## **Preparing Indiana Tax Returns**

**Background:** Ladder Up will prepare Indiana tax returns for *full year Illinois residents* who have Indiana income during the year. The two most common examples are a client who lives in Illinois but works in Indiana, and an Illinois resident who has Indiana gambling income. The purpose of this document is to explain the process for preparing Indiana and Illinois state tax returns for such clients. (Ladder Up does not prepare returns for part year or full year Indiana residents because there are many credits and deductions for which such clients may be eligible. They should be referred to a paid preparer experienced in Indiana returns).

Indiana requires non-residents to file an Indian return for any amount of income received from Indiana sources. However, if the non-resident's only Indiana income is from pensions, interest, dividends, or unemployment income, no Indiana return is required.

**Initial Steps:** No special certification is required to prepare Indiana tax returns. Because these are somewhat out of the ordinary it is advisable to have them prepared and checked by more experienced reviewers. You will need to have access to a computer that has the Indiana ProSeries software installed. See your site leader to obtain one of these. If your site does not prepare Indiana returns, the site leader can help you explain this to the client and refer them to another Ladder Up site that does. On the Client Data Sheet write INDIANA at the top of the form in letters large enough that nobody can miss them.

**Federal Return:** The federal return can now be prepared in the normal course with the following exceptions:

- The file name should be the normal file name but with the letters "-IN" appended at the end. For example, client Jack Spratt with social security number 333-33-5678 will have the file name SPRA5678-IN.
- 2. Once you have marked the return for e-file (assuming that the client is e- filing) you will need to populate Indiana as one of the returns to e-file immediately below where Illinois is automatically populated.

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 In Part XI, which normally we are to leave blank, you should mark Illinois as the state of residence as of 12/31/2018 (or the end of whatever year you are preparing) and check "Full Year Resident" as the status.



- 4. As you enter the client's tax documents (such as W-2 forms), make sure that you properly record the state. On the W-2 form, this will be shown explicitly. For some jobs, the client will have worked for the employer in both Indiana and Illinois. In that case, the W-2 form will often come with separate Illinois and Indiana W-2 forms (typically with the same amount of federal income shown on each). In such cases you will prepare a single W-2 worksheet, with separate lines in the state part for Indiana and Illinois income. For an Indiana W-2 form there will typically also be a local tax shown and you need to remember to enter this information in boxes 18, 19 and 20 of the W-2 worksheet. Form W-2G (gambling winnings) does not show the state of withholding you will need to deduce that from the city and state where the gambling winnings occurred.
- 5. Run an error check on the federal return and fix any problems.
- 6. If you fail to follow any of these steps at the outset, you can always correct the situation later. However, ProSeries is designed to work best when the steps are followed in the proper order, and failure to do so means you have to examine the state results especially carefully in order to detect unintentional errors.

**Indiana Return:** You are now ready to prepare the Indiana return. You should do this before you open the Illinois return because that way more of the entries will populate automatically.

1. When you click on the ST button at the top of the screen, if Indiana software has been loaded you will be offered a choice of states and should select Indiana. Click "OK" and the Indiana portion of the software will open.

| Info Wks   |   | nmon Support Questions | Ask ProSeries or Search Help  |                     |
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2. On the Indiana Information Worksheet, go to the bottom of Part I. For a 2018 tax return, you need to make sure that you have populated the county where the taxpayer (and their spouse if married filing jointly) lived as of January 1, **2018.** Since by definition we are doing a full year Illinois resident, use the drop-down box if necessary to select "OOS – Illinois" as the county. If you get an error message from this, it probably means that you forgot to check the boxes in Part XI of the federal information worksheet as described above, so you need to go back and do that.



3. Immediately below the county of residence you will need to enter the county of **employment** on January 1, **2018.** Ask the client if they had any of their Indiana jobs as of January 1, 2018. If so, ask them what county the job was in and use the drop-down box to enter that county. If they were not working in Indiana as of January 1, 2018 then use the drop-down box to enter "OOS-Illinois". If the client doesn't know the Indiana county where they worked, you may need to do an internet search to determine it.



