

TSO NJ Special Handling TY2020

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Federal vs New Jersey Issues

NJ Checklist – Some differences in Federal and NJ Tax Law are handled automatically in TSO; however, many differences must be handled via entries in the TSO NJ State Section. It is awkward and time consuming in TSO to move back and forth between the Federal and NJ Sections; also, TSO usually only offers one box to enter many different unrelated adjustments. The NJ Checklist allows the preparer to collect all entries for the TSO State Section as they come up while entering data in the TSO Federal Section. When appropriate, the items below will explain what to record on the NJ Checklist. The idea is that after the TSO Federal Section is complete, the preparer can then go to the TSO NJ State Section just once and make all the collected entries without flipping back and forth and without forgetting anything. Also, all such adjustments are documented to assist in QR and later understanding of the details for NJ State Section entries.

❖ Age of TP/SP

➤ Tax Law:

- Federal – Person born on Jan 1 considered born in year prior to year of birth
- NJ – Person born on Jan 1 considered born in year of birth
- e.g. – For TY2020, a person born on Jan 1, 1956 is considered to be 65 on Federal return, but only 64 on NJ return

➤ TSO: Seems to handle this automatically

❖ Personal Exemption

➤ Tax Law:

- Federal – There is no longer a deduction on the Federal return for personal exemptions
- NJ –
 - Can claim exemptions for TP, spouse, each dependent
 - Can claim exemption for self even if can be claimed as dependent on someone else's return

➤ TSO: Seems to handle this automatically

❖ Extra Standard Deductions (Federal) / Exemptions (NJ)

➤ Tax Law:

- Federal – Extra standard deduction amount for a) age 65 or over, b) blind
- NJ – Extra exemption for a) age 65 or over, b) blind or disabled, c) Veteran, d) dependent under age 22 attending college

- Note: If both blind and disabled, only one extra exemption is granted
- Note: First time Veteran exemption requires that discharge documentation be provided – see Preparer page for link to NJ page with more details

➤ TSO: Handled automatically via Personal Information (Federal) and Basic Information (NJ) questions

- Record on NJ Checklist (Disabled), (Dependents under age 22...), and (Veteran)
 - Note: If blind is checked on Federal Personal Information screen, TSO automatically carries that to NJ and extra exemption is granted on NJ return; no need to record “Disabled” on NJ Checklist. Only record “Disabled” if person is not blind, but disabled in another way

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

- **Tax Law:**
 - Federal – allowable as part of Sch A, State Income Taxes, Line 5a (unless Private Plan)
 - NJ –
 - Excess payments from single employer must be resolved with employer
 - Use Form NJ 2450 to apply for refund of excess payments (including Private Plan) from multiple employers and claim on NJ 1040
- **TSO W-2 Box 14:**
 - Use the special NJ options in the dropdown for UI, DI, FLI amounts
 - If Private Plan (PP#), then
 - ◆ Use usual NJ options in the dropdown associated with the insurance covered by the Private Plan
 - ◆ Manually remove from Sch A Line 5a by entering PP amount as negative number on Federal Section \ Deductions \ Itemized Deductions \ Taxes You Paid \ Additional State and Local Income Tax box
 - ◆ Record W-2 EIN and PP# on NJ Checklist (Private Plan Number(s)...)
 - 414H / PERS – use “Retirement (Not in Box 12) – Do not carry to Form 8880” in the dropdown
 - Other amounts in Box 14 – use “Other”
 - UI, DI, FLI amounts may also appear in or below Box 19 / 20 on W-2 paper form
 - UI is short for UI/WF/SWF (unemployment insurance (UI)/workforce development partnership fund (WF)/supplemental workforce fund (SWF))
 - UI and WF/SWF have separate rates, so they are sometimes reported separately – you must add them together for entry into TSO

