines if the ERO is not using the Practitioner PIN Method.*

**Prior-year PIN (if no AGI).** A taxpayer who e-filed his or her return last year can use the PIN used last year as a means of identification rather than prior-year AGI. You do not have to enter the prior-year 5-digit PIN here if you made an entry on the preceding line.

**IRS-issued PIN.** If the ERO is *not* using the Practitioner PIN Method and the taxpayer knows neither the prior-year AGI nor the prior-year PIN, the taxpayer can request a PIN from the IRS to identify him. This is a

PIN for one-time use only, for the sole purpose of identity verification for e-file. **CAUTION:** Enter only the one-time IRS-supplied 5-digit PIN here or else the return will be rejected by the IRS.

**Spouse's 5-digit PIN signature.** Enter any 5 digits except 00000. See the *Taxpayer Declaration* following these instructions. **CAUTION:** Do not make entries on any of the spouse lines unless married filing jointly.

**Did spouse enter above PIN?** If you must answer No because the ERO entered the PIN into the computer, the ERO will use a copy of a signed Form 8879 on file to verify authorization to do so.

**Spouse's date of birth.** Enter the date of birth in the standard mm/dd/yyyy format. *This entry, along with one of the following 3 entries, is mandatory if the ERO is not using the Practitioner PIN Method, in order to verify the identity of the spouse.*

**Spouse's prior-year AGI.** If the spouse filed a separate return for tax year 2013 or was not married to this taxpayer, enter the AGI from the spouse's tax year 2013 return as filed (not as amended later).

**Prior-year PIN (if no AGI).** A spouse who e-filed his or her return last year can now use the PIN used last year as a means of identification rather than prior-year AGI. You do not have to enter the prior-year 5-digit PIN here if you made an entry on the preceding line.

**IRS-issued PIN.** If the ERO is not using the Practitioner PIN Method and the spouse knows neither the prior-year AGI nor the prior-year PIN, the spouse can request a PIN from the IRS to identify her. This is a PIN for one-time use only, for the sole purpose of identity verification for e-file. **CAUTION:** Enter only the one-time IRS-supplied 5-digit PIN here or else the return will be rejected by the IRS.

**IRS PIN Authorization Code.** *(auto-calc)* This number will be:

- 0 if no PIN was entered,
- 1 if the taxpayers entered all PINs,
- 2 if the ERO entered taxpayer's PIN only,
- 3 if the ERO entered spouse's PIN only, and
- 4 if the ERO entered both PINs.

**Return ready to be e-filed?** *(auto-calc)* A Yes answer will appear here only if the answer to "May be eligible for e-file" is Yes (in the TENTATIVE ELIGIBILITY section on screen 5) and all required PIN information is complete.

**Taxpayer Declarations**

**Perjury Statement**

Under penalties of perjury, I declare that I have examined this return, including any accompanying statements and schedules and, to the best of my knowledge and belief, it is true, correct, and complete.

**Consent to Disclosure**

I consent to allow my Intermediate Service Provider, transmitter, or Electronic Return Originator (ERO) to send my return/form to IRS and to receive the following information from IRS: 1) acknowledgment of receipt or reason for rejection of transmission; 2) refund offset; 3) reason for any delay in processing or refund; and, 4) date of any refund.

**Electronic Funds Withdrawal Consent**

I authorize the U.S. Treasury and its designated Financial Agent to initiate an ACH debit (electronic withdrawal) entry to the financial institution account indicated for payment of my Federal taxes owed on this return and/or a payment of estimated tax. I further understand that this authorization may apply to subsequent Federal tax payments that I direct to be debited through the Electronic Federal Tax Payment System (EFTPS). In order for me to initiate subsequent payments, I request that the IRS send me a personal identification number (PIN) to access EFTPS. This authorization is to remain in full force and effect until I notify the U.S. Treasury Financial Agent to terminate the authorization. To revoke a payment, I must contact the U.S. Treasury Financial Agent at 1-888-353-4537 no later than 2 business days prior to the payment (settlement) date. I also authorize the financial institutions involved in the processing of the electronic payment of taxes to receive confidential information necessary to answer inquiries and resolve issues related to the payment.

**I am signing this Tax Return and Electronic Funds Withdrawal Consent, if applicable, by entering my Self Select PIN below.**

-----  
---

Taxpayer's PIN: \_\_\_\_\_ Date (all numeric): \_\_\_\_\_  
Taxpayer's Date of Birth: \_\_\_\_\_ (2 digit month, 2 digit day, 4 digit yr)  
Taxpayer's Prior Year Adjusted Gross Income (Dollars Only): \_\_\_\_\_  
Spouse's PIN: \_\_\_\_\_  
Spouse's Date of Birth: \_\_\_\_\_ (2 digit month, 2 digit day, 4 digit yr)  
Spouse's Prior Year Adjusted Gross Income (Dollars Only): \_\_\_\_\_

## *e-file form*

**If paper attachments are required, mail paper 8453 with the attachments AFTER filing electronically.** Once the return is transmitted and accepted, you must print the Form 8453 and mail it with the attachments you indicated on screen 6. You must do so within 3 business days of receiving acknowledgment from the IRS that the e-file return has been accepted. You must mail the Form 8453 and attachments only to the following address, irrespective of the IRS center to which you e-file the return.

Mail Form 8453 with attachments to:  
Internal Revenue Service  
Attn: Shipping and Receiving, 0254  
Receipt and Control Operations  
Austin, TX 73344-0254

DO NOT send Form 8453 to the IRS if you have no paper attachments listed on screen 6 to attach. The form is *ONLY* used as a cover page for the listed paper attachments.

**Pay by check or money order using Form 1040-V.** If instead of paying your tax by direct debit you choose to pay by check or money order, you should send the payment with Form 1040-V to the address shown in the IRS instructions for Form 1040-V. Note that these addresses are different from those in the IRS instructions for Form 1040 for many states.

### **ERO Declaration**

I declare that the information contained in this electronic tax return is the information furnished to me by the taxpayer. If the taxpayer furnished me a completed paper tax return signed by a paid preparer, I declare that the information contained in this electronic tax return is identical to that contained in the paper return, and I have entered the paid preparer's identifying information in the appropriate portion of this electronic return. If I am the paid preparer, under the penalties of perjury I declare that I have examined this electronic return, and to the best of my knowledge and belief, it is true, correct, and complete. This declaration is based on all information of which I have any knowledge.

