

TWO - NJ Special Handling – TY2010

Federal Return Issues

❖ **Do not want to include NJ Return at all**

- **TWO:** Main Info, State Information section
 - Check box labeled “If you are not preparing a state return, check here” and
 - Remove NJ from “Full year resident” box on next line
- See NJ Issues when do not want to e-file NJ return, but do want printed NJ return

❖ **W-2 NJ Special Taxes (Unemployment, Disability, and Family Leave)**

- **Tax Law:** Federal – allowable as part of Sch A, line 5a
- **TWO** W-2 worksheet box 14:
 - Use NJSUI for Unemployment (UI / WF / SWF) – flows to Sch A automatically
 - Use NJSDI for Disability (DI) – flows to Sch A automatically
 - Use FLI for Family Leave (FL / FLI) – flows to Sch A automatically (see Known Issues)
 - Other amounts in box 14 (e.g. 414H) – include, but do not affect TWO calculations
 - UI, DI, FLI amounts may also appear in or below box 19 / 20 on W-2 paper form

❖ **US Savings bonds or other Federal obligations (1099-INT Box 3)**

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TWO:** Interest Stmt –
 - Amount in Box 1 or 3 amount column
 - “-“ in State adjust + / - column and Amount in State adjust Amount column

❖ **Exempt bond interest (1099-INT Box 8)**

- **Tax Law:** Federal – not taxed; NJ – taxability varies
- **TWO:** Interest Stmt –
 - “E” in NAEOB column and Amount in NAEOB Amount column
 - If NOT exempt in NJ (e.g. Municipal bond from another state), then also enter
 - “+“ in State adjust + / - column and Amount in State adjust Amount column

❖ **State Income Tax Refunds (Form 1099-G)**

- **Tax Law:** Federal – may be taxed; NJ – not taxed
- **TWO:**
 - Ignore if did not itemize last year or used Sales Tax (line 5b) instead of Income Tax (line 5a) last year
 - Link to State Tax Refund Worksheet from 1040 line 10 to enter amount
 - Fill in other info on worksheet to determine if whole refund is taxable (it usually is)

❖ **Capital Gains on NJ Exempt Obligations**

- **Tax Law:**
 - Federal – taxed;
 - NJ – See NJ Bulletin GIT-5 for list and taxability of interest or gains
 - Available at: <http://www.state.nj.us/treasury/taxation/publit1.shtml>
- **TWO:**
 - Federal – Enter on Capital Gains worksheet as usual
 - NJ – use Scratch Pad to adjust on NJ Sch B line 1

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❖ **RRB Tier 2 (1099-RRB)**

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TWO:** 1099-R Worksheet – Check Railroad retirement (near Box 10 & 13)

❖ **Military Pensions (1099-R from Defense Finance & Accounting SVC)**

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TWO:** 1099-R Worksheet – Check Box 2 (near Box 10 & 13)

❖ **Disability Pension (1099-R code 3 AND TP is disabled)**

- **Tax Law:**
 - Federal – Line 7 if under “minimum retirement age” / Line 16 otherwise;
 - NJ: Not taxed if under 65 / Taxed otherwise
- **TWO:** 1099-R Worksheet – If under “minimum retirement age” then check box labeled “Check if disability and taxpayer is disabled” (under Box 7 & 8)

❖ **Unemployment (1099-G)**

- **Tax Law:** Federal – taxed; NJ – not taxed
- **TWO:** 1099-G Worksheet – No special action required

❖ **NJ Lottery (W-2G from NJ Lottery Board)**

- **Tax Law:** Federal – taxed; NJ – taxed if over 10,000 / Not taxed if 10,000 or under
- **TWO:** W-2G Worksheet – If less than or equal to 10,000 then check box labeled “See F-1 Help on the state return for the use of this box Instructions vary by state” (bottom near Box 13)
- (Don’t forget to enter losses in box labeled “Gambling losses to be transferred to Schedule A” – even if not itemizing because net amount used on NJ return)

❖ **Federal pre-tax / NJ after-tax medical (e.g. cafeteria plan on W-2)**

- Do NOT enter on Federal Sch A
- May need to look at 12/31 pay stub to confirm amount is medical / dental (not child care, health club, or other)
- See NJ Issues for handling on NJ-1040 line 30

❖ **Property Tax**

- **Tax Law:** Federal – deduction allowed for multiple properties (Principal Residence not relevant); NJ – deduction/credit only allowed for Principal Residence (in NJ)
- **TWO:**
 - **3rd box on Federal Sch A, line 6** “Real estate taxes on your principal residence, not listed above” – enter only amount applicable to Principal Residence
 - Use Scratch Pad to document details, if necessary
 - Enter taxes actually paid (NOT PTR base amount)
 - This amount will flow to NJ Worksheet F.
 - **4th box on Federal Sch A, line 6** “Other real estate taxes you paid, not listed elsewhere in this tax return” – enter any amount(s) not applicable to Principal Residence (e.g. vacation home, bare lots, other states, dual payment during move, etc.)
 - Use Scratch Pad to document details, if necessary

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Property Tax Rebates (PTR) – Note: NO Homestead Benefit in TY2010

