

## 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:

1. 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.

spra5679-in-18i - ProSeries - 2018 - [Federal Information Worksheet]

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Where Do I Enter?

Federal Information Worksheet Refund: \$327

## Part VI – Electronic Filing of Tax Return Information

### Electronic Filing:

☒ File **federal** return electronically

**QuickZoom** to Form 8948: Preparer Explanation for **Not** Filing Electronically ..... **QuickZoom**

☒ File **state** or **city** returns electronically

Select state and city returns to file electronically:

State(s)
Illinois
Indiana

Federal Information Worksheet Text Input Field Federal Refund \$327

- 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.

spra5679-in-18i - ProSeries - 2018 - [Federal Information Worksheet]

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Where Do I Enter?

Federal Information Worksheet Refund: \$327

Caution: You do **not** need to enter any State information below unless a part-year or nonresident tax return must be filed or the state listed in Part I has changed since 12/31/2018.

State of residence as of 12/31/2018 .. **IL**

☒ Full-year resident

☐ Part-year resident

If **part-year resident**, date residence established ....

Former state of residence .....

☐ **Nonresident State Filers:** Taxpayer needs to file nonresident state return(s) in **2018**

Enter nonresident state(s) ID below:

State	Residency Status	Dates of Residency (Part-Year Residents only)	
		Taxpayer	Spouse (if different)
IL	Full-Year Resident	To To	To To

Federal Information Worksheet Text Input Field Federal Refund \$327

- 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.
- Run an error check on the federal return and fix any problems.
- 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.

- 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.

**Federal Information Worksheet 2018**  
Keep for your records

**QuickZoom to Client Status** ... [QuickZoom](#)  
**QuickZoom to Form 1040** ... [QuickZoom](#)

**QuickZooms**

**Part III - Dependent Information** ... [QuickZoom](#)  
**Part IV - EIC Information** ... [QuickZoom](#)  
**Part V - Preparer/Designee Information** ... [QuickZoom](#)  
**Part VI - E-file return information** ... [QuickZoom](#)  
**Part VII - E-file extend/amend** ... [QuickZoom](#)  
**Part X - Additional Federal Information** ... [QuickZoom](#)  
**Part XI - PY/Nonres State Information** ... [QuickZoom](#)  
**Part XII - Client Letter** ... [QuickZoom](#)

**Part I – Personal Information**

**Taxpayer:**  
 Last name ..... SPRATT

**Spouse:**  
 Last name (if different) .....

Refund: \$327

- 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.

Information Worksheet

State ..... IL ZIP/Postal code ..... 60201

Foreign code ..... Foreign country .....

E-mail address where Indiana Dept. of Revenue can reach you (optional) ..

**County Information**

	Taxpayer	Spouse
County of residence on January 1, 2018 .....	OOS - ILLINOIS	
County of employment on January 1, 2018 .....	OOS - ILLINOIS	

» Put in county of residence if you were retired, unemployed or a homemaker on January 1, 2018

**Part II – Main Form**

☐ Form IT-40 - Full-Year Resident ..... QuickZoom

☐ Form IT-40PNR - Part-Year Resident ..... QuickZoom

☒ Form IT-40PNR - Nonresident ..... QuickZoom

• Enter state of residence ..... Taxpayer IL Spouse

☐ Form IT-40NRN - Reciprocal Nonresident (KY, MI, OH, PA, WI only) ..... QuickZoom

State of residence ..... KY MI OH PA WI

- 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.

spra5679-in-18i - ProSeries - 2018 - [Information Worksheet]

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About: Taxpayer Last Name: [Click for this Form's Help](#) Most Common Support Questions [Ask ProSeries or Search Help](#)

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Where Do I Enter?

Forms In Use: (1 Error)

- Info Worksheet
- Tax Payments
- Form IT-40PNR
- Schedule A
- Schedule D
- Sch F/IN-DONATE
- Schedule H
- Sch CT-40PNR
- Form IT-9879
- Client Billing
- EF Instructions

All Forms (F6)

- Form IT-40
- Info Worksheet
- Sales/Use Tax
- Tax Payments
- Schedule 1
- Schedule 2
- Schedule 3
- Schedule 4
- Sch S/IN-DONATE
- Schedule 6
- Adoption Wks
- Schedule 7
- Sch CT-40
- TP/SP Alloc
- Form IT-40PNR
- Schedule B
- Schedule C
- Schedule D
- Sch E/IN-PRO
- Sch F/IN-DONATE
- Schedule G
- Schedule H
- Sch CT-40PNR
- Sch IT-40PNRA
- Form IT-40NR
- Form IT-40NR

Information Worksheet

State IL ZIP/Postal code 60201

Foreign code Foreign country

E-mail address where Indiana Dept. of Revenue can reach you (optional)

County Information

County of residence on January 1, 2018 OOS - ILLINOIS

County of employment on January 1, 2018 LAKE

» Put in county of residence if you were retired, unemployed or a homemaker on January 1, 2018