#### **ERO Signature**

**I am signing this Tax Return by entering my PIN below.**

ERO's PIN

-----  
*(enter EFIN plus 5 self selected numerics)*

# Form by Form Details (2015 Edition)

*e-file form*

**Table 2-18. Forms Allowed for Electronic Filing**

<u>Form</u>	<u>Max. allowed</u>	<u>Comments</u>
Form 1040	REQUIRED form	
Schedule A	1	Not used if standard deduction used
Schedule B	1	
Schedule C	5	no C allowed for spouse with a C-EZ
Schedule C-EZ	1 or 2	2 for MFJ (one for each taxpayer)
Schedule D	1	Up to 5000 short- and long-term sales
Schedule E	1	unlimited number of worksheets
Schedule EIC	1	
Schedule F	5	
Schedule H	1 or 2	2 for MFJ (one for each taxpayer)
Schedule J	1	
Schedule R	1	
Schedule SE	1 or 2	2 for MFJ (one for each taxpayer)
Form 1116	10	
Form 1310	1 or 2	2 for MFJ (one for each taxpayer)
Form 2106	4	
Form 2106-EZ	1 or 2	2 for MFJ (one for each taxpayer)
Form 2120	4	
Form 2210	1	Schedule A & B of 2210 also allowed
Form 2210-F	1	
Form 2441	1	
Form 2555	1 or 2	2 for MFJ (one for each taxpayer)
Form 3468	1	
Form 3800	1	
Form 3903	2	
Form 4136	1	
Form 4137	1 or 2	2 for MFJ (one for each taxpayer)
Form 4255	1	
Form 4562	18	
Form 4684	1	
Form 4797	1	
Form 4835	1	
Form 4952	1	
Form 4970	1	
Form 4972	1 or 2	2 for MFJ (one for each taxpayer)
Form 5329	1 or 2	2 for MFJ (one for each taxpayer)
Form 5405	1	
Form 5695	1	
Form 5884	1	
Form 6198	10	
Form 6251	1	
Form 6252	5	
Form 6478	1	
Form 6765	1	
Form 6781	1	
Form 8283	1	
Form 8379	1	
Form 8396	1	
Form 8582	1	
Form 8586	1	
Form 8594	1	
Form 8606	1 or 2	2 for MFJ (one for each taxpayer)
Form 8611	5	
Form 8615	1	

(continued on next page)

# HowardSoft

## *e-file form*

<u>Form</u>	<u>Max. allowed</u>	<u>Comments</u>
Form 8801	1	
Sch. 8812	1	
Form 8814	10	
Form 8815	1	
Form 8824	5	
Form 8828	1	
Form 8829	1 to 5	One for each Schedule C
Form 8839	1	
Form 8846	1	
Form 8853	1	
Form 8862	1	
Form 8863	1	
Form 8867	1	
Form 8880	1	
Form 8889	1 or 2	2 for MFJ (one for each taxpayer)
Form 8910	1	
Form 8917	1	
Form 8936	1	
Form 8941	2	1 for each spouse
Form 8949	1	
Form 8959	1	
Form 8960	1	
Form 8962	1	
Form 8965	1	
e-file	REQUIRED form	Includes Forms 8453, 8879, & PMT Record
W-2	50	
W-2G	50	
1099-R	20	

# Form by Form Details (2015 Edition)

*e-file form*

**Table 2-19. Overflow supporting statements allowed**

Form	Line	Entries required - length in ( )
Form 1040	6c, Dependent worksheet	CHILD, SON, DAUGHTER, NIECE, PARENT, SISTER, FOSTERCHILD, GRANDCHILD, GRANDPARENT, BROTHER, AUNT, UNCLE, NEPHEW, NONE, & OTHER Type (25) and amount
	21, Other income	SSN and amount
	31a, Alimony paid	Type (11) and amount
	36, Other adjustments	Form number and credit
	54c, Credit on other form	Type (8) and amount
	62, Special tax	Explanation
Schedule A	65, Est pmts under diff. name	Type (28) and amount
	8, Other taxes	1098 explanation
	10, Home int on 1098	Name (20), address, SSN
	11, Mortgage Int. worksheet	Names/address 1098 recipient
	11, Other received 1098	Type (25) and amount
	20, Employee expenses	Type (30) and amount
	22, Other expenses	Type (30) and amount
Schedule B	27, Other miscellaneous	Name(20), address(29),IDN, \$
	1, Seller-financed mort	Unlimited (payer and amount)
	1, 1099-INT Worksheets	Unlimited (payer and amount)
	5, 1099-DIV Worksheets	Accounting method (25)
Schedule C	F, If other, specify	Explanation
	16a, Mortgage to banks	Name/address 1098 recipient
	16b, Other interest	Describe other method
	33, Other method	Explanation
	34, Inventory method change	Type (25) and amount
Schedule D	48, Other expenses	Unlimited
	1, ST Gain/Loss worksheet	Unlimited
	8, LT Gain/Loss worksheet	Unlimited
Schedule E	Pt I, Rents/Royalties	Explain 1098 discrepancy
	12, Mortgage interest	Name/address 1098 recipient
	13, 1098 rcvd by another	Unlimited
	Pt II, Partnership/S-Corp	Unlimited
	Pt III, Estates/Trusts	Unlimited
	Pt IV, REMICs worksheets	Unlimited
Schedule F	7a, CCC under election	Explanation
	8c, Election to defer	Explanation
	23a, Mortgage interest	Explain 1098 discrepancy
	23b, Other interest	Name/address 1098 recipient
	34, Other expenses	Type (20) and amount
	41a, CCC under election	Explanation
Form 1116	1a, Foreign Source worksheet	Up to 3 countries per Form 1116
Form 2106	12, Vehicle Expense worksheet	Up to 4 vehicles allowed
Form 2120	Eligible supporters	Unlimited
Form 2210/2210-F	Waiver request	Explanation
Form 2441	1, Care Provider Worksheets	Unlimited
	2, Qualifying Person worksht	Unlimited
	9b, Prior-Year Qual'g Person	Not supported for e-file
Form 2555	Qualify for waiver of tests	Explanation
	6d,8b,9,12b,14,14d,15c,15e,18,	18f,20b,21abcdf,23,42 unlimited
Form 3468	1, 4	Explanation
Form 3800	1s, 6	Explanation
Form 4562	6,15,19a-19i,26,27,30-36,42	Unlimited
Form 4684	4, 25, 32, 37 worksheets	Unlimited
Form 4797	2, 10 worksheets	Unlimited
	Part III worksheets	No overFlows (4 properties)
Form 4835	Same as Schedule F	See Schedule F
Form 5329	17, Itemized claim for waiver	Explanation
Form 5884	Exception statement	Explanation
Form 6198	2c Other form or schedule	Type (20)
Form 6252	Part III, 29e, Tax avoidance	Explanation
Form 6765	16, 39	Schedule of reduced deduc'ns
Form 6781	10, 12 worksheets	Unlimited
	Straddles, 4797, unrec gn	Schedules
Form 8283	1 & 5, Donated Prop'y wrkshts	Unlimited
Form 8582	worksheets 1 through 7	Unlimited
Form 8586	1, 3b, 4, 5	Unlimited
Form 8594	Supplemental statements	Explanations
Form 8814	1099-INT & 1099-DIV workshts	Unlimited
Form 8815	1 worksheet	Unlimited
Form 8824	1, 2, 11c, 19, 27, 28	Unlimited
Form 8934	Plug-in Electric Vehicle w/s	No overFlows (2 vehicles max.)
Form 8829	35, 40	Schedule
Form 8846	4 Part subj only to Medicare	Show computation
Form 8910	Alt. Vehicle Info worksheet	No overFlows (2 vehicles max.)
Form 8936	Plug-in Electric Drive w/s	No overFlows (2 vehicles max.)