- **Tax Law:** Federal – Recovery allowable on Sch A; NJ – do not include on return
- **TWO Federal:**
 - **If did not itemize last year**, then ignore PTR amount
 - **If did itemize last year and itemizing again this year** (before rebates) then
 - Attach Scratch Pad to 4th box on Federal Sch A, line 6 “Other real estate taxes you paid, not listed elsewhere on this tax return”
 - ◆ Minus PTR amount
 - Still itemizing?
 - ◆ Yes – done;
 - ◆ No –
 - Undo entry above [Note: will revert back to itemizing – this is ok]
 - proceed to procedure for not itemizing this year
 - **If did itemize last year and not itemizing this year** (or would not still be itemizing this year after subtracting PTR recovery) then
 - Do NOT put PTR amount anywhere on Sch A
 - Use State Tax Refund Worksheet (link from 1040 line 10)
 - Attach Scratch Pad to State Tax Refund Worksheet line 4 “Enter the total of all other Schedule A refunds or reimbursements”
 - ◆ Plus PTR amount
 - Fill out other lines on State Tax Refund Worksheet as necessary (and information available)
 - Taxable amount will flow to 1040 line 21 (and 1040 line 10 may also change)
 - Don’t forget to adjust NJ-1040 line 25 to remove rebate amount(s)

❖ NJ Income Tax Payments (other than withholding)

- **Tax Law:** Federal – Payments apply to Federal tax year in which payments made (cash basis)
- **TWO:** See F/S Tax Paid (NJ Section) page
 - Amount applied from previous year’s NJ-1040
 - NJ Estimated payments (check * column if 4th payment < Jan 1)
 - NJ Amount due (and paid) from prior year NJ return
 - NJ Estimated payment from prior year (if >= Jan 1)

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NJ Return Issues

❖ NJ-1040 Pg1

- **County/Municipality Code** (look in NJ-1040 Instructions or use State Help to lookup codes)
- Make sure VITA or TCE box is checked

❖ NJ-1040 Pg3

- **Line 11** (Exemptions) – enter count of dependents attending college
- **Line 13** (Dependents) – be sure to link to NJ Dependent worksheet to check health insurance boxes if applicable
- Gubernatorial Elections Fund – check according to TP instructions
- **Line 18** (Net gains ...) – May need to adjust for NJ exempt securities (use Scratch Pad on NJ Sch B line 1)
- **Line 19** (Pensions, ...) – May need to adjust for 3-year rule pensions (see NJ Three Year rule page)
- **Line 25** (Other) – If property tax refund(s) or 1099-C income were added on federal 1040 line 21, then need to reverse because not taxable in NJ:
 - Link to NJ Other Income Statement (do not use regular scratch pad)
 - If only one amount to reverse:
 - Negative amount in section F corresponding to PTR or 1099-C amount carried from federal line 21. Document using associated text box
 - If more than one amount to reverse:
 - Attach Scratch pad to section F amount and include negative amount and description for each
- **Line 27a** (Pension Exclusion) – May need to adjust for Three Year Rule pensions (see NJ Three Year Rule page)
- **Line 30** (Medical) – If had Federal pre-tax / NJ after-tax medical (e.g. cafeteria plan on W-2) then
 - If NJ-1040 line 30 already > 0 then add Scratch pad
 - Plus NJ after-tax amount
 - If NJ-1040 line 30 is zero then add Scratch pad
 - Plus Amount from Federal Sch A Medical (if any)
 - Plus NJ after-tax amount
 - Minus 2% of amount on NJ-1040 line 28 (Gross Income)
 - Note: if result is < 0 then delete Scratch Pad – No NJ Medical deduction
- **Line 36b** (Homeowner on Oct. 1) – Check as appropriate
- **Line 44** (Use Tax) – Explain to TP and fill in as appropriate
 - See NJ-1040 instructions for more information
 - See NJ Use Tax page for amounts to enter into TW in order to generate NJ “standard” amounts.
 - Don’t forget to add amounts for purchases > \$1,000 to “standard” amount

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❖ NJ-1040 Pg4

- **Line 49** (NJ Estimated Payments)
 - (See F/S Tax Paid page)
- **Lines 58-63** – Ask TP

❖ NJ-1040 Pg4 – Worksheet F, Line 1

- Enter **rent amount** in “Rent you paid in 2010” box
- Enter **property taxes paid** in “Property taxes you paid in 2010” box
 - Property tax amount from 3rd box on Federal Sch A, line 6 will flow to “Amount from Federal Schedule A” box, but proper amount must be entered in “property taxes paid” box manually
 - **If TP has PTR-2**, then ignore amount from “Amount from Federal Schedule A” box and use PTR Base Amount
 - **If TP not using PTR-2**, then use amount in “Amount from Federal Schedule A” box (assuming you used Federal procedure for entering property tax and refunds)
- It is ok to **enter both Rent and Property tax**, but only amounts for period when was Principal Residence
 - October 1st Homeowner / Renter status is irrelevant
 - If both paid rent and owned for period of time, only one can be principal residence for that period of time
- Property tax deduction or credit calculated and appropriate boxes on NJ-1040 updated accordingly

❖ NJ-1040 Pg4 – Do you want to electronically file this return?