4. Now go to Schedule H (which can be selected from the list at the left of the screen) and in the section on residency mark "Yes" to the question about whether the taxpayer (and the spouse if married filing jointly) filed Illinois tax returns.

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| Where Do I Enter?  | Schedule  | H: Residency and Additi       | onal Inform  | nation                     |   |            |                           |                    |                     |   |          |                    | IN Refund: \$165 |
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| Schedule 6     Adoption Wks     Schedule 7     Sch CT-40   | 1C  |                               |              |                            | 2018  |            |                           | 2018               | Yes                 |   | No       |                    |                  |
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| Schedule H   |   |                               |              |                            |   |            |                           |                    |                     | C   | heck Bax | State Refund \$165 |                  |

5. Now go to Schedule A of the Indiana return. This is where you will review that the client's income has been properly allocated to Indiana (Column B) and will make corrections as needed. For W-2 forms, the proper allocation typically occurs automatically. For example, for a client with two W-2 forms, one for \$15,000 in Indiana and one for \$10,000 in Illinois, the top part of Schedule A should appear as follows:

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| Reverses       Column A       Column B         Income       Income       Income         Return       Income       Taxed by         Return       Return       Income         Income       Taxed by       Return         Income       Taxed by       Income         Income       Totaliana       Taxed by         Income       Totaliana       Totaliana         Internet       Totaliana       Totaliana         Internet       Spouse's Indiana wages from federal Form W-2, box 16       Totaliana         Internet       Spouse's out-of-state wages earned while a resident of Indiana       Totaliana         Internet       Spouse's out-of-state wages earned while a resident of Indiana       Totaliana         Internet       Spouse's wages, salaries, tips, commiss  | Where Do I Enter? Sche         | dule A: PY/NR Income and Adjustments   |                          | IN Refun  |
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| Income       Income       Income         from Federal bedde a       From Federal Return       Taxed by         Indiana       Income       Taxed by         Indiana       Return       Indiana         Income       from Federal Return       Taxed by         Indiana       0       0       150         Income       from Federal Return       25000       150         Income       from Yelde A       0       150  |                                |  | Column A                 | Column B  |
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| Iteratives (a)       b       Out-of-state wages earned while a resident of Indiana  |                                | Indiana and from the local France W.O. Is an 10  | 05000                    | 15000     |
| b       Out-of-state wages earned while a resident of Indiana         c       Other income reported as wages         vewtubate       Your wages, salaries, tips, commissions, etc.         2a       Spouse's Indiana wages from federal Form W-2, box 16         b       Spouse's out-of-state wages earned while a resident of Indiana         c       Spouse's out-of-state wages earned while a resident of Indiana         c       Spouse's out-of-state wages earned while a resident of Indiana         c       Spouse's out-of-state wages earned while a resident of Indiana         c       Spouse's out-of-state wages earned while a resident of Indiana         c       Spouse's out-of-state wages earned while a resident of Indiana         c       Spouse's out-of-state wages, salaries, tips, commissions, etc         mIT-40MR       Spouse's wages, salaries, tips, commissions, etc         mIT-40MR       Taxable interest income         deduke c       Dividend income         deduke G       U.S. Government interest included on line 3 and/or line 4         c       Taxable refunds, credits, or offsets of state and local taxes         from your federal return       from your federal return   |                                | a Indiana wages from federal Form W-2, box 16  | 25000                    | 15000     |
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| with Payments       Your wages, salaries, tips, commissions, etc.       25000       150         Verside 1       Spouse's Indiana wages from federal Form W-2, box 16       160       160         Verside 4       Spouse's out-of-state wages earned while a resident of Indiana       160       160         Verside 4       Spouse's out-of-state wages earned while a resident of Indiana       160       160         Verside 5       Spouse's other income reported as wages       160       160         Verside 8       Spouse's wages, salaries, tips, commissions, etc       160       160         Verside 8       Spouse's wages, salaries, tips, commissions, etc       160       160         Verside 8       Abolic mittreest income       160       160         Verside 8       Dividend income       160       160         Verside 9       U.S. Government interest included on line 3 and/or line 4       160       160         Verside 9       Verside 9       150       160       160         Verside 1       Form Your federal return       160       160       160         Verside 1       Form Your federal return       160       160       160         Verside 1       Form Your federal return       160       160       160       160 <td>ofo Worksheet</td> <td>-</td> <td></td> <td></td>   | ofo Worksheet                  | -  |                          |           |
| Vour wages, salaries, tips, commissions, etc.       25000       150         2a       Spouse's Indiana wages from federal Form W-2, box 16       100         b       Spouse's out-of-state wages earned while a resident of Indiana       100         c       Spouse's other income reported as wages       100         cheddle a       Spouse's wages, salaries, tips, commissions, etc       100         m IT-40MR       Taxable interest income       100         a       U.S. Government interest included on line 3 and/or line 4       100         a       U.S. Government interest included on line 3 and/or line 4       100         c       Taxable refunds, credits, or offsets of state and local taxes from your federal return       100  |                                | c Other income reported as wages   |                          |           |
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| c spouse's out-of-state wages earlied while a resident of indiana   | schedule 4                     |  |                          |           |
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| childrender       Spouse's wages, salaries, tips, commissions, etc  |                                | c Shouse's other income reported as wares  |                          |           |
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| Cheddle B       4       Dividend income   |                                |  |                          |           |
| Image: construction of the second constructi |                                | Taxable Interest Income  | •••                      |           |
| a U.S. Government interest included on line 3 and/or line 4   |                                | Dividend income  |                          |           |
| 5 Taxable refunds, credits, or offsets of state and local taxes<br>from your federal return   |                                |  |                          |           |
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| trom your federal return  | chedule H                      |  |                          |           |
|   |                                | from your federal return   |                          |           |
| 6 Alimony received  | rm IT-40RNR                    |  |                          |           |

