



# Module 3: INCOME

*Special thanks to: Linda Brown and Tamara Kreigh for their contributions to this module.*

# By the end of this module you will...

- Understand income as it pertains to the VITA tax return
- Understand the use of each VITA-used form in the Form 1040
- Learn the corresponding forms to each line
- Be able to calculate Total Income

# Form 1040 – Income

***This submodule covers income reported on lines 1 through 7 on Form 1040***

## Income

**Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.**

If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

### Standard Deduction for—

- Single or Married filing separately, \$12,950
- Married filing jointly, or

<b>1a</b>	Total amount from Form(s) W-2, box 1 (see instructions)		
<b>b</b>	Household employee wages not reported on Form(s) W-2		
<b>c</b>	Tip income not reported on line 1a (see instructions)		
<b>d</b>	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		
<b>e</b>	Taxable dependent care benefits from Form 2441, line 26		
<b>f</b>	Employer-provided adoption benefits from Form 8839, line 29		
<b>g</b>	Wages from Form 8919, line 6		
<b>h</b>	Other earned income (see instructions)		
<b>i</b>	Nontaxable combat pay election (see instructions)		<b>1i</b>
<b>z</b>	Add lines 1a through 1h		
<b>2a</b>	Tax-exempt interest	<b>2a</b>	<b>b</b> Taxable interest
<b>3a</b>	Qualified dividends	<b>3a</b>	<b>b</b> Ordinary dividends
<b>4a</b>	IRA distributions	<b>4a</b>	<b>b</b> Taxable amount
<b>5a</b>	Pensions and annuities	<b>5a</b>	<b>b</b> Taxable amount
<b>6a</b>	Social security benefits	<b>6a</b>	<b>b</b> Taxable amount
<b>c</b>	If you elect to use the lump-sum election method, check here (see instructions)		
<b>7</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here		
<b>8</b>	Other income from Schedule 1, line 10		



What is income?

# Gross Income

- Gross income is all income received in the form of money, goods, property, and services that is not exempt from tax. It includes income from sources outside the U.S. or from the sale of a primary residence, even if part or all of that income can be excluded. Gross income may include part of Social Security benefits received and certain scholarship and fellowship grants.
- Income that is taxable must be reported on a taxpayer's return and is subject to tax.
- Income that is nontaxable may have to be shown on a taxpayer's return but is exempt from tax.

# Income

- Earned income is any income received for work, such as wages or business/self-employment income
- Unearned income is any income not earned from work, such as unemployment income or income produced by investments, such as interest on savings, dividends on stocks, or rental income.
- Unless there is an exception in the tax law, all income is taxable.



# What is considered taxable income?

*This chart is from IRS Publication 4012, page D-3, Volunteer Resource Guide.*

This list is a quick reference and volunteers should refer to Publication 525, Taxable and Nontaxable Income, for more information. Don't rely on this list alone. Some of the income items on this chart are Out of Scope for VITA/TCE. Review the Scope of Service chart to identify Out of Scope items. Refer taxpayers with Out of Scope income to a professional tax preparer. Confirm that all income received by the taxpayer has been discussed and shown on the return, if required. To determine taxability at the state level, check with your state's department of revenue.

**Table A – Examples of Taxable Income**

(Examples of income to consider when determining whether a return must be filed or if a person meets the gross income test for qualifying relative)

<ul style="list-style-type: none"> <li>• Wages, salaries, bonuses, commissions</li> <li>• Alimony (for divorce before 2019, see How/Where to Enter Income, later)</li> <li>• Annuities</li> <li>• Awards</li> <li>• Back pay</li> <li>• Breach of contract payment</li> <li>• Business income/Self-employment income</li> <li>• Cash income</li> <li>• Compensation for personal services</li> <li>• Canceled debts<sup>1</sup></li> <li>• Director's fees</li> <li>• Disability benefits (employer-funded)</li> <li>• Discounts</li> <li>• Dividends</li> <li>• Employee awards</li> <li>• Employee bonuses</li> <li>• Estate and trust income</li> </ul>	<ul style="list-style-type: none"> <li>• Farm income</li> <li>• Fees</li> <li>• Gains from sale of property or securities</li> <li>• Gambling winnings</li> <li>• Hobby income</li> <li>• Grants to businesses, even disaster related, unless exempted by law</li> <li>• Interest</li> <li>• Interest on life insurance dividends</li> <li>• IRA distributions</li> <li>• Jury duty fees</li> <li>• Military pay (not exempt from taxation)</li> <li>• Military pension</li> <li>• Nonemployee compensation</li> <li>• Notary fees</li> <li>• Partnership, Estate and S-Corporation income (Schedule K-1s, Taxpayer's share)</li> <li>• Pensions</li> <li>• Prizes</li> <li>• Punitive damage award</li> </ul>	<ul style="list-style-type: none"> <li>• Railroad retirement—Tier I (portion may be taxable)</li> <li>• Railroad retirement—Tier II</li> <li>• Recovery of prior year deduction<sup>2</sup> (medical, property taxes, etc.)</li> <li>• Refunds of State and local income tax (if reportable)<sup>2</sup></li> <li>• Rents (gross rent)</li> <li>• Rewards</li> <li>• Royalties</li> <li>• Severance pay</li> <li>• Self-employment (gross income)</li> <li>• Social Security benefits (including SSDI) - portion may be taxable - (See Tab D, Income, Railroad Retirement, Civil Service, and Social Security Benefits)</li> <li>• Supplemental unemployment benefits</li> <li>• Taxable scholarships and grants</li> <li>• Tips and gratuities</li> <li>• Tribal per capita payments</li> <li>• Unemployment compensation</li> </ul>
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# Wages, Salaries, Tips, etc.