❖ Medicaid Waiver Payments on W-2

- **Tax Law:**
 - Federal – Not taxed (if certain conditions met)
 - NJ – Same as Federal
 - See IRS Q&A page for more information: <https://www.irs.gov/individuals/certain-medicaid-waiver-payments-may-be-excludable-from-income>
- **TSO**
 - W-2 screen
 - Enter Boxes 1-14 as usual
 - Enter excludable amount in special Waiver Box (near Box 14)
 - ◆ This will cause a negative amount to be included on Federal Other Income Schedule 1 Line 8
 - Subtract excludable amount from entry in Box 16 for NJ
 - ◆ This may cause Income to be less than Withholding on the NJ return, which will cause a reject when e-filed. You must paper file the NJ return
 - ◆ It is highly recommended that you attach an explanation to the NJ return to avoid getting a letter from NJ Division of Taxation
 - Record excludable amount on NJ Checklist (Adjustments to Line 26 Other Income)

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❖ Early withdrawal penalty on 1099-INT

- **Tax Law:**
 - Federal – Included in taxable interest on 1040 Line 2b, but offset as adjustment on Schedule 1 Line 17
 - NJ – Netted out of taxable interest on Line 16a
- **TSO:** Seems to handle this automatically

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

- **Tax Law:**
 - Federal – may or may not be taxed (OOS if not fully taxed, e.g. paying for tuition)
 - NJ – not taxed
- **TSO:** Interest Income screen –
 - Enter amount from paper Box 3 in screen box labeled: “Interest on U.S. Savings Bonds and Treasury obligations (Box 3)”
 - Enter (paper Box 3 minus paper Box 12) in screen box labeled “Amount of Interest on U.S. Savings Bonds and Treasury Obligations that you want subtracted from your state return”

❖ Exempt bond interest (1099-INT Box 8)

- **Tax Law:**
 - Federal – not taxed
 - NJ – taxability varies
 - If bond held directly, see NJ Bulletin GIT-5 for list and taxability of interest
 - Available at: <https://www.state.nj.us/treasury/taxation/pdf/pubs/tgi-ee/git5.pdf>
- **TSO:** Interest Income screen -
 - Enter amount from paper Box 8 in screen box labeled “Tax Exempt Interest (Box 8)”
 - If full amount is NOT exempt in NJ (e.g. Interest on a municipal bond from another state), then click “ADD INTEREST ITEMS” under Taxable State Interest
 - Enter “New Jersey,” owner and amount taxable in NJ

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❖ Exempt Interest Dividends from Mutual Funds (Form 1099-DIV, Box 11)

- **Tax Law:**
 - Federal – not taxed
 - NJ – taxability varies
 - Percent of Box 11 attributable to federal obligations (including Puerto Rico, DC, territories, etc.) is always tax-exempt in NJ
 - Unlike interest from NJ Bonds held directly, the percent of Box 11 attributable to NJ Bonds held by mutual funds is only tax-exempt in NJ if the mutual fund is NJ specific (“NJ Qualified Investment Fund” – New Jersey will usually be part of fund name)
 - Percent of Box 11 attributable to other states is always taxed in NJ
- **TSO:** Dividend Income screen -
 - Enter amount from paper Box 11 in screen Box labeled “Exempt Interest Dividends (Box 11)”
 - Calculate amount taxable in NJ using rules under Tax Law
 - If full amount is NOT exempt in NJ (e.g. Percent of Box 11 tax-exempt interest attributable to NJ Bonds held by a non-Qualified Investment Fund or tax-exempt interest attributable to other states), then click “ADD DIVIDEND ITEMS” under Taxable State Dividend
 - Enter “New Jersey,” owner and amount taxable in NJ

❖ State Income Tax Refunds (Form 1099-G, Box 2)

- **Tax Law:**
 - Federal – may be taxed
 - NJ – not taxed
- **TSO:**
 - Ignore if did not itemize last year or used Sales Tax (Box checked on Sch A Line 5a) instead of Income Tax (Box not checked on Sch A Line 5a) last year – potentially taxable otherwise
 - If potentially taxable and have prior year return data, then
 - Do not use TSO built-in calculator. Use TaxPrep4Free NJ Tax Refund Calculator or Bogart Refund Calculator (links on Preparer page) to determine taxable amount of refund and enter result in “Bypass State Refund Worksheet” section. The calculators will use various other tests to potentially limit taxable amount
 - If potentially taxable and missing prior year return data, then treat whole amount as taxable and enter in “Bypass State Refund Worksheet” section

