



# **Module 3: 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.
- 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.

**See Income Charts 4012 D3 & D4**



# Wages, Salaries, Tips, etc.



## Examples:

- Employer Compensation (**Form W-2, Box 1**)
- Tips (waiter/waitress, bellhop, or motel/hotel housekeeper, etc)
- 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

## 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 or 14.
- **Key what you see.** The taxpayer's address, social security number and/or ITIN must match the W-2. Employer EIN's too!!!

# Additional Notes - Tip Income

- If your client has unreported tip income, they will report it on [Form 4137](#).
- Complete Form 4137 and the additional Social Security and Medicare taxes will be reported on [Schedule 2](#)

<b>SCHEDULE 2</b> <b>(Form 1040)</b>		<b>Additional Taxes</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>02</b>	
Name(s) shown on Form 1040, 1040-SR, or 1040-NR				Your social security number	
<b>Part I Tax</b>					
1	Alternative minimum tax. Attach Form 6251 . . . . .				1
2	Excess advance premium tax credit repayment. Attach Form 8962 . . . . .				2
3	Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17 . . . . .				3
<b>Part II Other Taxes</b>					
4	Self-employment tax. Attach Schedule SE . . . . .				4
5	Social security and Medicare tax on unreported tip income. Attach Form 4137 . . . . .	5			
6	Uncollected social security and Medicare tax on wages. Attach Form 8919 . . . . .	6			
7	Total additional social security and Medicare tax. Add lines 5 and 6 . . . . .				7



# Other Line 1 Items

- **Household Employee (line 1b):** babysitting, 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 receives 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 Provided Adoption Benefits (line 1f):** Taxable income adjustment for benefits paid by employer. The taxpayer may be able to exclude up to \$14,890 from 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.

<https://www.irs.gov/pub/irs-pdf/f1040.pdf>



# 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 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 the taxpayer's tax return.
- If a taxpayer received less than \$10 in interest, they may not receive a 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.



# Interest Income – 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	
		1 Interest income		Form <b>1099-INT</b>	
		\$		(Rev. January 2022)	
PAYER'S TIN		RECIPIENT'S TIN		For calendar year 20__	
				2 Early withdrawal penalty	
RECIPIENT'S name		3 Interest on U.S. Savings Bonds and Treasury obligations		Copy 1 For State Tax Department	
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	
FATCA filing requirement <input type="checkbox"/>		6 Foreign tax paid		7 Foreign country or U.S. possession	
		\$		\$	
Account number (see instructions)		8 Tax-exempt interest		9 Specified private activity bond interest	
		\$		\$	
		10 Market discount		11 Bond premium	
		\$		\$	
		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)

<p>1a Total Ordinary Dividends ..... <b>291.87</b></p> <p>1b Qualified Dividends ..... <b>291.87</b></p> <p>2a Total Capital Gain Distributions (Includes 2b - 2d).....0.00</p> <p>2b Unrecap. Sec 1250 Gain.....0.00</p> <p>2c Section 1202 Gain.....0.00</p> <p>2d Collectibles (28%) Gain.....0.00</p> <p>3 Nondividend Distributions .....0.00</p> <p><b>4 Federal Income Tax Withheld .....0.00</b></p> <p>5 Investment Expenses .....0.00</p>	<p>6 Foreign Tax Paid.....0.00</p> <p>7 Foreign Country or U.S. Possession.....0.00</p> <p>8 Cash Liquidation Distributions.....0.00</p> <p>9 Non-Cash Liquidation Distributions.....0.00</p> <p>10 Exempt Interest Dividends .....0.00</p> <p>11 Specified Private Activity Bond Interest Dividends.....0.00</p> <p>12 State.....</p> <p>13 State Identification No. ....</p> <p>14 State Tax Withheld.....0.00</p>
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**Form 1099-INT \*** **2017 Interest Income** Copy B for Recipient  
(OMB No. 1545-0112)