Part II – Main Form

☐ Form IT-40 - Full-Year Resident ..... QuickZoom

☐ Form IT-40PNR - Part-Year Resident ..... QuickZoom

☒ Form IT-40PNR - Nonresident ..... QuickZoom

• Enter state of residence Taxpayer IL Spouse

☐ Form IT-40NR - Reciprocal Nonresident (KY, MI, OH, PA, WI only) ..... QuickZoom

State of residence KY ☐ MI ☐ OH ☐ PA ☐ WI ☐

State Refund \$165

- 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.

spra5679-in-18i - ProSeries - 2018 - [Schedule H: Residency and Additional Information]

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EF Now FEB ST Forms Entry Mode Enter Review Summary Letter Invoice Where Do I Enter? Alerts Govt Inst Tax Import Videos

About: Schedule H: [Click for this Form's Help](#) Most Common Support Questions [Ask ProSeries or Search Help](#)

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- Adoption Wks
- Schedule 7
- Sch CT-40
- TP/SP Alloc
- Form IT-40PNR
- Schedule B
- Schedule C
- Schedule D
- Sch E/IN-PRO
- Sch F/IN-DONATE
- Schedule G
- Schedule H
- Sch CT-40PNR
- Sch IT-40PNRA
- Form IT-40NR
- Form IT-40NR

Schedule H

Schedule H: Residency and Additional Information

IN Refund: \$165

Your information

☐ Stop automatic transfer of taxpayer's information

	(a) State of Residence	(b) Date From (MM/DD)	(c) Date To (MM/DD)	Did you file a tax return with the state/country? Check appropriate box.
1A	<u>IL</u>	<u>01</u> <u>01</u> 2018	<u>12</u> <u>31</u> 2018	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
1B				Yes <input type="checkbox"/> No <input type="checkbox"/>
1C				Yes <input type="checkbox"/> No <input type="checkbox"/>
1D				Yes <input type="checkbox"/> No <input type="checkbox"/>

Spouse's information if married filing jointly

☐ Stop automatic transfer of spouse information

☐ Automatically fill out spouse's dates with taxpayer's dates

Check Box 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:

The screenshot shows the ProSeries 2018 software interface for Schedule A: PY/NR Income and Adjustments. The interface includes a menu on the left, a toolbar at the top, and a main table with three columns: Description, Column A (Income from Federal Return), and Column B (Income Taxed by Indiana). The table contains lines for wages, interest, dividends, and other income, with values entered for the first two columns.

	Column A Income from Federal Return	Column B Income Taxed by Indiana
1 a Indiana wages from federal Form W-2, box 16	25000	15000
b Out-of-state wages earned while a resident of Indiana		
c Other income reported as wages Your wages, salaries, tips, commissions, etc.	25000	15000
2 a 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 other income reported as wages Spouse's wages, salaries, tips, commissions, etc		
3 Taxable interest income		
4 Dividend income		
a U.S. Government interest included on line 3 and/or line 4		
5 Taxable refunds, credits, or offsets of state and local taxes from your federal return		
6 Alimony received		

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):

SPR9679-IN-181 - ProSeries - 2018 - [Schedule A: PY/NR Income and Adjustments]

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Schedule A: PY/NR Income and Adjustments IN Refund: \$165

A Taxable social security benefits .....		Taxpayer		
		Spouse		
B Taxable railroad retirement benefits .....		Taxpayer		
		Spouse		
18	Social Security and railroad retirement benefits .....			
19	Indiana apportioned income from Schedule IT-40PNRA .....			
QuickZoom to Schedule IT-40PNRA .....				
20	Other Income Reported on Federal Return:			
a	Farm rentals, REMICS from federal Schedule E .....			
b	Recovery of federal itemized deductions .....			
c	Net operating loss carryover from a prior year .....			
d	Gambling and other income .....	2500		2500
20	Other income reported on your federal return .....	2500		2500
List source(s) - Do not include federal net operating loss in column B.				
OTHER INCOME FROM FEDERAL				
21	Subtotal: add lines 1 through 20 .....	27500		17500

Page 2 of 2

Calculated Value State Refund \$165

- 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:

- 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.
- 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.

The screenshot displays the ProSeries 2018 software interface. A 'Print Center' dialog box is open, allowing the user to select the return copies to print. The dialog box includes options for printing the Filing Copy, Client Copy, and Prepare Copy, with checkboxes for Federal, State, and Local returns. The background shows the 'Federal Information Worksheet' with sections for Part I - Personal Information, Part III - Dependents, Part IV - EIC Information, Part V - Preparation Information, Part VI - E-file Information, and Part VII - E-file Information. The 'Taxpayer' section is visible, showing fields for Last name, First name (JACK), Middle initial, Suffix, Social security no. (\*\*\*-\*\*-5678), and Occupation (JACK OF ALL TRADES).

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.