(Form 1040 - Line 1)



# Wages, Salaries, Tips – Form W-2

*Wages, salaries and tips are reported to the taxpayer on Form W-2*

22222		a Employee's social security number		OMB No. 1545-0008			
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld		
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld		
			5 Medicare wages and tips		6 Medicare tax withheld		
			7 Social security tips		8 Allocated tips		
d Control number			9		10 Dependent care benefits		
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans	
f Employee's address and ZIP code		13 Statutory employee		Retirement plan		12a	
		13 Retirement plan		Third-party sick pay		12b	
		14 Other				12c	
						12d	
15 State Employer's state ID number		16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2** Wage and Tax Statement  
 Copy 1 – For State, City, or Local Tax Department

2023

Department of the Treasury—Internal Revenue Service

# Wages, Salaries, Tips, etc.



## Examples:

- Employer Compensation (**Form W-2, Box 1**)
- Tips (waiter/waitress, bellhop, or motel/hotel housekeeper, etc.) – ***requires VITA Advanced Certification even with unreported tips!***
- Allocated tips - are amounts your employer assigned to employees in addition to the tips reported (**Form W-2, Box 8**)
- Scholarship and fellowship grants reported on a W-2(See Module 8, Tax Benefits for Education, for more information.)

## What to do:

- Enter the total of wages, salaries, tips, etc.
- If a joint return, also include the spouse's income.
- The amount on Form 1040, line 1a should be the total of Box 1 of all W-2 forms
- Always enter all amounts shown on the W-2, including federal and state tax withholding and any entries in Box 12.
- **Key what you see. The taxpayer's address, social security number and/or ITIN must match the W-2.**

# Other Line 1 Items

- **Household Employee (line 1b):** baby-sitting, housekeeping, etc. – any wages of this type not reported on Form W-2
- **Tip Income Not Reported (line 1c):** *see previous slide for more information*
- **Medicaid Waiver (line 1d):** Certain Medicaid waiver payments a taxpayer received for providing care for an eligible individual living in the taxpayer's home are not taxable and are excluded from gross income. Payments not reported on a W-2 that the taxpayer chooses to include in earned income are entered on line 1d. *Note: The same amount is entered on Schedule 1, line 8s, which is a negative amount, thereby subtracting it in the calculation of total income.*
- **Taxable Dependent Care Benefits (line 1e):** The portion of dependent care benefits paid by the employer that exceeded actual qualified expenses paid. The employer portion used to pay childcare can not be used in the childcare credit calculation. The total benefit provided is reported on Form W-2 in box 10.

# Other Line 1 Items

- **Employer Provider Adoption Benefits (line 1f):** Taxable income adjustment for benefits paid by employer. The taxpayer may be able to exclude up to \$14,890 from your income and be able to claim a credit of up to \$14,890.
  - *Note: The taxpayer can't claim both a credit and exclusion for the same expenses. The total benefit provided is reported on form W2 in box 12 with code T.*
- **Wages from Form 8919 (line 1g):** Wages received as an employee that the employer did not withhold your share of Social Security and Medicare taxes.
- **Other Earned Income (line 1h):** Retirement income improperly deferred, and disability retirement income received before reaching the employer's full retirement age (amount reported on Form 1099-R with code 3 in box 7), and corrective distributions from a retirement plan shown on Form 1099-R.
- **Nontaxable Combat Pay (line 1i):** Qualified combat pay can be excluded from taxable income and still be used in the earned income tax credit calculation.

# Taxable Interest & Tax-exempt Interest

(Form 1040 - Line 2a & 2b)

# Interest Income – Form 1099-INT

*Interest income is reported to the taxpayer on Form 1099-INT*

VOID     CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		Payer's RTN (optional)		OMB No. 1545-0112 <b>Form 1099-INT</b> (Rev. January 2022)		<b>Interest Income</b>
		1 Interest income \$ _____		For calendar year 20 ____		
PAYER'S TIN                      RECIPIENT'S TIN		2 Early withdrawal penalty \$ _____		<b>Copy 1</b>  <b>For State Tax Department</b>		
		3 Interest on U.S. Savings Bonds and Treasury obligations \$ _____				
RECIPIENT'S name  Street address (including apt. no.)  City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$ _____		5 Investment expenses \$ _____		
		6 Foreign tax paid \$ _____		7 Foreign country or U.S. possession		
FATCA filing requirement <input type="checkbox"/>		8 Tax-exempt interest \$ _____		9 Specified private activity bond interest \$ _____		
		10 Market discount \$ _____		11 Bond premium \$ _____		
Account number (see instructions)		12 Bond premium on Treasury obligations \$ _____		13 Bond premium on tax-exempt bond \$ _____		
		14 Tax-exempt and tax credit bond CUSIP no.		15 State    16 State identification no.		
17 State tax withheld \$ _____ \$ _____						

Form **1099-INT** (Rev. 1-2022)                      [www.irs.gov/Form1099INT](http://www.irs.gov/Form1099INT)                      Department of the Treasury - Internal Revenue Service

# Interest (Dividend) Income on Broker Statement

These numbers and letters correspond to the Box numbers on the related form, in this instance the 1099-DIV.