*In addition, no more than 30 statements total are allowed.*

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## Chapter 3

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# Laser and Windows Graphic Printing

What Is Required  
How to Install  
Operating Hints  
If You Have Trouble

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## What Is Required

**Graphic printing built into Standard and Premium Levels of Tax Preparer.** Graphic printing is now built into the regular edition of *Tax Preparer* (1040), California Supplement (540), and Partnership Edition (1065) *for all but the Economy Level* of our software. It is designed to provide the graphic look of the official IRS forms without the inconvenience of using preprinted forms or transparent overlays. *However, as noted below, there are specific hardware requirements* depending on the version of *Tax Preparer* you use. Two levels of capability are available for each:

**Economy Level: graphics for main form ONLY.** This *low-cost* version of our software generates graphics for the *main signature form only*. Accordingly, the 1040 version generates a 2-page graphic Form 1040 for the regular *Tax Preparer*, and the 540 version generates a 2-page graphic Form 540 for the California Supplement.

**Standard and Premium Levels: graphics for ALL forms.** These versions of our software generate graphic versions of *ALL IRS forms and schedules that are built into the software that it supports*. Thus the 1040 version generates graphic versions of all IRS forms contained in *Tax Preparer*, and the 540 version generates graphic versions of all FTB forms contained in our *California Supplement*.

**Laser-graphic printing vs. Windows-graphic printing.** Two options for graphic printing are available, each with their own hardware requirements:

**Laser-graphic printing.** This option provides the fastest printing, but it requires a laser printer that emulates the HP laser printer family, as detailed later, and a compatible tax font. It also requires that the printer be connected to the computer through a parallel port (LPT1, LPT2, etc.). However, it is included in *both* our Windows products and our DOS products.

**Windows-graphic printing.** This option provides graphic printing on *virtually any Windows-compatible printer*. However, it requires Windows 95 or later, and so is not included in DOS or Windows 3.1 versions of our software. The printer can be connected through any standard port, including USB as well as parallel ports.

Since files for both Laser-graphic and Windows-graphic printing are included in the Windows versions of our Standard Level and Premium Level programs, you can choose the one that is optimum for your equipment.

**What else you will need for Laser-graphic printing.** In addition to our Standard Level or Premium Level program, you need special printer hardware and software to use the laser option:

**An HP-compatible (PCL4) laser printer.** The printer must be capable of understanding Hewlett-Packard's industry-standard Printer Control Language 4 (PCL4). Some older printers that understand only PCL3 or earlier are therefore not compatible. You can use Table 3-1 as a general guide for compatibility, or call us for the latest word on compatibility.

**Table 3-1. Laser Printer Compatibility**

BRAND/MODEL	NELCO T-FONT CART.	NELCO MEGA- FONT	"T" SOFT- FONT	OTHER COMPATIBLE OPTIONS OR SPECIAL REQUIREMENTS
ACER LP-75	No	No	No	Acer's Tax Cartridge L-FC2T.
ALPS LPX600	No	No	Yes	
Brother HL-6, 8, 10, 730, 760, 1060, 260, 1660	Yes	No	Yes	or HP's Tax Cartridge 92286T.
Brother HL-4V, 630	No	No	Yes	
CIE 3000	No	No	Yes	
'' CI-4	Yes	No	Yes	
Dataproducts 1230	No	No	No	2-card set & 1.28 & up firmware.
'' LZR-650	No	No	Yes	or Dataproducts' Tax Font Card.
Destiny Laser Act I	No	No	No	Destiny's Tax Cart. L-FC2T.
Epson GQ-3500	No	No	No	Requires Epson cards 5414 & 5691.
'' EPL-6000, Action	Yes	No	Yes	
'' EPL-7000, 7500	No	No	Yes	
Fortis 600S	No	No	Yes	
FujitsuRX7100, RX7300	No	No	No	Fujitsu cartridge D05B-9009-C070.
Genicom 5010, 7170	No	No	Yes	or Genicom's cartridge 5A0010B35.
LanierHarris/3M 2006	Yes	No	Yes	
HP Series II, III, 4, 4+, 4M, 4M+, 4P, 4Si, 4SiMX	Yes	Yes	Yes	or HP's Tax Cartridge 92286T.
HP 4L, 4ML, 4MP, 4V, 4MV, 5, 5L, 5M, 5N, 5P, 5MP, 5Si, 5SiMX, 6P, 6MP	No	Yes	Yes	
IBM/Lexmark4019, 4029	No	No	Yes	or IBM Tax Font Card 1255848.
Kyocera F, FS-series	No	No	Yes	Requires ROM revision 6.32 & up.
'' Q/P-series	No	No	Yes	
Mannesmann Tally 905	Yes	No	Yes	or HP's Tax Cartridge 92286T.
'' Tally 910	No	No	No	Cartridge 403070-15 Tax US.
NEC LC860	No	No	Yes	or NEC's Tax Font set 90-609.
'' LC890	No	No	No	NEC's set & rev 47.2 or later.
'' Silentwriter 2	No	No	No	NEC's Tax Font set 90-609.
'' Silwri95, Supsc860	Yes	No	Yes	
OAS LaserPro, Express	Yes	No	Yes	or HP's Tax Cartridge 92286T.
Okidata LaserLine 6	No	No	No	Okidata tax font cartridge.
'' 400, 800, 820, 840	No	No	Yes	or Okidata Font Card 70014401.
'' OL400e, OL810, OL830				
'' DOC-IT 4000	No	No	Yes	
Packard-Bell PB9815	Yes	No	Yes	
Panasonic KX-P44xx, '' -P5400, -P5410	No	No	Yes	or Panasonic Font Card KX-P471.
PCP LaserImage	No	No	No	PCP's Tax Cartridge. Model 2000 requires HP emulation option.
Qume LaserTen & Ten+	No	No	Yes	
Ricoh 6000	No	No	Yes	
Rosetta RT4115, 4224	No	No	Yes	Requires software rev 2.61 & up.
SharpJX9300, 9500, 9700	No	No	Yes	
Star LaserPntr 4, LS5	No	No	Yes	
Tandy LP 1000	No	No	Yes	
Texas Instr. 2015	No	No	No	Requires TI cartridge 2539153.0010 and HP-emulation 3.01 & up.
'' MicroLaser(&Pro)	No	No	Yes	or TI font card 2559859.0005.
Toshiba PageLaser 12	No	No	No	Toshiba Tax Font Set LS12-FC10.
'' PageLaser 6	No	No	Yes	
Xerox 4030, 4030II				
'' 4045, 4220	No	No	Yes	Requires HP emulation cartridge.

