

Accounting Aid Society
Site Coordinator Update – March 25, 2023

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Simplified Method Worksheet – Amounts Previously Recovered

When the Simplified Method Worksheet is used to calculate the taxable amount of a pension distribution, please **make sure that an entry is made in the software for amounts previously recovered. Enter the amount that could have been recovered tax free in prior years even if not claimed.** Exception: If the tax year in question was the first year of the annuity payment, there will be no amount that was previously recovered tax free.

To determine the amounts previously recovered, (1) look at last year’s tax return to find this amount or, (2) calculate the amount using the monthly tax free amount computed by TaxSlayer for the tax year times the number of months prior to the tax year.

- 1) Looking at last year’s tax return – Use the amount from Line 10 of last year’s Simplified Method Worksheet.

Caution: If the annuity payment started two or more years prior to the tax year in question, make sure an amount is shown on line 6 of last year’s worksheet. If line 6 is blank, use the method below to determine the amounts previously recovered.

- 2) Calculating the amount using the monthly tax free amount:

- a) For the tax year in question, make all entries on the Simplified Method Worksheet including the plan cost at the annuity start date, the starting date of the annuity, the age of recipient(s) at start date, and the number of months paid in the tax year.
- b) Select Continue on the Worksheet, and complete any and all subsequent pages in the software with regard to the 1099-R.
- c) Print the PDF of the return in order to view the Simplified Method Worksheet.
- d) The amount on line 4 of the Simplified Method Worksheet is the monthly tax free amount that is used in the calculation.

Example: A 2022 tax return is being prepared and the starting date of the annuity was May 1, 2015. The amount on line 4 of the 2022 Simplified Method Worksheet is \$23.08. The amounts previously recovered (prior to 2022) is calculated as follows:

Number of months in 2015, May-December	8
Number of months in 2016 through 2021, 6 years x 12 months/year	<u>72</u>
Total number of months prior to 2022	<u>80</u>

The amounts previously recovered is \$1,846.40 (80 months X \$23.08)

(Important: When doing the calculation, do not round the monthly tax free amount.)

- e) Go back to the Simplified Method Worksheet and enter the calculated amount for amounts previously recovered.

Refer to pages D-37 – D-40 of Pub 4012-A, Volunteer Resource Guide with Updates (2022 Returns) for more information on the Simplified Method. If disability benefits were paid under the plan, the

annuity start date is the day after the plan participant reaches minimum retirement age as set by the employer. See note 2 on page D-40 of Pub 4012-A and page 6 of IRS Publication 575, Pension and Annuity Income.

Pub 4012-A, Volunteer Resource Guide with Updates (2022 Returns)

Please make sure that Publication 4012-A, Volunteer Resource Guide with Updates, is bookmarked in the bookmark bar of all of the Chromebooks at the tax site. Pub 4012-A (revised 2-2023) should be there instead of Pub 4012 (revised 10-2022). Please also make sure that all staff and volunteers are referencing the updated publication.

If assistance is needed in getting the correct publication bookmarked, reach out to your assigned VITA program manager.

TaxSlayer

We are seeing instances where decimal points are not being recognized by the software, e.g., on the W-2 page. TaxSlayer is aware that decimal point entries are not working correctly and they are working to resolve the issue. The estimated time of resolution is Monday, March 27. In the meantime, manually round entries to the nearest whole dollar. Reminder: For \$.50 and above, round up to the nearest dollar; for \$.49 and below, round down to the nearest dollar.