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

# Dividend Income – 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.		1a Total ordinary dividends		OMB No. 1545-0110			
		\$		Form <b>1099-DIV</b>			
		1b Qualified dividends		(Rev. January 2022)			
PAYER'S TIN		RECIPIENT'S TIN		For calendar year			
				20__			
				2a Total capital gain distr.		2b Unrecap. Sec. 1250 gain	
\$		\$		<b>Dividends and Distributions</b>  <b>Copy 1</b> <b>For State Tax Department</b>			
2c Section 1202 gain		2d Collectibles (28%) gain					
\$		\$					
2e Section 897 ordinary dividends		2f Section 897 capital gain					
\$		\$					
RECIPIENT'S name		3 Nondividend distributions				4 Federal income tax withheld	
\$		\$				\$	
Street address (including apt. no.)		5 Section 199A dividends				6 Investment expenses	
\$		\$				\$	
City or town, state or province, country, and ZIP or foreign postal code		7 Foreign tax paid				8 Foreign country or U.S. possession	
\$		\$		\$			
Account number (see instructions)		9 Cash liquidation distributions		10 Noncash liquidation distributions			
		\$		\$			
11 FATCA filing requirement		12 Exempt-interest dividends		13 Specified private activity bond interest dividends			
<input type="checkbox"/>		\$		\$			
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 the Capital Gain Distributions on the Dividend entry screen. It will automatically flow onto a Schedule D

# 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.
- Gross Distributions: The total amount the taxpayer received in the tax year
  - Reported to the 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 the 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 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***” will be checked.

Look at the Distribution Code in Box 7 to make sure the return is **in scope!**

You can check the list in the 4012 on Page D-52 and D-53 for a full breakdown.



# Social Security benefits

- Reported to taxpayer on **Form SSA-1099, Box 5**
  - On an original document 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.
- 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.
  - The calculation is rather complex and is different depending on the filing status. To see how it works, go to the worksheet in 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 amounts for prior years, the taxpayer received a lump-sum benefit payment
- There are two ways to figure out the 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 prior tax return for the year(s) for which the lump sum payments were paid.**

**Use the method that results in the lower taxable benefits.**



# Lump Sum Payments

- If Box 3 of SSA-1099 shows amounts for prior years, the taxpayer received a lump-sum benefit payment (usually in the bottom corner)

- Prior year amounts will show in DESCRIPTION block of Form SSA-1099

FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT		
<b>2024</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 2024	Box 4. Benefits Repaid to SSA in 2024	Box 5. Net Benefits for 2024 (Box 3 minus Box 4)
DESCRIPTION OF AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4
Box 6. Voluntary Federal Income Tax Withholding		

## Spouse's Information

### 5 - Social Security benefit

This is generally found in box 5 of Form SSA-1099

\$

### 6 - Federal tax withheld

\$

## Medicare premiums

[+ Add Medicare premium](#)

### Total medicare premiums

\$

### Lump-sum payments

Look for the [BEGIN WORKSHEET](#) button at the bottom of the Social Security input page.

# Social Security Lump-Sum Payment

CANCEL

Year the lump sum payment was made for

2024 ▾

Filing status in earlier year \*

Select ▾

SSA payments received in earlier year

\$

Portion of this year's SSA for earlier year \*

\$

Adjusted gross income for earlier year \*

\$

Exclusions/Adjustments claimed in earlier year

\$

Tax-exempt interest received in earlier year

\$

Taxable benefits reported in earlier year

\$

The Social Security Fairness Act, which was passed in January 2025, paid prior-year benefits for many of our clients.

TaxSlayer handles the calculations once we input all the necessary information. Everything will be handled in the current year. No amended returns are needed.

We need the prior year's tax return! This cannot be calculated without it.

Remembering to check for these lump-sum payments and using the tools in TaxSlayer could save your client lots of \$\$\$.