## Form 1099-DIV \*

### 2017 Dividends and Distributions

Copy B for Recipient  
(OMB No. 1545-0110)

1a Total Ordinary Dividends .....	291.87	6 Foreign Tax Paid.....	0.00
1b Qualified Dividends .....	291.87	7 Foreign Country or U.S. Possession.....	0.00
2a Total Capital Gain Distributions (Includes 2b - 2d).....	0.00	8 Cash Liquidation Distributions.....	0.00
2b Unrecap. Sec 1250 Gain.....	0.00	9 Non-Cash Liquidation Distributions.....	0.00
2c Section 1202 Gain.....	0.00	10 Exempt Interest Dividends .....	0.00
2d Collectibles (28%) Gain.....	0.00	11 Specified Private Activity Bond Interest Dividends.....	0.00
3 Nondividend Distributions .....	0.00	12 State.....	
4 Federal Income Tax Withheld .....	0.00	13 State Identification No. ....	
5 Investment Expenses.....	0.00	14 State Tax Withheld.....	0.00

## Form 1099-INT \*

### 2017 Interest Income

Copy B for Recipient  
(OMB No. 1545-0112)

1 Interest Income .....	0.07	10 Market Discount .....	0.00
2 Early Withdrawal Penalty .....	0.00	11 Bond Premium .....	0.00
3 Interest on U.S. Savings Bonds and Treas. Obligations .....	0.00	12 Bond Premium on U.S. Treasury Obligations .....	0.00
4 Federal Income Tax Withheld .....	0.00	13 Bond Premium on Tax-Exempt Bond .....	0.00
5 Investment Expenses .....	0.00	14 Tax-Exempt Bond CUSIP no. ....	
6 Foreign Tax Paid .....	0.00	15 State .....	
7 Foreign Country or U.S. Possession .....		16 State Identification No .....	
8 Tax-Exempt Interest .....	0.00	17 State Tax Withheld .....	0.00
9 Specified Private Activity Bond Interest .....	0.00		

*Example: statement and their associated forms (Form 1099-DIV & Form 1099-INT)*



# Taxable interest

- Reported to taxpayer on **Form 1099-INT, Box 1**, on a consolidated statement from a Broker or a note from a payer to taxpayer.
- Examples of taxable interest income include:
  - Checking and Savings accounts
  - CDs,
  - savings certificates,
  - interest on insurance dividends, or
  - US government bonds
- Total taxable interest income is reported on Form 1040, Line 2b
- If total taxable interest is over \$1,500, the tax software will add a [Schedule B](#) to taxpayer's tax return.
- If a taxpayer received less than \$10 in interest, the financial institution may not issue Form 1099-INT. Even if the taxpayer did not receive the form, they must still report all taxable income, including any interest paid by the IRS.



# Tax-exempt interest

- Reported to taxpayer on **Form 1099-INT, Box 8**
- Examples of tax-exempt interest income include:
  - Bonds that are exempt such as:
    - State political subdivisions
    - District of Columbia
    - Port authorities
- Total tax-exempt interest income is reported on Form 1040, Line 2a
- **Note: Boxes 10-13 are now in scope for the program, with exceptions. Check Publication 4012 before entering to determine if return is in scope.**

# Ordinary Dividends & Qualified Dividends

(Form 1040 - Line 3a & 3b)

# Dividend Income – Form 1099-DIV

**Dividend income is reported to the taxpayer on Form 1099-DIV**

VOID     CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		<b>1a</b> Total ordinary dividends \$ _____	OMB No. 1545-0110  <b>Form 1099-DIV</b> (Rev. January 2022) For calendar year 20 ____		<b>Dividends and Distributions</b>  <b>Copy 1</b> <b>For State Tax Department</b>
		<b>1b</b> Qualified dividends \$ _____			
		<b>2a</b> Total capital gain distr. \$ _____			
PAYER'S TIN	RECIPIENT'S TIN	<b>2c</b> Section 1202 gain \$ _____	<b>2d</b> Collectibles (28%) gain \$ _____		
RECIPIENT'S name  Street address (including apt. no.)  City or town, state or province, country, and ZIP or foreign postal code		<b>2e</b> Section 897 ordinary dividends \$ _____	<b>2f</b> Section 897 capital gain \$ _____		
		<b>3</b> Nondividend distributions \$ _____	<b>4</b> Federal income tax withheld \$ _____		
Account number (see instructions)		<b>5</b> Section 199A dividends \$ _____	<b>6</b> Investment expenses \$ _____		
		<b>7</b> Foreign tax paid \$ _____	<b>8</b> Foreign country or U.S. possession		
11 FATCA filing requirement <input type="checkbox"/>		<b>9</b> Cash liquidation distributions \$ _____	<b>10</b> Noncash liquidation distributions \$ _____		
12 Exempt-interest dividends \$ _____		13 Specified private activity bond interest dividends \$ _____			
14 State		15 State identification no.	16 State tax withheld \$ _____ \$ _____		

Form **1099-DIV** (Rev. 1-2022)                      [www.irs.gov/Form1099DIV](http://www.irs.gov/Form1099DIV)                      Department of the Treasury - Internal Revenue Service

# Ordinary Dividends

- Reported to taxpayer on **Form 1099-DIV, Box 1a**
- Corporate distributions paid out of the earnings and profits of the corporation
- Total Ordinary Dividends are reported on Form 1040, Line 3b
  - Also reported on a broker statement



# Qualified Dividends

- Qualified Dividends are generally dividends from shares in domestic corporations and certain qualified foreign corporations which you have held for a specified minimum period of time, known as a holding period.
- Reported to taxpayer on **Form 1099-DIV, Box 1b**
- Qualified Dividends are eligible for a lower tax rate than ordinary income
- Total Qualified Dividends are reported on Form 1040, Line 3a
  - Also reported on a broker statement