❖ Capital Gains / Losses

- **Tax Law:**
 - Federal – Capital losses can be applied against capital gains. Up to \$3,000 of net capital losses can be used to offset other current year income. Excess net capital losses over \$3,000 can be carried over to following years
 - NJ – Capital losses can be applied against capital gains; however, no net capital losses allowed; no losses carried over to following years
- **TSO:** Seems to handle this automatically

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❖ Capital Gains on NJ Exempt Obligations

- **Tax Law:**
 - Federal – taxed
 - NJ – See NJ Bulletin GIT-5 for list and taxability of gains
 - Available at: <https://www.state.nj.us/treasury/taxation/pdf/pubs/tqi-ee/git5.pdf>
- **TSO:**
 - Federal – Enter on Capital Gains worksheet as usual
 - NJ – If taxability not same as Federal, record adjustment amount on NJ Checklist (Adjustments to Capital Gains)

❖ RRB Tier 2 (RRB-1099-R)

- **Tax Law:**
 - Federal – taxed
 - NJ – not taxed
- **TSO:** Use RRB-1099-R Screen to enter data – No special NJ action required, since TSO seems to handle this automatically

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

- **Tax Law:**
 - Federal – taxed
 - NJ – not taxed
 - Coast Guard (from USCG, Pay and Personnel Center (PPC), Retiree and Annuitant Services (RAS)) also qualifies
- **TSO:**
 - Federal – Enter on 1099-R screen as usual
 - NJ – Record on NJ Checklist (Adjustments to Line 20a)

❖ Disability Pension (1099-R Code 3)

- **Tax Law:**
 - Federal – Reported as wages on 1040 Line 1 if under “minimum retirement age” for company (counted as earned income) / 1040 Line 5a/5b as pension otherwise (current disability status does not matter)
 - NJ – Not taxed if under 65 AND being received “due to permanent and total disability” / Taxed as pension otherwise
 - Federal / NJ – special case – “The [NJ] Division of Pensions and Benefits reports your Accidental Disability retirement benefit as exempt from federal income tax; your benefits are not subject to New Jersey State income tax until you reach age 65.”

TSO:

- Federal – 1099-R screen – If under “minimum retirement age,” then check box labeled “Check here to report on Form 1040, Line 1” (in Rollover or Disability section)
 - Do this whether currently (permanently and totally) disabled or not
- NJ – If not taxable in NJ, then record as a negative amount on NJ Checklist (Adjustments to Line 20a)

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❖ Pensions with After-Tax Employee Contributions (1099-R, Code 7, IRA Box unchecked, and either Box 2a shown or Box 9b amount shown)

➤ Tax Law:

- Federal – taxable amount (Box 2a) included on 1040 Line 5a / 5b
- NJ – taxable amount (Box 2a) included on NJ 1040 Line 20a and non-taxable portion (Box 1 minus Box 2a) included on NJ 1040 Line 20b; can use 3-year rule

➤ TSO:

- See NJ Three Year Rule page if first year of retirement or ever used 3-year rule; otherwise,
- If taxable amount not given in Box 2a, calculate taxable/non-taxable portion using:
 - TSO built-in Simplified General Rule calculator, or
 - Bogart Annuity Calculator (link on Preparer page) – this is easier to use
- Enter 1099-R as usual, but also record non-taxable portion on NJ Checklist (Adjustments to Line 20b)

❖ Qualified Charitable Distribution (QCD) from IRA (1099-R – no special code)

➤ Tax Law:

- Federal – taxable amount on 1099-R will include QCD, but it can be excluded from income
- NJ – no special tax treatment

➤ TSO:

- Manually adjust Box 2a on 1099-R screen
- Record QCD amount on NJ Checklist (Adjustments to Line 20a - Taxable Amounts of IRAs, Pensions, and Annuities) to add back into taxable income

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❖ TY2020 Special Rule for RMDs

➤ Tax Law:

- Federal – Required Minimum Distributions (RMDs) waived for TY2020;
 - RMD distributions could be rolled over to same or different account until Aug-31, 2020 (even if rollover was beyond 60 days)
- NJ
 - Same as federal if rolled over within 60 days;
 - Treated as taxable withdrawal and separate contribution if not within 60 days (note: contribution amount can be added to previously taxed amount for IRA – use NJ IRA Tool on Preparer page)

➤ TSO:

- See NJA-2020-02 Handling 1099-R Distributions

❖ TY2020 COVID Retirement Distributions (form 8915-E)

➤ Tax Law:

- Federal – If TP qualifies (see COVID Retirement Worksheet), then can use new form 8915-E to:
 - Spread taxability of distributions evenly over three years; and/or
 - Repay or rollover to different account any part of distribution within three years (can repay or rollover up to due date of return)
 - Also, no penalty if Early Distribution
- NJ – no special tax treatment
 - Must pay NJ tax on whole amount – no spreading of taxability
 - Any repaid or rollover amount within 60 days treated like regular rollover – not taxed by NJ
 - Any repaid or rollover amount not within 60 days treated as taxable withdrawal and separate contribution – taxed by NJ (note: contribution amount can be added to previously taxed amount for IRA)

➤ TSO:

- See NJA-2020-02 Handling 1099-R Distributions

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❖ State/Local Government Employee Pension (414h Plans) (1099-R, Code 7, IRA Box unchecked)

- **Note:** Because most employee contributions were pre-tax (Federal) and after-tax (NJ), the NJ taxable amount can be quite a bit less than the Federal taxable amount; however, calculating the NJ taxable and NJ non-taxable amounts requires that TP know their total contributions. (In most cases, TP can contact NJ Division of Pensions and Benefits for this at (609) 292-7524)
- **Tax Law:**
 - Federal – Federal taxable amount (Box 2a) included on 1040 Line 5a / 5b
 - NJ – NJ taxable amount (calculated) included on Line 20a and non-taxable portion (calculated) included on NJ 1040 Line 20b; can use 3-year rule
- **TSO:**
 - Federal – Enter 1099-R as usual (use Box 2a amount if given or, if 2a is blank, calculate using Bogart Annuity Calculator and Box 9b amount)
 - NJ –
 - See NJ Three Year Rule page if first year of retirement or ever used Three Year Rule; otherwise,
 - ◆ If TP not sure, safest assumption is that they DID use Three Year Rule
 - If did not use NJ Three Year Rule, then
 - ◆ If TP owes no NJ tax or TP cannot get total contributions, then
 - Let federal taxable amount flow to NJ Line 20a
 - Record non-taxable portion on NJ Checklist (Adjustments to Line 20b)
 - ◆ If TP owes NJ tax and TP has (or can get) total contributions amount, calculate NJ taxable and non-taxable amounts:
 - Use Bogart Annuity Calculator (link on Preparer page) to calculate NJ non-taxable portion (use total contributions instead of Box 9b amount)
 - Record (Box 2a amount minus calculated NJ taxable portion) as a negative amount on NJ Checklist (Adjustments to Line 20a)
 - Record calculated NJ non-taxable portion as a positive amount on NJ Checklist (Adjustments to Line 20b)

❖ IRAs (1099-R, Code 7, IRA Box checked) and 403b, 457b, and Thrift Savings Plans (1099-R, Code 7, IRA Box unchecked)

- **Note:** Calculating NJ non-taxable amount requires a record of all taxed contributions (first year) or amount of remaining taxed contributions (2nd and following years). Very few people have this information; if information not known, then treat whole distribution as taxable for NJ
- **Tax Law:**
 - Federal – whole amount included on 1040 Line 5a / 5b
 - NJ – taxable amount included on NJ 1040 Line 20a and non-taxable portion included on Line 20b
- **TSO:**
 - Federal – Enter 1099-R as usual
 - NJ – Record non-taxable portion on NJ Checklist (two places: Negative amount on Adjustments to Line 20a and positive amount on Adjustments to Line 20b)
 - Use NJ IRA (403b/457b/TSP) Worksheet (Link on Preparer page)