**A compatible tax font.** The HowardSoft approach to Laser-graphic printing relies on special tax fonts for the fastest printing, the smallest disk files, and the highest print quality. However, this approach has the disadvantage that you must have a cartridge (hard-font) or disk (soft-font) that gives your printer the needed fonts. This font set is

purchased only once and used year after year. The required font set is popularly known as the Tax Font set or HP's "T" Font set, but you should refer to Table 3-1 for the specific font set required for your printer.

**Cartridge vs. soft-font.** The soft-font has the advantage that it works with most HP-emulating printers and is quite inexpensive. However, you must send the fonts to your printer whenever you turn the printer power on anew, which can take an appreciable time on an older computer without a print buffer. (See Table 3-1 for compatibility of the "T" Soft-Font available from HowardSoft.) A cartridge has the advantage that, once plugged into your printer, it gives your printer the fonts permanently, without requiring a separate step of loading fonts into the printer each time the printer is turned on. However, cartridges are limited to printers with a compatible slot. (See Table 3-1 for compatibility of the Nelco cartridges. The Nelco T-font Cartridge works with most Hewlett-Packard laser printers and a few other printers, as shown in Table 3-1, but the Nelco Mega-font cartridge, which contains more than a hundred additional fonts from HP's cartridges A through Z, works only with Hewlett-Packard Series II and later laser printers.)

### How to Install

**Graphic Option installation.** Installation of a selected graphic option is no longer required because the option is built into the standard installation of the level of software you purchased:

**Premium Level:** Graphics included for *all* forms supplied for the Premium Level.

**Standard Level:** Graphics included for *all* forms supplied for the Standard Level.

**Economy Level:** Graphics included for the main signature form *only* (such as Form 1040).

For Windows-graphic printing there is nothing you need to do; fonts for Windows-graphic printing are loaded every time you start *Tax Preparer*. For Laser-graphic printing, however, you must install the proper tax fonts and activate them *before* you start *Tax Preparer*, as described next.

**Tax font installation (for Laser-graphic printing only).** The font installation depends on whether you are using a font cartridge or a soft font:

**Cartridge installation.** You must install the proper font before you start.

If you have a tax cartridge for your printer, merely plug it firmly into the slot provided on your printer *before you turn the printer on*. For printers that have two slots, you may have to try the cartridge in both slots, or you may have to remove any cartridge in the other slot. All forms included for the edition purchased.

**Soft-font disk installation (for Laser-graphic printing only).** If you do not have a tax font cartridge for your printer, you must copy the required fonts to your printer's built-in memory *each time you turn the printer on*. If your software is installed on a hard disk you can automate the

procedure whenever you start the printer or *Tax Preparer*. However you must first install the soft-font on your hard disk. For the *Anderson's "T" Soft-Font* that HowardSoft offers, it is best to install the soft-font in the same directory as you install *Tax Preparer*. For example, if you install *Tax Preparer* in C:\TAX, which is the standard location, you can insert the Anderson disk in drive A and type (from DOS):

```
copy a:*. * c:\tax
```

You must then copy the fonts into your printer each time you turn the printer on anew, as instructed next

**Activating soft fonts (for Laser-graphic printing only).** If you use soft fonts you must reactivate the fonts each time you restart *Tax Preparer*:

**Activating soft font in DOS installations.** If you operate *Tax Preparer* under DOS, you can send the tax soft-font to your printer (after it is turned on) by typing (from DOS):

```
cd\tax  
DL
```

The fonts are then copied to your printer ready for use by *Tax Preparer*. If you instead want the fonts sent to your printer automatically every time you start *Tax Preparer*, you can create a new start-up file in the root directory of your hard disk, but you then must either turn your printer on every time before you start *Tax Preparer* or have a 256K software print buffer installed. To create a new start-up file, from the DOS prompt type.

```
cd\  
copy con: tax.bat  
cd\tax  
copy /b z.dat prn  
tax
```

This instruction replaces Step 2A of the instructions for hard disk installation on page Intro A-5 of the separate User's Guide. Once this new start-up file is created, whenever you type TAX from the root directory of your hard disk the tax fonts are copied to the printer's memory, then *Tax Preparer* is started.

**Activating soft font in Windows installations (for Laser-graphic printing only).** If you use Windows, you could activate the soft font by performing the above commands at the MS-DOS prompt. However, if you operate *Tax Preparer* under Windows, we recommend that you set up an icon for the soft-font in the same Windows group as the *Tax Preparer* icons. See the section in your Windows User's Guide titled "Non-Windows Applications." You should set up the application as follows:

<b>Description:</b>	<b>Tax Soft-font</b>
<b>Command line:</b>	<b>C:\TAX\DL</b>
<b>Working directory:</b>	<b>C:\TAX</b>

With this setup, you copy the fonts to your printer merely by clicking on the icon you so create, even while you are running *Tax Preparer*.