# Capital Gain Distributions

- Capital Gain Distributions are the owner's portion of the capital gains that were realized when a mutual fund or real estate investment trusts (REIT) sold assets.
- Reported to taxpayer on **Form 1099-DIV, Box 2a**
- **Be sure to enter this amount onto a Schedule D – your software should do it for you automatically!**





# IRAs, Pensions, and Annuities

(Form 1040 - Line 4a & 4b or 5a & 5b)



# IRAs, Annuities, and Pensions

- Distributions from an Individual Retirement Account, annuity, or pension, might be fully taxable or partially taxable. The distribution code from Line 7 defines the type of payment. Check [page xvi and D-50 and D-51 of Publication 4012](#) for scope qualifications.
- Gross Distributions:
  - The total amount the taxpayer received in the tax year
  - Reported to taxpayer on **Form 1099-R, Box 1**
  - IRA distributions amount reported on Form 1040, Line 4a
  - Pensions and annuities amount reported on Form 1040, Line 5a
- Taxable Amount
  - The part of the distribution that is taxable
  - Reported to taxpayer on **Form 1099-R, Box 2a**
  - Also reported on **Form 1040, Line 4b**
  - IRA taxable amount reported on Form 1040, Line 4b
  - Pensions and annuities taxable amount reported on Form 1040, Line 5b



NOTE: If there is no entry in this Box 2a, the payer may not have all the facts needed to figure the taxable amount. In that case, the first box in box 2b: “**Taxable amount not determined**” should be checked.

**\*\*Preparing returns with the taxable amount not determined requires Advanced certification\*\***

# Key Item: Retirement

- Look at the Distribution Code in Box 7 to make sure the return is **in scope!**
  - You can check the code on the Publication 4012 on Page D-50 and D-51 for a full breakdown.

VOID     CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution \$	OMB No. 1545-0119 <b>2022</b> Form 1099-R		<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
		2a Taxable amount \$	2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		
PAYER'S TIN	RECIPIENT'S TIN	3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$		<b>Copy 1 For State, City, or Local Tax Department</b>
RECIPIENT'S name		5 Employee contributions/ Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$		
Street address (including apt. no.)		7 Distribution code(s) IRRA SEP/ SIMPLE <input type="checkbox"/>	8 Other \$ %		
City or town, state or province, country, and ZIP or foreign postal code		9a Your percentage of total distribution %	9b Total employee contributions \$		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 FATCA filing requirement <input type="checkbox"/>	14 State tax withheld \$	15 State/Payer's state no.	16 State distribution \$
Account number (see instructions)		13 Date of payment	17 Local tax withheld \$	18 Name of locality	19 Local distribution \$

Form 1099-R    www.irs.gov/Form1099R    Department of the Treasury - Internal Revenue Service

*Note: Qualified disability income reported on Form 1099-R with a Distribution Code 3 in Box 7, is reported as earned income wages on Form 1040 until the minimum retirement age is met.*

# Social Security Benefits

(Form 1040 - Line 6a & 6b)

# Social Security Benefits – Form SSA-1099

**Social Security Benefits are reported to the taxpayer on Form SSA-1099**

**FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT**

<b>2020</b> • PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. • SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name		Box 2. Beneficiary's Social Security Number
Box 3. Benefits Paid in 2020	Box 4. Benefits Repaid to SSA in 2020	Box 5. Net Benefits for 2020 (Box 3 minus Box 4)
DESCRIPTION OF AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4
		Box 6. Voluntary Federal Income Tax Withheld
		Box 7. Address
		Box 8. Claim Number (Use this number if you need to contact SSA.)

Form SSA-1099-SM (1-2021)

DO NOT RETURN THIS FORM TO SSA OR IRS

# Social Security benefits

- Reported to taxpayer on **Form SSA-1099, Box 5**
  - Box 5 is **pink**.
- Social Security benefits are reported on Form 1040, Line 6a
- Be sure to also enter any income tax withheld from Form SSA-1099, Box 6, and any Medicare withheld premiums shown in the Description box.
- Add any information on Medicare for the [Schedule A](#).
- A portion of the benefits is taxable if total income (including tax-exempt interest), plus one-half of the benefits received, is more than certain base income amounts, which vary upon the taxpayer's filing status.
  - The taxable portion of Social Security benefits is **never more than 85%** of the net benefits the taxpayer received.



# Social Security Benefits – What's Taxable?

- The calculation is rather complex and is different depending on the filing status. To see how it works, go to the worksheet on page 30 of the 1040 instructions.
- **Fortunately, the tax software will calculate the taxable amounts for you.**
- Taxable Social Security benefits will appear on Form 1040, Line 6b

# Lump Sum Payments

- If Box 3 of SSA-1099 shows broken down amounts for prior years, the taxpayer received a lump-sum benefit payment
- There are two ways to figure out taxable portion of Social Security benefits when lump-sum payments are involved:
  - **First option:** report the whole payment in the year it was received. Complete the Social Security Benefits Worksheet as usual by including the entire lump-sum payment as normal
  - **Second option:** treat the payment as received in the earlier year(s) by figuring whether any part of these benefits is taxable based on the earlier year's income. Will need the tax return for the year(s) the lump sum payment is received for.
  - Use the method that results in the lower taxable benefits.