- Check No if there is no need to file NJ-1040 but TP wants printout
 - Be sure to mark printed copy “No Need to File – Info Copy Only”
- See Federal Issues if do not want to include NJ return at all

❖ NJ IRA Wkt handling

- Must have one NJ IRA Wkt for each IRA distribution
 - Use “+” in tree to add and enter 1, 2, 3, ... in second box at top
- Enter info for after-tax contributions (if known); take red out otherwise

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F/S Tax Paid (State section)

Must link from line 62 on Federal 1040 Pg2 (Cannot link from NJ 1040 Pg4, Line 49)

(If return is carried forward from previous year, then some (but not all) values will be filled in automatically.)

Used for:

- 2009 NJ overpayment applied to 2010 tax (2009 NJ 1040, Line 56)
- 2009 (or earlier) NJ balance due actually paid in 2010
- 2009 NJ estimated payment if made in January 2010
- 2010 NJ estimated payments (all – even if made in January 2011)

Values entered here will flow to federal Sch A, Line 5a and/or NJ 1040 Pg4, Line 49

State Estimated Tax Payments

- ** The day listed in the date of payment section is the due date for most state estimated tax payments. If your state has different due dates, disregard the date suggested. If payment 1 was paid on or before the date due for payment 1, enter it in payment 1, etc.
- * Check the * column, if payment 4 was paid before 01/01/2011.

Taxpayer, Joint, or Combined State Return

For a spouse filing a married separate state return, or a second full year resident state, page down to list the estimated payments made to that state. Do not override the state column.

** Date of Payment

State	Credit from last year	04/15/2010 Amount 1	06/15/2010 Amount 2	09/15/2010 Amount 3	01/15/2011 Amount 4	*	Total
NJ	0	50	100	100	100	<input type="checkbox"/>	350
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0
	0	0	0	0	0	<input type="checkbox"/>	0

NJ state and/or local balance due from previous years' returns paid in 2010. Include amounts paid with a 2009 extension paid in 2010

TSJ: 200

state and/or local balance due from previous years' returns paid in 2010. Include amounts paid with a 2009 extension paid in 2010

TSJ: 0

NJ last state estimate payment for 2009 paid in 2010 (due January 15, 2010)

TSJ: 100

last state estimate payment for 2009 paid in 2010 (due January 15, 2010)

TSJ: 0

2009 NJ overpayment applied to 2010 tax

NJ estimated payments for 2010

Check if amount 4 was made in 2010

NJ balance due for 2009 (or earlier) that was paid in 2010

NJ Estimated Payment for 2009 that was made in 2010

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NJ Three Year Rule

Tax Law: (see NJ-1040 Instructions or NJ GIT-1 for more detail)

“If you will recover your contributions within three years from the date you receive the first payment from the plan, and both you **and** your employer contributed to the plan, you may use the Three-Year Rule Method to determine your New Jersey taxable pension income. The Three-Year Rule allows you to exclude your pension and annuity payments from gross income until the payments you receive equal your contributions to the plan. Until that time, the amounts you receive, because they are considered your contributions, are not taxable and should not be reported on your return. Once you have received (recovered) an amount equal to the amount you contributed, the payments you receive are fully taxable. Since the Three-Year Rule has been repealed for Federal income tax purposes, if you retired after July 1, 1986, the taxable amount of pension or annuity that you report on your New Jersey return when using this method will differ from the amount you report on your Federal return.”

Adjusting New Jersey Return for the Three Rule

- NJ-1040 line 19 (Pensions...) – add Scratch pad
 - Plus difference between federal gross amount and federal taxable amount (all years)
 - Minus Three Year Rule amount (only until contribution is recovered)

- NJ-1040 line 27a (Pension Exclusion)
 - Calculated by TW from federal taxable amount, not amount from NJ-1040 line 19, so line 27a amount may be wrong
 - While contribution is being recovered and line 27a amount is greater than line 19 amount
 - Add Scratch Pad to adjust line 27a amount down to line 19 amount
 - After contribution is recovered and line 27a amount is less than line 19 amount
 - Add Scratch Pad to adjust line 27a amount up to line 19 amount

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NJ-1040 Line 44 (Use Tax) Table

For more detail, see NJ-1040 Instructions for Line 44.

If you want the amount in the “Use Tax” column to be included on line 44, then enter the amount in the “TaxWise” column into the “Enter the amount of out-of-state purchases” box by line 44.

<u>NJ-1040 line 44</u>		
Estimated Use Tax Chart (for Step 1 computation only)		
If your NJ Gross Income is:	Use Tax	TaxWise
up to \$15,000	7	100
\$15,001 - \$30,000	22	314
\$30,001 - \$50,000	32	457
\$50,001 - \$75,000	42	600
\$75,001 - \$100,000	53	757
\$100,001 - \$150,000	67	957
\$150,001 - \$200,000	85	1,214
\$200,001 or over	.0426% of income or \$247, whichever is less	

Note: NJ Gross Income is on NJ-1040, line 28.

Note: Large individual purchases (> \$1,000) need to be added to above amount.