## Operating Hints

**How program settings control printing.** Your program settings (Chapter 14 of the separate User's Guide) let the software know whether you have a compatible laser printer or a graphics-capable Windows printer. With the Windows version of *Tax Preparer* the second entry for each of the three printout types (Fill-in, Facsimile, and Cover Letters) is

**Special (1=HPLaser, 2=Windows)**

This setting replaces what is described on pages 14-9 and 14-10 of your prior User's Guide. (Note that the "2=Windows" choice appears only if you are using the Windows version of *Tax Preparer* and started the program with the Windows interface installed by the HowardSoft installation program.) The settings for this entry have the following effect:

**Special = 0:** No special printer is identified, and all settings on the screen for the printer margins, etc., are under your control. Printing is performed through a DOS printing interface, so the printer must be configured to print in DOS (as well as Windows if running under Windows).

**Special = 1:** An HP LaserJet printer or equivalent is identified, and most settings on the screen are predetermined and not under your control. Printing is again performed through a DOS printing interface, so the printer must be configured to print in DOS (as well as Windows if running under Windows). In addition, if you have the required tax fonts, you can potentially print laser-graphic forms depending on the level of update you ordered.

**Special = 2 (Windows version only):** A Windows-compatible printer is identified, and all printer settings are predetermined and not under your control. Even the printout device spec is out of your control because printing is performed through a 32-bit Windows interface (Windows 95 or later), and your Windows settings control what printer is used. With this setting the standard Windows Print dialogue box appears when you start a printout, so you can change the current printer's characteristics, choose a different printer, or increase the number of copies to print from the default of one. In addition, you can potentially print Windows-graphic forms depending on the level of update you ordered.

While this entry appears on all three printer setting screens, only the one for Fill-in Printouts is relevant for the graphic printing of IRS forms. Nevertheless, unless you are using more than one printer for the same return, we recommend that you set all three screens to the same setting for "Printout device specification" and "Special (1=HPLaser...)"

**Changing style for official fill-in specs (not applicable to Windows printing).**

When you enter Special=1, the laser form graphics are automatically used when printing a form for which the software level provides the graphics, and data is printed in the standard pica typeface. However, you can change the look of the data that is printed onto the form through your entries for Emphasized type ON and OFF. To use a boldface type, enter

**Emphasized type ON..... (27) (40)s1B**

Emphasized type OFF..... (27) (40) s0B

To use a slanted (italic) typeface, enter

Emphasized type ON..... (27) (40) s1S

Emphasized type OFF..... (27) (40) s0S

However, do NOT enter typeface commands that change the size or spacing of the type or else the data will not properly align with the form! PICA type (a 10 pitch, 12 point, non-proportional type) is required for all IRS forms. Printing operates the same as usual except that the printing of alignment dots is automatically bypassed since it is not needed for Laser-graphic printing; alignment is fully-automatic. (You cannot control the style of data printing for Special=2 or 3 because Windows controls the typeface.) CAUTION: Tab settings must use the preset 1 for all built-in graphic printing, illustrated in Figure 1-1 in Chapter 1 of this Tax Forms Guide. (See "Printouts and Form 1040 Tab Settings" in Chapter 1 of this *Tax Forms Guide* for more information.)

**Changing style for facsimile printout specs (not applicable to Windows printing).** When you enter Special=1, the standard upright pica typeface is used. No entries should be necessary for initial setup characters, or underlining on or off. The margins and page size are preset for pica type size printed at 6 lines per inch, as before.

**Changing style for cover letter specs (not applicable to Windows printing).** When you enter Special=1, an italic (slanted) typeface is automatically used if your printer has such a typeface built-in. If you prefer an upright typeface instead of the built-in slant typeface, you can enter

(27) (40) s0S

for "Letter typeface ON," and the slant typeface command will be canceled.

**The software knows what options are available.** Your program setting for "Special (1=HPLaser,2=Windows)" in "OFFICIAL FILL-IN SPECS" to a number other than zero tells the software what type of printer you want to use for the graphic printing of forms. The software decides how to use this capability based on what files it sees during the start-up of *Tax Preparer*:

**Economy Level.** The Economy Level programs include graphics only for the main signature form(s) of each edition. Accordingly, Special=2 activates the Windows-graphic printing of Form 1040, 1065, or 540 on a compatible laser printer whenever you choose to print the main form via "COMPLETE Tax Returns" or "FILL-IN Printouts Only." Similarly, Special=1 activates the Laser-graphic printing of Form 1040, 1065, or 540 on a compatible laser printer for which tax fonts have been installed. Text-based facsimiles are printed for all other forms, but the same settings are appropriate because they ensure the proper typeface and paging without requiring you to manually enter any settings.

**Standard Level.** The Standard Level programs include graphics all forms that are supplied at the Standard Level. Accordingly, Special=2 activates the Windows-graphic printing of all forms and Special=1 activates the Laser-graphic printing of all forms.

**Premium Level.** The Premium Level programs include graphics for all that are supplied at the Premium Level. Accordingly, Special=2 activates

the Windows-graphic printing of all forms and Special=1 activates the Laser-graphic printing of all forms.

(TIP: If the "Special" setting for the three printout types are not all the same, and you use Special=1 for one of them, you may need to enter (27)E for "Initial Setup" for the types that have "Special" set to 0. These setup characters will ensure that the printer is returned to its factory defaults after graphic printing so that normal printing can resume. Also note that you can temporarily disconnect graphic printing, so that fill-in printouts can be generated with entries only and no graphics, by changing the program settings for "Special" to zero.)

**Special=3 available for special circumstances.** (*Not recommended for normal use.*) While not the recommended setting for most setups, some people may find it useful to set "Special (1=HPLaser,2=Windows)" to 3 rather than 2 for Windows printing. With this choice the standard Windows Print Window does not appear when you start a printout. In its place, a simple dialogue box is displayed within Tax Preparer, giving you only the choice of number of copies. This choice makes sense under only two circumstances:

- ◆ **Full-screen mode.** If you operate your computer in full-screen mode, so that Tax Preparer fills the entire screen, you will not be able to see the standard Windows Print Window that is displayed when you start a printout with a setting of Special=2. By contrast, the dialogue box that appears in its place when you set Special=3 is always visible.
- ◆ **Print driver without a collating option.** Some print drivers do not give you the choice of collating when you choose to print more than one copy of a printout. As a result, when you choose to print multiple copies you may get the chosen number of copies for each form before you get the next form, so that you would not have a single complete return already available as a complete packet. By contrast, the dialogue box that appears when you start a printout with a setting of Special=3 provides automatic collating. That is, when you choose to print more than one copy

For most people, however, Special=2 is the best setting because it gives you the capability to change any setting provided by your print driver (or even change printers or drivers) and have it stored as your permanent setting for *Tax Preparer* without affecting the setting for any other programs.