# Capital Gain or (Loss)

(Form 1040 – Line 7)

# Capital gain or (loss)

*Preparing a return with capital gains or (loss) requires Advanced level certification*

- Forms of capital assets might include:
  - Sale of home
  - Mutual Funds
  - Stocks
  - Bonds
- If the taxpayer sold a capital asset, [Form 8949](#) and [Schedule D](#) must be completed and attached.
- Form 8949 contains capital gain and loss transactions
- The subtotals from Form 8949 are carried over to Schedule D, where the total gain or loss is calculated
- The total gain or loss from Schedule D is reported on Form 1040, line 7.
- Transactions involving digital assets (virtual currency) such as sale, exchange or transfer are out of scope.



# Capital gain (or loss)

## Long- and Short-Term Capital Gains –The Holding Period

- Long-term capital gain: an asset owned for more than one year before it is sold
- Short-term capital gain: an asset owned for one year or less before it is sold
  - Different holding periods will be taxed at different rates in the software!

## Cost-Basis

- Taxpayers will have cost-basis totals either from their own brokerage firm or the Form 1099-B which will be used to complete the Form 8949.

## Capital Loss Carryovers

- If there are capital losses more than gains, the amount of loss that can be claimed on line 21 of Schedule D is the lesser of \$3,000 (\$1,500 if Married Filing Separately)
  - If your loss is more than this limit, then you can carry forward to later years – use the worksheet in [Publication 550](#) for more information!
  - Check with the taxpayer if they have carryovers from last year – if they are not sure, you will need last year's tax return. Carryovers **must be reported** every year, or they are lost.
  - Print out the Capital Loss Carryover Worksheet in [Schedule D](#) for the taxpayer's records next year.



# Module 3B: ADDITIONAL INCOME (SCHEDULE 1)

# By the end of this module you will...

- Understand the different sources of income that are reported on Schedule 1
- Understand the types of additional income that are out of scope for VITA





# Additional Income

(Form 1040 – Line 8)

# Additional Income

- If a taxpayer has additional income, a [Schedule 1](#) must be completed.
- Don't worry, the tax software you are using will automatically add Schedule 1 if you indicate there is additional income
- The additional income reported on Schedule 1 includes:
  - Taxable refunds, credits, or offsets of state and local income taxes
  - Alimony (received for divorce and legal separation before 2019)
  - Business income or (loss) (Schedule C)
  - Other gains or (losses)
  - Rental real estate, royalties, partnerships, S corporations, trusts, etc. (Schedule E)
  - Gambling
  - Cancellation of Debt
  - Jury Duty pay
  - Unemployment compensation
  - Other income
- Some of these income items are out of scope, so please reference Publication 4012 p.vi.
- The total of all additional income reported on Schedule 1, is transferred to Line 8 on [Form 1040](#)

# Form 1040, line 8

<b>Income</b>	<b>1a</b>	Total amount from Form(s) W-2, box 1 (see instructions)		<b>1a</b>			
	<b>b</b>	Household employee wages not reported on Form(s) W-2		<b>1b</b>			
	<b>c</b>	Tip income not reported on line 1a (see instructions)		<b>1c</b>			
	<b>d</b>	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		<b>1d</b>			
	<b>e</b>	Taxable dependent care benefits from Form 2441, line 26		<b>1e</b>			
	<b>f</b>	Employer-provided adoption benefits from Form 8839, line 29		<b>1f</b>			
	<b>g</b>	Wages from Form 8919, line 6		<b>1g</b>			
	<b>h</b>	Other earned income (see instructions)		<b>1h</b>			
	<b>i</b>	Nontaxable combat pay election (see instructions)	<b>1i</b>				
	<b>z</b>	Add lines 1a through 1h		<b>1z</b>			
Attach Sch. B if required.	<b>2a</b>	Tax-exempt interest	<b>2a</b>		<b>b</b> Taxable interest	<b>2b</b>	
	<b>3a</b>	Qualified dividends	<b>3a</b>		<b>b</b> Ordinary dividends	<b>3b</b>	
	<b>4a</b>	IRA distributions	<b>4a</b>		<b>b</b> Taxable amount	<b>4b</b>	
Standard Deduction for—	<b>5a</b>	Pensions and annuities	<b>5a</b>		<b>b</b> Taxable amount	<b>5b</b>	
	<b>6a</b>	Social security benefits	<b>6a</b>		<b>b</b> Taxable amount	<b>6b</b>	
	<b>c</b>	If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>			
<ul style="list-style-type: none"> <li>• Single or Married filing separately, \$13,850</li> <li>• Married filing jointly or Qualifying surviving spouse, \$27,700</li> <li>• Head of household, \$20,800</li> <li>• If you checked any box under Standard Deduction, see instructions.</li> </ul>	<b>7</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>	<b>7</b>		
	<b>8</b>	Additional income from Schedule 1, line 10			<b>8</b>		
	<b>9</b>	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>			<b>9</b>		
	<b>10</b>	Adjustments to income from Schedule 1, line 26			<b>10</b>		
	<b>11</b>	Subtract line 10 from line 9. This is your <b>adjusted gross income</b>			<b>11</b>		
	<b>12</b>	<b>Standard deduction or itemized deductions</b> (from Schedule A)			<b>12</b>		
	<b>13</b>	Qualified business income deduction from Form 8995 or Form 8995-A			<b>13</b>		
	<b>14</b>	Add lines 12 and 13			<b>14</b>		
	<b>15</b>	Subtract line 14 from line 11. If zero or less, enter -0-. This is your <b>taxable income</b>			<b>15</b>		

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11320B

Form **1040** (2023)