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❖ Unemployment (1099-G, Box 1)

- **Tax Law:**
 - Federal – taxed (for any state which issues 1099-G)
 - NJ – not taxed (for any issuing state)
- **TSO:** 1099-G screen – No special NJ action required since TSO seems to handle automatically

❖ Alimony

- **Tax Law**
 - Federal
 - Divorces executed prior to 1/1/2019 – alimony received must be included in income; alimony paid can be claimed as an adjustment to income
 - Divorces executed beginning in 2019 (or modified and specifically states this) – alimony received is no longer included in income; alimony paid can no longer be claimed as an adjustment to income
 - NJ – For all divorces, alimony received is included in income; alimony paid can be claimed as an adjustment

❖ Social Security / RRB Tier 1

- **Tax Law:**
 - Federal – Up to 85% may be taxable
 - NJ – Not taxed
- **TSO:** TSO seems to handle this automatically

❖ Gambling Winnings / Losses

- **Tax Law:**
 - Federal: Winnings included on Schedule 1 Line 8; Losses included on Sch A
 - NJ: Net Winnings included on NJ 1040 Line 24
 - NJ Lottery (W-2G from NJ Lottery Board) winnings only taxed if over \$10,000 in one instance (entire amount is taxed); / Not taxed if \$10,000 or under in one instance
- **TSO:**
 - Enter Winnings on W-2G Screen – will flow to Schedule 1 Line 8
 - Enter Losses on W-2G screen also – will flow to Sch A Line 16
 - No information is carried to NJ return from Federal entries
 - Record Winnings and Losses on NJ Checklist (NJ Line 24) and calculate net

❖ Cancellation of Debt – Credit Card (1099-C from Credit Card)

- **Tax Law:**
 - Federal – taxed
 - NJ – not taxed
- **TSO:** Seems to handle this automatically

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❖ Medical Expense Deduction

➤ Tax Law:

- Federal:
 - Amount over 7.5% of AGI allowed on Sch A
 - Can deduct expenses for TP, SP, and dependents. You can also include medical expenses you paid for an individual that would have been your dependent except that: (1) He or she received gross income of \$4,300 or more in 2020; (2) He or she filed a joint return for 2020; or (3) You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2020 return.
- NJ:
 - Amount over 2% of Gross Income allowed on Line 31 Medical Expenses
 - ◆ Self-employed health insurance premiums not subject to 2% threshold
 - Expenses not deductible for non-dependents

➤ TSO: Seems to handle this automatically for expenses allowed on Sch A

- Some types of expenses are not taxed federally (pre-tax), but are taxed in NJ (after-tax). These are not allowed on Sch A, but should be included on NJ Checklist – see following bullets for details
- Expenses for non-dependents should be subtracted out for NJ – Enter (as negative) on NJ Checklist (Pre-Tax (Federal) / Post-Tax (NJ) Medical)

❖ Federal pre-tax / NJ after-tax medical insurance premiums (e.g. Section 125 / cafeteria plan on W-2)

➤ Tax Law:

- Federal – not taxed (not included in Box 1 wages)
- NJ – taxed (included in Box 16 wages), but can be deducted as medical expenses on NJ 1040 Line 31
 - May need to look at 12/31 pay stub to confirm amount is medical / dental (not child care, health club, or other)

➤ TSO:

- Federal – Do NOT include as medical expenses on Federal Sch A
- NJ – Record on NJ Checklist (Pre-Tax (Federal) / Post Tax (NJ) Medical)

❖ Flexible Spending Account (FSA) Contributions (no tax form)

➤ Tax Law:

- Federal – not taxed (not included in Box 1 wages)
- NJ – taxed (included in Box 16 wages)

➤ TSO:

- Federal – Do NOT enter as medical expenses on Federal Sch A
- NJ – Nothing to do for NJ

❖ Flexible Spending Account (FSA) Distributions (no tax form)

➤ Tax Law:

- Federal – not allowed as medical deduction
- NJ – deductible as medical expenses on NJ 1040 Line 31