## If You Have Trouble

**Printing not aligned within form.** If the graphics look fine but the data do not align within the spaces on the laser form for the main form, it may mean that your program settings for the main form's tabs do not match the ones designed for computer-generated graphics. For example, if Form 1040 is misaligned but all other forms are fine, make sure your tab settings are set for graphic forms. Tab settings for Form 1040 must use the preset 2 for both Laser-graphic and Windows-graphic printing, illustrated in Figure 1-2 on page 1-11 of this Tax Forms Guide. For the proper settings for Partnership (Form 1065) and California (Form 540) returns, see the beginning of the corresponding forms guide for those supplements. However, if the data do not align for other forms as well, it may mean that your typeface for the data is not a PICA typeface, either because you have inappropriate entries for initial setup characters or emphasized type (for Official Fill-in Specs) or because your printer requires special entries for setup characters.

**Form and data on separate pages.** Some printers, print buffers, print spoolers, and networks are set to automatically eject a page if no characters are sent to the printer after a certain period of time, or each time a printer file is opened or closed. Since the graphics for the form are printed first, followed by the data for that page, it is conceivable with an improper setup for these devices that the printer will eject the page after the graphics are printed but before the data are printed. This "automatic eject" feature **MUST** be turned off, or the time delay increased, to prevent page ejection before data has been printed on the form. If the printer itself is the culprit, you can generally turn the feature off either mechanically or by entering the proper characters for "Initial setup characters." But if a print buffer, print spooler, or network is the culprit, their setup must be modified before *Tax Preparer* is used.

**Special needs for some Windows printers when attempting Laser-graphic printing.** With some newer printers you may find that not all of the graphics or typefaces are printed properly when printing a laser graphic (Special=1) under Windows. If the printer is claimed to have PCL4 compatibility, the problem is probably that the driver used when you installed the printer is a "host-based driver" rather than a "PCL driver." The problem is most common with the popular Hewlett-Packard LaserJet 5L. The solution is to install the PCL driver that either came with the printer or is available from its manufacturer. The PCL driver is generally more complete than the host driver, so its use should not affect your other programs. (You can tell which driver is being used by checking the settings for the printer through the Windows Control Panel. If you need help in installing the proper driver, please call our Customer Service for further information.)

**Extra blank pages ejected.** This problem can be caused by either the printer or the software. Make sure that the printer is set for printing with a vertical line spacing of 6 lines per inch (66 lines per 11-inch page). Also make sure that the setting for "No. of lines fed by auto-skip" is proper for your printer; 0 and 6 are

the most common settings. Extra pages can also be caused by improperly set print buffers, print spoolers, or networks.

**Garbled printing of graphics.** If the graphics are totally misaligned, such as wrong type sizes, words overwriting each other, lines misplaced, etc., the tax font is the most likely culprit. Check that any tax cartridge is firmly imbedded in its slot. If more than one cartridge is installed, remove all but the T-font cartridge, and try it in all available slots. If the tax font is on disk (soft font), make sure that the font is loaded into the printer before you start *Tax Preparer*, that no other optional fonts are still in the printers memory, and that neither the printer nor the computer is turned off in the interim. To reconfirm whether a tax font is loaded, most printers have front panel controls that let you generate a printout of the fonts currently recognized. CAUTION: If you use a soft font and you ever have to turn the printer off during a session, you must recopy the font into the printer before you can print graphically again. If operating under DOS, this means that you must leave the *Tax Preparer* and return to DOS to perform the needed command, then restart *Tax Preparer* anew.

**"Insufficient disk space" during installation.** You may encounter this message if the disk onto which you have installed *Tax Preparer* is nearly full. The Laser-graphic files require nearly 400K of free disk space for the Premium version (laser graphics for all forms), or 44K for the Standard version (1040-only). The Windows-graphic files require 6.0MB for the Premium version and 1.0MB for the Standard version. If you do not have enough room because data files are consuming appreciable space, you may have to move the data files to another disk.



## Chapter 4

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### Electronic Filing (*e-file*)

The Basics  
How to Install  
Operating Hints  
If You Have Trouble

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### The Basics

**Professional e-file.** These instructions apply only to Standard Level and Premium Level CD-ROM versions of *Tax Preparer*. *E-file is not available for the Economy Level.* HowardSoft's e-file is designed for the transmission of several returns at a time using transmission software we supply. You pay a small fee for each return transmitted, but pay no extra for retransmission of the same return (for corrections) if rejected by the IRS. The per-return is reduced if you purchase an e-file upgrade from HowardSoft, with no per-return fee for the highest (Platinum) level. (Note that e-file upgrades must be purchased anew each year because the tax forms and electronic filing specifications are changed annually by the IRS.)

**See the end of Chapter 2 for details on the "e-file form" that must be completed once the return is ready to be filed.** Our "e-file form" (the last form on the Forms Menu) is a required form for e-file. This is where eligibility is checked and you enter electronic signatures for the Electronic Return Originator (you) and the taxpayers. (Note that, in spite of the publicity and the potential for faster refunds, electronic returns carry a number of restrictions that make some returns unsuitable for electronic filing. See our details for the "e-file form" at the end of Chapter 2 for tables of some of the limitations that apply to e-file returns so you can make an intelligent decisions when considering whether or not to prepare a return for e-filing rather than paper filing.)

**What HowardSoft's e-file contains.** The process of filing returns electronically consists of preparing the returns and creating an electronic filing disk file for each return with HowardSoft's *Tax Preparer*, then transmitting these files with the *EFI* transmission software provided. HowardSoft's e-file therefore consists of two parts:

**HowardSoft's e-file link.** This software is built into Standard Level and Premium Level CD-ROM versions of *Tax Preparer*. It adds to *Tax Preparer* an e-file form (and associated forms) and the ability to generate disk files that can be read by the transmission software.

**EFI transmission software.** This software reads the files you created with *Tax Preparer* and transmits them to the IRS, either directly or through NTS (the developer of the *EFI* software). *The included software is customized for use with HowardSoft's Tax Preparer and cannot be purchased separately.*

**What hardware is required.** The requirements for HowardSoft e-file are considerably stricter than they are for other HowardSoft products:

**Computer:** IBM-compatible PC with Pentium or higher processor;

**Operating system:** Windows 2000, Windows ME, or Windows XP;

**Memory:** 32 megabytes minimum (64 megabytes minimum recommended);

**CD-ROM drive:** all software is delivered on one CD-ROM;

**Hard Disk:** hard disk with at least 75 megabytes of space available;

**Internet access:** You must have an Internet connection. While broadband speed is highly recommended, it is not required.