# Schedule 1

<b>SCHEDULE 1</b> <b>(Form 1040)</b>		<b>Additional Income and Adjustments to Income</b>		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, or 1040-NR. Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.		<b>2023</b> Attachment Sequence No. <b>01</b>
Name(s) shown on Form 1040, 1040-SR, or 1040-NR			Your social security number	
<b>Part I Additional Income</b>				
<b>1</b>	Taxable refunds, credits, or offsets of state and local income taxes		<b>1</b>	
<b>2a</b>	Alimony received		<b>2a</b>	
<b>b</b>	Date of original divorce or separation agreement (see instructions):			
<b>3</b>	Business income or (loss). Attach Schedule C		<b>3</b>	
<b>4</b>	Other gains or (losses). Attach Form 4797		<b>4</b>	
<b>5</b>	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		<b>5</b>	
<b>6</b>	Farm income or (loss). Attach Schedule F		<b>6</b>	
<b>7</b>	Unemployment compensation		<b>7</b>	
<b>8</b>	Other income:			
<b>a</b>	Net operating loss	<b>8a</b> ( )		
<b>b</b>	Gambling	<b>8b</b>		
<b>c</b>	Cancellation of debt	<b>8c</b>		
<b>d</b>	Foreign earned income exclusion from Form 2555	<b>8d</b> ( )		
<b>e</b>	Income from Form 8853	<b>8e</b>		
<b>f</b>	Income from Form 8889	<b>8f</b>		
<b>g</b>	Alaska Permanent Fund dividends	<b>8g</b>		
<b>h</b>	Jury duty pay	<b>8h</b>		
<b>i</b>	Prizes and awards	<b>8i</b>		
<b>j</b>	Activity not engaged in for profit income	<b>8j</b>		
<b>k</b>	Stock options	<b>8k</b>		
<b>l</b>	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	<b>8l</b>		
<b>m</b>	Olympic and Paralympic medals and USOC prize money (see instructions)	<b>8m</b>		
<b>n</b>	Section 951(a) inclusion (see instructions)	<b>8n</b>		
<b>o</b>	Section 951A(a) inclusion (see instructions)	<b>8o</b>		
<b>p</b>	Section 461(l) excess business loss adjustment	<b>8p</b>		
<b>q</b>	Taxable distributions from an ABLÉ account (see instructions)	<b>8q</b>		
<b>r</b>	Scholarship and fellowship grants not reported on Form W-2	<b>8r</b>		
<b>s</b>	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	<b>8s</b> ( )		
<b>t</b>	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan	<b>8t</b>		
<b>u</b>	Wages earned while incarcerated	<b>8u</b>		
<b>z</b>	Other income. List type and amount:	<b>8z</b>		
<b>9</b>	Total other income. Add lines 8a through 8z		<b>9</b>	
<b>10</b>	Combine lines 1 through 7 and 9. This is your <b>additional income</b> . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8		<b>10</b>	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040) 2023

# Taxable Refunds, Credits, Offsets of State and Local Income Taxes

(Schedule 1 - Line 1)

# Taxable refunds, credits, or offsets of state and local income taxes

- When a taxpayer received a state income tax refund and took state income tax as an itemized deduction in the prior year, the preparer needs a copy of the prior year return to determine how much is taxable.
- If the taxpayer did not itemize deductions on the prior year return, or did not receive a state income tax refund, there is no need to report any of the state income tax refund as income on the federal return.
- Generally taxpayers receive [Form 1099-G](#) that reports their state and local tax refund



# Alimony Received

(Schedule 1 – Line 2a)

## Line 2a – Alimony received

- Alimony (court-ordered provision for a spouse after separation or divorce) is no longer reportable/deductible for divorce decrees that are executed or revised after December 31, 2018
  - Only the maintenance/alimony as ordered by the court is reportable – child support is not reportable!
- If the divorce decree was executed **before December 31, 2018**, the receiving spouse reports the amount received on line 2a of Schedule 1 and the paying spouse is allowed to deduct the amount paid on line 19a of Schedule 1
- **Note: you'll need to input the date of the divorce decree on the 1040, Schedule 1.**





# Business Income

(Schedule 1 – Line 3)

# Business income

*Preparing a return with business income requires Advanced level certification*

- If the taxpayer operated a business or practiced a profession as a sole proprietor, income and expenses should be reported on [Schedule C](#)
- Business income may be reported on the following forms:
  - [Form 1099-NEC](#), nonemployee compensation
  - [Forms 1099-K](#), Merchant Card and Third Party Payments
  - [Form W-2](#), Wage and Tax statement with statutory employee (checked in box 13)
  - Taxpayer's books and records
  - This also includes cash from side jobs!



# Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, Etc.

(Schedule 1 - Line 5)

# Rental real estate, royalties, partnerships, S corporations, trusts, etc.

*Generally preparing a return with these types of income is OUT OF SCOPE for VITA\**

- If a taxpayer receives money from renting out property, receiving royalties, income from partnerships, S corporations, or trust, it is required to be reported as income
- This income is reported on line 5 Schedule 1.
- Royalty Income without expenses is reported on [Schedule E](#) and is in scope if there are no other associated expenses.