➤ TSO:

- Federal – Do NOT enter as medical expenses on Federal Sch A
- NJ – Record on NJ Checklist (Pre-Tax (Federal) / Post Tax (NJ) Medical)

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❖ Health Savings Account (HSA) Contributions (Form 5498-SA)

- **Tax Law:**
 - Federal – not taxed
 - Employer contributions (including contributions through a Section 125 cafeteria plan) not included in Box 1 wages; amount reported in W-2 Box 12 with Code W
 - HSA contributions other than employer contributions can be claimed as an adjustment to income on Schedule 1
 - NJ – taxed
- **TSO:**
 - Federal – Do NOT enter on Federal Sch A – use Form 8889 – HSA Contributions
 - NJ – Nothing to do for NJ

❖ Health Savings Account (HSA) Distributions (Form 1099-SA)

- **Tax Law:**
 - Federal – not allowed as deduction
 - NJ – deductible as medical expenses on NJ 1040 Line 31
- **TSO:**
 - Federal – Do NOT enter on Federal Sch A – use Form 8889 – HSA Distributions
 - NJ –
 - If qualified, record on NJ Checklist (Pre-Tax (Federal) / Post Tax (NJ) Medical)
 - If not qualified, record on NJ Checklist (Adjustments to Line 26 – Other Income)

❖ Public Safety Officer (PSO) Health Insurance

- **Tax Law:**
 - Federal – Eligible retired PSOs can exclude from 1099-R income up to \$3,000 of health insurance premiums paid directly from retirement plan to insurer
 - NJ – Cannot be excluded from income; deductible as medical expenses on NJ 1040 Line 31
- **TSO:**
 - Federal – Under Box 2a on 1099-R screen, click on “Click here for options” to calculate taxable amount. Choose “Public Safety Officers Distribution” and enter insurance premium amount
 - NJ
 - Record on NJ Checklist (Adjustments to 20a) to add back into income
 - Record on NJ Checklist (Pre-Tax (Federal) / Post Tax (NJ) Medical) to add to medical expenses

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❖ Property Taxes paid

➤ Tax Law:

- Federal – deduction allowed for multiple properties (Principal Residency not relevant)
- NJ – deduction/credit only allowed for Principal Residence (in NJ)
 - 18% of rent for Principal Residence treated as equivalent to property tax
- **Problem: Taxpayers may bring various kinds of documentation for their property taxes paid:**
 - See page “Property Tax on Federal Return” and “Property Tax on NJ Return”

➤ TSO:

- Federal – Enter sum of Property Taxes paid for all owned properties on Itemized Deductions \ Taxes You Paid screen
 - We no longer adjust this amount if there are property tax recoveries – See next major bullet “Property Tax Reimbursement (PTR) and/or Homestead Benefit”
- NJ – Record on NJ Checklist (Property Tax) – ONLY amount for principal residence (actual property tax and/or 18% of rent); also record Block/Lot/Qualifier and Owner/Unit percentages

❖ Property Tax Reimbursement (PTR) and/or Homestead Benefit

➤ Tax Law:

- Federal – Must be included on Schedule 1 Line 8 as Other Income if amount is a Recovery (i.e. TP claimed Itemized Deductions in relevant year)
- NJ – do not include at all

➤ TSO:

- **Problem: Figuring whether a recovery needs to be accounted for and where to enter it, if so, is tricky:**
 - See page “Property Tax Recoveries”

❖ NJ Income Tax Payments (other than withholding)

➤ Tax Law:

- Federal – Payments apply to Federal tax year in which payments made (cash basis)
- NJ – Payments claimed in tax year in which tax was imposed

➤ TSO:

- Enter on Itemized Deductions \ Taxes You Paid screen \ Additional State and Local Income Tax:
 - Amount(s) owed and paid from any Prior Year NJ return
 - NJ Prior Year 4th Quarter Estimate(s) paid after 12/31
- Enter on Payments & Estimates \ State Estimated Payments screen:
 - Amount applied from previous year’s NJ 1040 Refund
 - All NJ Current Year Estimated payments

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❖ K-1

➤ Tax Law:

- Federal – In scope entries are allocated to the appropriate lines on the 1040
- NJ – entries are also allocated, but TP will probably not receive a corresponding NJ K-1

➤ TSO:

- Federal - Enter in scope entries on the TSO K-1 form.
 - **Known Bug (02-02-2018): Interest Income (e.g. Box 5 on K-1 1065) does not flow to the NJ return – enter it on the regular TSO Interest income screen instead.**
- NJ - When TP does not receive a NJ K-1, record date your interest in the partnership began on TSO NJ K-1 screen

❖ Use Tax

➤ Tax Law

- Federal – n/a
- NJ – Must pay use tax on taxable items purchased for use in NJ if bought online, by phone, mail order, or out of state and:
 - ◆ sales tax was not paid
 - ◆ sales tax was paid at a rate less than NJ's 6.625% rate

- Calculate sales tax due at NJ's rate and subtract sales tax actually paid; record on NJ Checklist (Use Tax)

❖ Wounded Warrior Caregiver Credit

➤ Tax Law:

- Federal – n/a
- NJ – Refundable – Requires Caregiver Approval Letter

➤ TSO:

- Use Form NJ-WWC to calculate amount. Record on NJ Checklist (Tax)

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Property Taxes on Federal Return

- Claim property taxes on Federal Schedule A Line 5b if itemizing deductions
- Claim amounts paid in current tax year. Do not claim billed amounts if not paid yet. Do not claim amounts placed in escrow account by lender if not paid to taxing authority yet. If paid this year, can claim taxes billed in a prior year
- Claim **net property taxes** - amount billed after Veterans or Senior Citizens (SC) deduction(s) are applied, but prior to any Homestead Benefit credits received for a prior year
- Can claim property taxes paid on multiple properties

WHERE TO OBTAIN PROPERTY TAX AMOUNT TO CLAIM ON FEDERAL SCHEDULE A

DOCUMENT	AMOUNT TO USE	NOTES
Postcard from Tax Assessor	Net Taxes Billed	This is amount after Veterans and SC deductions have been applied, but prior to Homestead Benefit (HB) credits. Use amount as shown
Property Tax Bill	Net Tax	Use Net Tax amount as shown. Do not use Total Tax line since that is amount before Veterans and SC deductions are subtracted
Mortgage Statement 1098	Real Estate Taxes paid by mortgage co. + HB credits*	Mortgage company only pays amount of taxes due after HB credits received for a prior year are subtracted. So, must add HB amounts to amount on 1098
Cancelled checks from taxpayer	Total check amounts + HB credits*	Homeowner only pays amount of taxes due after HB credits received for a prior year are subtracted. So, must add HB amounts to total of cancelled checks.

*Amount of HB credits can be determined using the Online Inquiry for Homestead Rebate link on TaxPrep4Free.org Preparer page. Need primary Social Security # and zip code to look up amount

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Property Taxes on NJ Return

- Claim either **PROPERTY TAX DEDUCTION** (maximum \$15K) or **PROPERTY TAX CREDIT** (\$50; \$25 MFS but maintain same principal residence), whichever is better
- Can only claim property taxes for principal residence
- Homeowners can claim **gross property** taxes - amount billed before Veterans and SC deductions are applied, and prior to any HB credits received for a prior year
- Tenant and mobile home owner can claim 18% of total rent or site fees paid as property taxes
- Taxpayer can claim both property taxes and rent during the same year, but not for the same period of time. Only one residence at a time can be considered taxpayer's principal residence

Eligibility Requirements for Deduction or Credit

Domiciled and maintained a principal residence as homeowner or tenant in NJ during current tax year

Principal residence was subject to property taxes paid as actual property taxes or through rent

- Not tax exempt properties, campus housing, or residences on which P.I.L.O.T. payments made

If rented, principal residence had its own separate kitchen and bathroom

If principal residence was a unit in a multiunit property, property had no more than 4 units and no more than 1 of them was commercial

NJ Gross Income (NJ 1040 Line 29) was more than filing threshold for taxpayer's filing status