For other types of income, you may need to make the allocation manually. For example, if this same client had \$2,500 of Indiana gambling income, even though the W2G worksheet shows the income as Indiana, you would need to manually populate the \$2,500 in Column B of line 20(d):

|                               | HED ST   🗂 Forms   🗞 Entry Mode   🕴   🕇   🛆 Ence 🗟 Review   🕏 Summary 🛅   🗇 Letter 👼 Invoice   🔯 Where Do   🕍 Alerts   🛆 Govt Instr 💡 🗔 | Lag undoug A million |           |
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| toutions                      | Control Consumity and we live adjustice second have of the  |                      |           |
| Drms (F6)                     | Social Security and railroad retirement benefits  |                      |           |
| IT-40 19                      | Indiana apportioned income from Schedule IT-40PNRA  |                      |           |
| Worksheet                     |   |                      |           |
| VUse Tax<br>Payments          | QuickZoom to Schedule IT-40PNRA   |                      |           |
| dule 1 20                     | Other Income Reported on Federal Return:  |                      |           |
| dule 2                        | •   |                      |           |
| dule 4                        | Farm rentals, REMICS from federal Schedule E  |                      |           |
| /IN-DONATE                    | Recovery of federal itemized deductions   |                      |           |
| dule 6<br>ption Wks           |   |                      |           |
| dule 7                        | Net operating loss carryover from a prior year  |                      |           |
| SP Alloc                      | d Gambling and other income   | 2500                 | 2500      |
| T-40PNR                       |   |                      |           |
| dule A 20                     | Other income reported on your federal return  | 2500                 | 2500      |
| dule C                        | List source(s) - Do not include federal net operating loss in column E  | 1                    |           |
| dule D                        |   | ·.                   |           |
| /IN-PRO<br>/IN-DONATE         | OTHER INCOME FROM FEDERAL   |                      |           |
| dule G 21                     | Subtotal: add lines 1 through 20  | 27500                | 17500     |
| dule H Z                      |   | 27300                | 17500     |

6. Finally, run an error check on the Indiana return and fix any problems (as is the case with Illinois returns, you may have one e-file error that you can ignore).