\*\* rental income is **in scope** for VITA volunteers with a military certification, but only for military families or individuals renting their primary residence due to a permanent change of duty station \*\*

# Rental real estate, royalties, partnerships, S corporations, trusts, etc.

**Generally preparing a return with these types of income is OUT OF SCOPE for VITA\***

- Note: some of these estate, trusts, partnerships, and S-Corporation returns are **in scope** in certain situations – you’ll need to check the Scope of Service Chart in the [Publication 4012!](#)
- These items can be found on Schedule K-1:
  - Estates and Trusts: Form 1041
  - Partnership: Form 1065
  - S-Corp: Form 1120-S
- **\*\* rental income is in scope** for VITA volunteers with a military certification, but only for military families or individuals renting their primary residence due to a permanent change of duty station **\*\***

# Unemployment Compensation

(Schedule 1 - Line 7)

# Unemployment compensation

- Money paid to unemployed workers who lost their jobs due to layoffs or retrenchment (the reduction of costs or spending in response to economic difficulty.)
- Taxpayers should receive a [Form 1099-G](#)
- Box 1 shows the total unemployment compensation paid to the taxpayer
- Enter any state or federal income tax withholding

VOID  CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Unemployment compensation \$	OMB No. 1545-0120 Form <b>1099-G</b> (Rev. January 2022) For calendar year 20	<b>Certain Government Payments</b>
		2 State or local income tax refunds, credits, or offsets \$		
PAYER'S TIN	RECIPIENT'S TIN	3 Box 2 amount is for tax year	4 Federal income tax withheld \$	<b>Copy 1 For State Tax Department</b>
RECIPIENT'S name		5 RTAA payments \$	6 Taxable grants \$	
Street address (including apt. no.)		7 Agriculture payments \$	8 Check if box 2 is trade or business income <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		9 Market gain \$		
Account number (see instructions)		10a State	10b State identification no.	
			11 State income tax withheld \$	

Form **1099-G** (Rev. 1-2022)

[www.irs.gov/Form1099G](http://www.irs.gov/Form1099G)

Department of the Treasury - Internal Revenue Service





# Other Income

(Schedule 1 – Line 8a-z)



# A Note on Other Income

There are a lot more items on the 2023 Schedule 1, line 8 so keep in mind these new items as you prepare your returns!

<b>8</b>	Other income:	
<b>a</b>	Net operating loss . . . . .	<b>8a</b> ( )
<b>b</b>	Gambling . . . . .	<b>8b</b>
<b>c</b>	Cancellation of debt . . . . .	<b>8c</b>
<b>d</b>	Foreign earned income exclusion from Form 2555 . . . . .	<b>8d</b> ( )
<b>e</b>	Income from Form 8853 . . . . .	<b>8e</b>
<b>f</b>	Income from Form 8889 . . . . .	<b>8f</b>
<b>g</b>	Alaska Permanent Fund dividends . . . . .	<b>8g</b>
<b>h</b>	Jury duty pay . . . . .	<b>8h</b>
<b>i</b>	Prizes and awards . . . . .	<b>8i</b>
<b>j</b>	Activity not engaged in for profit income . . . . .	<b>8j</b>
<b>k</b>	Stock options . . . . .	<b>8k</b>
<b>l</b>	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property . . . . .	<b>8l</b>
<b>m</b>	Olympic and Paralympic medals and USOC prize money (see instructions) . . . . .	<b>8m</b>
<b>n</b>	Section 951(a) inclusion (see instructions) . . . . .	<b>8n</b>
<b>o</b>	Section 951A(a) inclusion (see instructions) . . . . .	<b>8o</b>
<b>p</b>	Section 461(l) excess business loss adjustment . . . . .	<b>8p</b>
<b>q</b>	Taxable distributions from an ABLÉ account (see instructions) . . . . .	<b>8q</b>
<b>r</b>	Scholarship and fellowship grants not reported on Form W-2 . . . . .	<b>8r</b>
<b>s</b>	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d . . . . .	<b>8s</b> ( )
<b>t</b>	Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan . . . . .	<b>8t</b>
<b>u</b>	Wages earned while incarcerated . . . . .	<b>8u</b>
<b>z</b>	Other income. List type and amount: _____	<b>8z</b>

# Key Lines on Schedule 1, Line 8

- **Gambling Income (line 8b):** Gambling winnings include lotteries and raffles. These winnings are reported to the taxpayer via the Form W-2G.
- **Cancellation of Debt (line 8c):** this is only in scope for nonbusiness credit card debt cancellation, discharge of qualified principal residence indebtedness, and discharge of certain student loan debt in 2021 through 2025.
  - Check your [Publication 4012](#) for more information – all the above topics require Advanced level certification!
- **Jury Duty Pay (line 8h):** this is the jury duty pay that the taxpayer gave to their employer if the employer covered the taxpayer's salary during their jury duty service.

# Other Income

- Income the taxpayer received in the year that does not have a place elsewhere on their tax return beyond those in lines 8a – 8u on Schedule 1.
- Individuals who have received a 1099-MISC with **income in Box 3** should generally report this as **Other Income on Line 8** of Form 1040, Schedule 1.

<b>7</b>	Unemployment compensation . . . . .			<b>7</b>	
<b>8</b>	Other income:				

- Line 8 may also include income that is not included in 1099-MISC, such as:
  - Nonbusiness debt cancellation from Form 1099-C. ***This requires an Advance Certification***
  - Coverdell Education Savings Account or 529 distributions from Form 1099-Q
  - Gambling winnings from Form W-2G

*See the next module for more information about other income and Form 1099-MISC.*

# Re-Cap

In addition to income reported directly on Form 1040, several types of income are reported on the following lines on Schedule 1, lines 1-7

- **Basic Level Certification**
  - Line 1 - Taxable refunds, credits, or offsets of state and local income taxes
  - Line 2a – Alimony
  - Line 7 – Unemployment compensation
  
- **Advanced Level Certification**
  - Line 3 - Business income or (loss)
  