**What else is required.** Before you can use the e-file software *you must be accepted into the e-file program by the IRS and register each year with HowardSoft.* You apply for acceptance into the program by filing Form 8633 with the IRS. Upon acceptance, the IRS issues you an Electronic Filing Identification Number (EFIN), which you use to identify yourself every time you transmit a return to the IRS. Registration with us is required to activate the transmission software each year, and includes payment arrangements for any per return charges and sign-up for bank products including Refund Anticipation Loans (RALs). You can contact us if you have any questions about the IRS e-file program, need a copy of Form 8633 to file, or want to register for e-file. You can also get Form 8633 and the HowardSoft e-file Registration Form from our web site at [www.howardsoft.com/e-filepro.htm](http://www.howardsoft.com/e-filepro.htm). You can even complete our e-file Registration Form on-line through our secure website.

## How to Install

**Installation of HowardSoft software.** To install the HowardSoft software, merely insert the supplied CD-ROM and follow the instructions that appear on the screen. Once installation is complete, you should click "Check for Updates" on the *Tax Preparer Control Panel* to ensure that the latest e-file changes are installed. We also recommend that you "Check for Updates" daily because frequent changes are common with e-file. If installation does not start automatically when you insert the CD-ROM, you must execute the program with a file-name of the form `InstallFed_xyyyy.nna.exe` (where `xyyyy.nna` identifies the level, edition year, and release number) that resides on the HowardSoft CD-ROM. The easiest way to do this is to use Windows Explorer (or File Explorer, My Computer, or This PC) to navigate to the file, and double-click the file with your mouse. Once the installation program starts, just follow the instructions on the screen.

**Installation of NTS's EFI software.** The electronic filing transmission software can be downloaded from the *e-file Alerts* page of our *Check for Updates* website (accessible from the floating *Tax Preparer Control Panel*). After you purchase the software, we provide you with personal codes to activate it. The installation program will put an icon named "*EFI 2014*" on your desktop, where 2014 is the tax year version installed. Once you double-click this icon, the EFI transmission software starts.

**Configuration of NTS's EFI software.** When you first start "*EFI 2014*" you are taken to the the EFI Setup screen, which you must complete as follows:

- 1. Credentials.** You must enter the User Name, Password, Mailbox, and Dealer Code that we give you after you purchase the software and have registered with us for e-file.
- 2. Tax Package.** You must choose *HOWARD SOFT* from the drop-down menu so that our e-file format is recognized by the transmission software.
- 3. Electronic Filing Folder.** You must change the default entry (`C:\TAX\E-FILE\`) to reflect the folder where you installed *Tax Prepaer*. If you accepted our defaults when installing *Tax Preparer*, the proper entry will be:

For computers running 64-bit Windows:

C:\Program Files (x86)\HowardSoft Tax Preparer\E-FILE

For computers running 32-bit Windows:

C:\Program Files\HowardSoft Tax Preparer\E-FILE

**4. Default File Extension.** The proper entry is \*.XML, which should already be completed for you.

Once you have completed these entries, click Submit and your setup will be completed.

## Operating Hints

**Electronic Filing is fully integrated into Tax Preparer.** Once the installation is complete, you will find that the HowardSoft software operates precisely as it has in the past with the following additions:

**Forms Menu:** All forms menus (such as the menu titled "Select Form to Prepare" or "Select Form to Print," both of which list the forms built into the software) will have the additional "e-file form" included. *TIP: The e-file form is a required form for electronic filing, and is accessible for preparation ONLY through the Forms Menu, or through the spucial access line near the end of Form 1040, page 2.* (If you are not familiar with accessing forms through the Forms Menu, see Chapter 3 of the separate User's Guide for an explanation of this alternative way of accessing forms.)

**Printout Menu:** The Printout Menu that you see when you choose "3 PRINT Official Returns" from the Main Menu has an additional choice -- ELECTRONIC Filing Output -- as illustrated in Figure 4-1. When you make this choice the return is written to a disk file that is suitable for use by NTS's *EFI 2014* transmission software.

Other than these additions, the software operates in the same familiar way as it does without e-file. You merely write a disk file to be transmitted to the IRS through NTS instead of printing a paper return to be mailed to the IRS.

```
PRINT Official Returns
1 CHANGE FILENAME to Print
2 PREVIEW on Screen
3 PRINT on Printer or Disk
4 ELECTRONIC Filing Output
which do you choose? 1
```

**Steps to Electronic Filing.** Although preparing an electronic return is the same as preparing a paper return in principle, there are a number of details that may make your approaches differ. The general procedure is outlined here, but you should read on to understand the details for each step and the limitations that electronic filing imposes on the way you prepare a return. The general steps are:

**Figure 4-1. Printout Menu with e-file**

**Step 1: Prepare return with Tax Preparer.** You should prepare the return with *Tax Preparer* as you normally do, but be aware of restrictions on the forms and supporting statements that you are allowed to include with an electronic return generated by *Tax Preparer*, as described at

the end of Chapter 2 in the details for the e-file form. If you must file a return that exceeds one of the restrictions, you must file a paper return rather than an electronic return. *CAUTION: Note that the IRS requires that ALL information on the Forms W-2, W-2G, and 1099-R received by the taxpayer be transmitted with the return, so you must enter all information into the corresponding worksheets that are built into Tax Preparer in support of Form 1040 lines 7a and 7b, 15a and 16a, and 21.* (Separate versions of Forms W-2, W-2G, and 1099-R are no longer accessible from Form 8453. Instead, the worksheets accessible from Form 1040 have been expanded to support all data required for e-file.)

**Step 2: Complete e-file form.** Our e-file form (*Form 90 on the Forms Menu for the 2015 Edition*) is the form that the taxpayer and ERO must electronically sign to verify the validity of the transmitted e-file return. It also serves many other purposes critical to e-file, including checking eligibility and verifying direct deposit or automatic withdrawal. See the end of Chapter 2 of this *Tax Forms Guide* for details on our e-file form and what it contains.

**Step 3: Generate Electronic Filing Output.** Once the return and Form 8453 are complete, the return can be written to a disk file. The process is as easy as printing a return, and is performed through the new choice on the Printout Menu. You can create files for as many returns as you want to transmit in the same batch before proceeding to the next step. See the next page for details.