**Illinois Return:** You are now ready to prepare the Illinois return. Click on "ST" and choose "Illinois Individual" from the list of choices. Next you need to do the following:

- 1. Go to Schedule CR. This is where you will make sure that the Illinois portion of income and adjustments has been properly reported and where you will make any needed changes. Review and handle similarly to what you did for Indiana Schedule A. However, there is one important difference. Gambling income is taxed by *both* Indiana and Illinois. Therefore, gambling income won by Illinois residents in Indiana should be reported as Indiana income on the Indiana return, but should *not* be reported in Column B of the Illinois return (you will have to manually populate a "0" or you will get an error message). This is probably a good place to inform the client about the double taxation so that they are not surprised by it when you show them the final tax returns. The only exception is Indiana lottery income which is taxable in Indiana but not Illinois.
- 2. Run an error check on the Illinois return and fix any errors.

Finalizing the Return: Now you are ready to complete the process by doing the following:

 Print the federal, Illinois and Indiana returns. If you followed the steps in the right order, when you click "File" and then "Print" you should see "All States/Cities" on the line for state returns. If that is not the case, use the drop-down box to populate the box appropriately.

|                        |                                       |   | Review 🕸 Summary 🛅 🙆 Letter 🙀 Invoice             | IEnter? Alerts Alerts            |                       | · · · · · · · · · · · · · · · · · · · |                               |
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| s (MY CASINO)<br>c Wks | e-                                    | General                                       | <ul> <li>Email password protected PDP</li> </ul>  |                                  |                       |                                       |                               |
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| 0 WKS                  | Part V - Prepare                      |   | Federal Forms for State III Requ                  | ed)                              |                       | eral Information                      | <ul> <li>QuickZoom</li> </ul> |
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| r Wks                  | Part VI - E-file r                    |   | Federal Return                                    |                                  |                       | te Information .                      |                               |
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| 6                      | First name                            | JACK  |   | First name                       |                       |                                       |                               |
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| viks                   | Middle initial                        |   | Suffix  | Middle initial                   |                       | Suffix                                |                               |
| SC Wks                 | Social security no.                   | ***_**  | -5678   | Social security                  | no                    |                                       |                               |
| A Y                    |                                       |   |   | -                                |                       |                                       |                               |
| 8                      | Occupation                            | JACK OF                                       | ALL TRADES  | Occupation                       |                       |                                       |                               |

- 2. On the Client Data sheet, where we record the Refund and Amounts Owed, you will need to record both the Illinois and Indiana results. If we are only doing the state returns, you can cross out the federal section, write in "Indiana" and record the results there. If you are preparing federal plus the two state returns, create a new column to the right of the Illinois column, mark it as "Indiana" and include all the same lines as for Illinois.
- 3. Explain the returns to the client, and get them to sign all of the e-file forms, including for Indiana. Assemble the packet in the normal order, but with the Indiana e-file form last.
- 4. If the client owes money to Indiana, a single page will print that will give the payment information including the address to be used to pay.
- 5. If the client is paper filing, the filing address is listed at the bottom of the second page of the Indiana tax return. As is the case in Illinois, the address is different depending on whether or not a payment is enclosed.
- 6. The Indiana instructions state that neither staples nor paper clips are to be used for required enclosures or schedules. The pages of the return should be placed in the envelop loose in the order that ProSeries prints them. Other enclosures required are any W-2 forms with Indiana income, any unemployment compensation forms regardless of state, and any other forms with Indiana state or county tax was withheld. All of these should be included unattached to the return.