- **Out of Scope for VITA**
  - Line 4 – Other gain or (loss) Form 4797
  - Line 5 - Rental real estate, royalties, partnerships, S corporations, trusts, etc.\*
  - Line 6 – Farm income



# Module 3C: OTHER INCOME

Schedule 1, Line 8

# By the end of this module you will...

- Understand what Other Income is
- Understand Form 1099-MISC, 1099-NEC, 1099-K
- Understand where to report Other Income
- Understand how Other Income affects the tax return



# Other Income

# What is considered Other Income?

- While most people are aware they must include wages, salaries, interest, dividends, tips and commissions as income on their tax returns, many don't realize that they must also report most other income, such as:
  - cash earned from side jobs,
  - barter exchanges of goods or services,
  - awards, prizes, contest winnings and
  - gambling proceeds.
- A Form 1099-MISC will be issued if the taxpayer has \$600 or more from the pay. This 1099-MISC will also be sent to the IRS.
  - Income not reported on 1099-MISC because it is less than \$600 still needs to be reported on the tax return, even though there is no form for it.
- Some examples include:
  - Prizes and awards
  - Hobby income
  - Rental income





# Miscellaneous Income: Form 1099-MISC

**Miscellaneous Income may be reported to the taxpayer on Form 1099-MISC**

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PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	OMB No. 1545-0115	<b>Miscellaneous Information</b>
		\$ _____	Form <b>1099-MISC</b> (Rev. January 2022)	
		2 Royalties	For calendar year 20 ____	
		\$ _____		<b>Copy 1 For State Tax Department</b>
		3 Other income	4 Federal income tax withheld	
PAYER'S TIN                      RECIPIENT'S TIN		\$ _____	\$ _____	
RECIPIENT'S name  Street address (including apt. no.)  City or town, state or province, country, and ZIP or foreign postal code		5 Fishing boat proceeds	6 Medical and health care payments	
		\$ _____	\$ _____	
		7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest	
		\$ _____	\$ _____	
		9 Crop insurance proceeds	10 Gross proceeds paid to an attorney	
		\$ _____	\$ _____	
		11 Fish purchased for resale	12 Section 409A deferrals	
		\$ _____	\$ _____	
		13 FATCA filing requirement <input type="checkbox"/>	14 Excess golden parachute payments	
		\$ _____	\$ _____	
		15 Nonqualified deferred compensation		
Account number (see instructions)		\$ _____	\$ _____	
		16 State tax withheld	17 State/Payer's state no.	
		\$ _____	\$ _____	
		\$ _____	18 State income	
		\$ _____	\$ _____	

Form **1099-MISC** (Rev. 1-2022)                      [www.irs.gov/Form1099MISC](http://www.irs.gov/Form1099MISC)                      Department of the Treasury - Internal Revenue Service

# Understanding Form 1099-MISC

- **Box 1:** Includes any rental income the taxpayer may have received
  - **Rents are reported on Schedule E, which VITA only prepares at the Military Certification Level**
- **Box 2:** Includes any royalty income the taxpayer may have received
  - Example: John receives royalties from a song he wrote that is used in several commercials, so is receiving royalty income
  - **Preparing returns with Royalty income requires an Advanced Certification**
- **Box 3:** All other income, which includes income not listed elsewhere on a 1099-MISC
  - Example: Amber received a \$3,000 cash prize from her local grocery store from a contest she entered. Amber chose to use this prize to get ahead on her bills. This will be reported as other income.



# Understanding Form 1099-MISC

- **Box 4:** Includes any **income tax withholding**

- **Example:** Brian received a payment in which the payer withheld federal income tax. Brian would receive this 1099-MISC regardless of how much the payment was

- **Box 6: Medical and Health Care Payments**

- These are payments of \$600 or more made in the course of business or trade to physician, supplier, or any provider of medical or health care services. These services include charges for injections, drugs, dentures, etc.

- Both these topics require Advanced level certification!



A hand is shown holding a Form 1099-MISC document. The form is a standard IRS document with multiple sections for reporting various types of income and payments. The text on the form is small and difficult to read, but the overall structure is visible.



# Impact on the tax return

# Impact on the tax return

## Business Income

When a taxpayer has business income (generally income reported in Form 1099-K and 1099-NEC):

- The return requires that the preparer and reviewer be certified at the Advanced level.
- Requires preparation of Schedule C.
- The taxpayer can claim a wide variety of business expenses.
- Increases taxable income and, therefore, income tax.
- If net income is more than \$400, the taxpayer must pay self-employment tax (social security and Medicare tax) and must file Schedule SE, Self-Employment.
- The taxpayer must file a Schedule 1 with the return.

## Other Income

When a taxpayer has other income (generally reported in box 3 of Form 1099-MISC or Form W-2G):

- Increases taxable income and, therefore, income tax.
- If there is gambling income and the taxpayer is going to itemize deductions to claim gambling expenses, the return must be prepared by a volunteer with at least Advanced level certification.
- The taxpayer must file a Schedule 1 with the return.

# Re-Cap

Other Income is income generally reported on Form 1099-MISC.

- Income reported in box 3, Other Income.
  - This income is reported on line 8 of Schedule 1.
  - The taxpayer cannot claim expenses related to this income.
  - This issue is Basic certification level.
  
- Scholarship Income is covered in Module 8!

## Additional Resources:

- [Form 1099-MISC](#)
- [Form 1099-NEC](#)
- [Form 4137](#)
- [Publication 4012](#)
- Publication 4491

**Up Next...**

**Module 4: Adjustments to Income**