**Step 4: Check and Transmit returns with NTS's EFI 2014 software.** When you are ready to start checking or transmitting returns, start NTS's *EFI* software by clicking the "*EFI 2014*" icon that should appear on your desktop. Click the phone icon to start the pre-transmission error-checking. If any returns are rejected before transmission, you can return to *Tax Preparer*, correct the problem, and generate a new file for transmission.

**Step 5: Check acknowledgements.** Within 24 hours of transmission an acknowledgement should be available for each return, showing whether it was accepted or rejected. You can check the status of returns by choosing "Reports" from the *EFI 2014* menu bar.

**Step 6: Print and file Form 8453, if necessary.** If there is any paper documentation that you are required to send to the IRS, as listed on screen 6 of our e-file form, you must print a paper Form 8453 and mail it along with the required documents within 3 business days of acceptance of the e-file return by the IRS.

**Example of Generating Electronic Filing Output.** Once the return and e-file form are complete, *and* the last entry on our e-file form shows Yes for "Return ready to be e-filed?", an "ELECTRONIC Filing Output" can be generated for the return. The process is just like printing a return, and is performed through the new choice on the Printout Menu. Choose 3 (PRINT Official Returns) from the Main Menu, and the new Printout Menu shown in Figure 4-1 appears. If you want to create e-file disk files for returns other than the active one named near

the top of the *Tax Preparer* window, you must choose 1 (CHANGE FILENAME to Print) from this menu and select the return you want to use, or choose 17 (ALL files) to create e-file disk files for *all* returns in the tax volume. Once you are satisfied with the choice, choose 4 (ELECTRONIC Filing Output) from the new Printout Menu to start the process of creating an e-file disk file for the selected return(s). You are immediately prompted to confirm your choice through the prompt

**Ready to write disk file(s) for Electronic Filing?**

Once you answer Yes, the return is read from disk and the writing of the disk file will begin, confirmed on the screen with a message like

**Writing Electronic Filing file**

**E-FBAK\TS15B01.LDT**

Once writing and conversion to IRS e-file format are complete, a file named TS15B01.IRS (for this example) will reside in the folder E-FILE within the folder where you installed your *Tax Preparer* software. For example, if you installed *Tax Preparer* in C:\Program Files (x86)\HowardSoft Tax Preparer (the default location for 64-bit computers), the e-file output will reside in C:\Program Files (x86)\HowardSoft Tax Preparer\E-FILE. A copy of the file will be stored in the E-FBAK folder, for use by HowardSoft Customer Service and California e-file. (The file in the E-FILE folder is erased once the file is successfully transmitted to NTS.)

**Reconfiguring NTS's EFI2014 software.** When you choose HowardSoft as the "Tax Package" in your configuration of NTS's EFI2014 software, the entry for "Electronic Filing Directory" is automatically completed with the path C:\TAX\E-FILE. This entry is appropriate only if you installed *Tax Preparer* in C:\TAX rather than the installer's default location. C:\TAX was *Tax Preparer*'s program folder prior to 2015 only. For 2015 and later, *Tax Preparer*'s program folder is C:\Program Files (x86)\HowardSoft Tax Preparer for 64-bit computers (without the (x86) for 32-bit computers). You must therefore generally change this entry to C:\Program Files (x86)\HowardSoft Tax Preparer\E-FILE (Note that the folder E-FILE within the *Tax Preparer* program folder is always the folder where *Tax Preparer* stores its e-file output.)

### If You Have Trouble

**Program improperly started. Cannot generate e-file output.** If this message appears instead of "Ready to write disk file(s) for Electronic Filing?" you may have started *Tax Preparer* using an old icon, such as one you placed on your desktop for some prior edition. The message means that critical new portions of the software are being bypassed because of how you started the program, and the conversion of your data to IRS e-file format cannot be completed. It is therefore imperative that you start *Tax Preparer* using the new icon placed in your Program Folder for *HowardSoft Tax Preparer* this year. You can copy this new icon to your desktop if you so choose, but you should remove or rename any other *Tax Preparer* icons that reside on your desktop in order to avoid confusion.

**E-FILE\TS15B01.LDT already exists. OK to erase?** A message like this one may appear (with a slightly different filename) if the generation of an e-file output was previously attempted for the same client within the same tax volume, but the was not successfully completed. The LDT file (a file with an LDT extension in its filename), is an intermediate file generated during the conversion of your data to IRS e-file format. Once the conversion is complete, a file with an IRS extension (such as TS15B01.IRS) will reside on this disk instead. Therefore this message is normal if you are trying to generate e-file output anew after having made a change to the return, and you should answer Yes.

**INVALID Spec or Filename.** If this error arises soon after you answer Yes to "Ready to write disk file(s) for Electronic Filing?" it means that the subdirectory E-FILE does not exist within the folder where you installed *Tax Preparer* this year. Since this subdirectory is automatically created when you first install an e-file version of *Tax Preparer*, the message indicates that either the installation was not successfully completed or the subdirectory is damaged. In either case you usually avert the problem by creating the subdirectory (folder) yourself through Windows Explorer or MS-DOS Prompt. You can contact HowardSoft Customer Service if you need help with the procedure.

**Return has no Form 8453.** A return CANNOT be filed electronically without a Form 8453. You MUST complete the form and supply all required information, including the Form W-2, W-2G, and 1099-R worksheets. In addition, the withholding information supplied on the worksheets must agree with the totals on line 64 of Form 1040 for the return.

**Return NOT eligible for electronic filing.** If the return is not eligible based on the forms or entries in the return, the question "May be eligible for e-file" at the bottom of screen 5 of Form 8453 will be automatically No, and the message "NOT eligible for electronic filing" appears immediately if you attempt to generate Electronic Filing Output for this return. *The message also appears later if, while generating the disk file, the software determines that the return cannot be written in a format acceptable to the IRS because too many supports exist for a particular line. See Table 2-18 at the end of Chapter 2 of this Tax Forms Guide for inherent limitations. (The form that appears in the box when the message is displayed is the form that violates the supporting statement limitations.)*

**Return cannot be modified enough by Tax Preparer to pass NTS's pre-transmission error checking.** When *Tax Preparer* fails to write an electronic filing file to completion due to its own eligibility checks, or a completed file continually fails NTS's error checking, yet the return seems to meet all IRS rules for electronic filing, you may have run into a restriction imposed by the software. See Tables 2-15 and 2-16 at the end of Chapter 2 of this Tax Forms Guide for a list of restrictions. You must then file a paper version of that return instead of an e-file version.