- Exception - if income was under filing threshold, but taxpayer was 65 or older or blind or disabled on 12/31, taxpayer can get a \$50 property tax credit

TYPE OF TAXPAYER	PROPERTY TAX AMOUNT TO USE	WHERE TO OBTAIN PROPERTY TAX AMOUNT
Homeowner - PTR Recipient	Gross Property Taxes on principal residence for Base Year	PTR-2 Application (Blue book) Line 10
Homeowner - Non PTR Recipient	Gross Property Taxes on principal residence for Current Tax Year	Use amount from Federal chart above + Total amount of Veterans (\$250) and SC deductions (\$250) received*
Tenant/Mobile Home Owner	18% of total rent or site fees paid during tax year	Taxpayer

*Obtain info from: (1) Taxpayer (2) Tax Assessor's office (3) Link on TaxPrep4Free.org Preparer page "Tool from Monmouth – Assessment Records Search" under NJ section

Notes:

Use Worksheet G in NJ-1040 Instructions to calculate property tax amount to claim if:

- * Taxpayer had more than one principal residence during the tax year
- * Taxpayer shared ownership of home with non-spouse or shared rent with non-spouse
- * Principal residence was a unit in a multiunit property that taxpayer owned
- * Taxpayer was both a homeowner and a tenant in current tax year

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Property Tax Recoveries

Process for handling property tax rebates received in current tax year for property taxes paid in a previous year (Includes Property Tax Reimbursement (PTR) and Homestead Benefit (HB))

STEP	QUESTION	ANSWER	REQUIRED ACTION
1	Did taxpayer itemize in previous year that rebate covers? <ul style="list-style-type: none"> • 1 year previous – PTR • 3 years previous – HB 	Taxpayer itemized	Rebate is a recovery. Must be claimed as income in current tax year
		Taxpayer did not itemize	Rebate is not a recovery. Ignore in current tax year
2	Is there a recovery for a PTR or a HB?	Recovery for a PTR	If info from previous year is available, complete NJ Tax Refund Worksheet to determine taxable amount of PTR recovery
		Recovery for a HB	NJ Tax Refund Worksheet does not work for info from 3 years ago, so entire HB recovery amount is taxable
3	Is taxable recovery for PTR and/or HB > 0?	Yes	Enter taxable recovery amounts as Other Income on Schedule 1 Line 8 Since recoveries are not taxable on NJ return, enter taxable recovery amounts on NJ Checklist as negative amounts to subtract from NJ Other Income on NJ 1040 Line 26
		No	No entries needed

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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.”

Example:

Initial situation:

Pension = 1,000/month, Federal Exclusion = 10/month; Total Contributions = 21,000

Year 1 (Partial year)

- 1099-R Box 1=5,000, Box 2a=4,950
- NJ Checklist (Adjustments to Line 20a) = -4,950
- NJ Checklist (Adjustments to Line 20b) = 5,000

Remaining unrecovered contributions after Year 1 = 16,000

Year 2

- 1099-R Box 1=12,000, Box 2a = 11,880
- NJ Checklist (Adjustments to Line 20a) = -11,880
- NJ Checklist (Adjustments to Line 20b) = 12,000

Remaining unrecovered contributions after Year 2 = 4,000

Year 3 (Last year with exclusion)

- 1099-R Box 1=12,000, Box 2a = 11,880
- NJ Checklist (Adjustments to Line 20a) = -3,880
- NJ Checklist (Adjustments to Line 20b) = 4,000

Remaining unrecovered contributions after Year 3 = 0

Year 4 and all following years

- 1099-R Box 1=12,000, Box 2a = 11,880
- NJ Checklist (Adjustments to Line 20a) = 120
- NJ Checklist (Adjustments to Line 20b) = 0

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Change Log

03-04-2021 v1.1:

- New section: TY2020 Special Rule for RMDs
- New section: TY2020 COVID Retirement Distributions (form 8915-E)
- Change references to 1040 line 4c / 4d to line 5a / 5b

02-20-2021 v1.0:

- No change from v0.91

01-23-2021 v0.91:

- Initial DRAFT release