# Capital gain or (loss)

- 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 MFS)
  - 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)**

# 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.
- The total of all additional income reported on Schedule 1, transfers to Line 8 on [Form 1040](#)

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

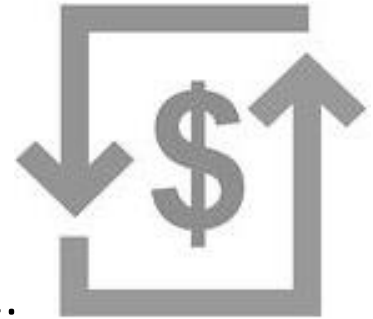
- When a taxpayer received a state income tax refund and took state income tax as an itemized deduction in the prior year, the preparer needs a copy of the prior year return to determine how much is taxable.
- The refund becomes taxable if it produced a tax benefit in the previous year. The software will guide you through this process.
- 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

## 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
- 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
  - Only the maintenance/alimony as ordered by the court is reportable – child support is not reportable!
- **Note: you'll need to input the date of the divorce decree on the 1040, Schedule 1.**

# Business income

- 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!
- If a taxpayer sold or exchanged assets used in a trade or business, [Form 4797](#) needs to be completed – this form is out of scope for VITA



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

- If a taxpayer receives money from renting out property, receiving royalties, income from partnerships, S corporations, or a 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.
- Some income from estate, trusts, partnerships, and S-Corporations are **in scope** in certain situations – check the Scope of Service Chart in the 4012.
  - These items can be found on a 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 \*\*

# Schedule K-1

- Reports taxpayer's share of income and other distributions, deductions, and credits from partnerships, S corporations, and some estates and trusts  
    Our most common K1 is from the Funeral Trusts
- Limited Schedule K-1 income topics (and reporting forms) are in scope
  - Interest income (Form 1040, unless Schedule B is required)
  - Dividend income (Form 1040, unless Schedule B is required)
  - Qualified Dividends income (1040)
  - Net short-term capital gains and losses (Schedule D, line 5)
  - Net long-term capital gains and losses (Schedule D, line 12)
  - Tax-exempt interest income (Form 1040)
  - Royalty income (Schedule E) – only in scope if the source document is a Schedule K-1 or Form 1099-MISC, Box 2, Royalties, with no associated expenses

# Where is the K1 form?

## Schedule C

Profit or Loss from Business

BEGIN

## Form 1099-K

Payment card and third party network transactions

BEGIN

## Schedule E

Supplemental Income and Loss from Rents and Royalties

BEGIN

## Schedule D/Form 8949

Capital gains and losses reported on Schedule D

BEGIN

## Schedule F

Profit or Loss from Farming

BEGIN

## Alimony Received

Payments from a former spouse under a legal agreement

BEGIN

## Other Income

K-1 earnings, gambling winnings, cancellation of debt, etc.

BEGIN

BACK

CONTINUE

## 1099-C, 982

Cancellation of Debt

BEGIN

## Form 1045

Net Operating Loss Worksheet

BEGIN

## Form 6252

Installment Sale Income

BEGIN

## Form 4797

Sale of Business Property

BEGIN

## Form 8824

Like-Kind Exchanges

BEGIN

## K-1 Earnings

Schedule K-1's from Forms 1120S, 1065, or 1041

BEGIN

## Form 6781

Gains and Losses from Section 1256

BEGIN

## Form 2555

Foreign Earned Income Exclusion

BEGIN

## Form 4835

Farm Rental Income and Expenses

BEGIN

## Schedule Q (Form 1066)

Income or Loss from Real Estate Mortgage Investment Conduits (REMICs)

BEGIN

## Form 461

Limitations on Business Losses

BEGIN

Most common at our sites

# Schedule K-1

Schedule K-1 Form 1065

BEGIN

Schedule K-1 Form 1120S

BEGIN

Schedule K-1 Form 1041

BEGIN

Schedule E (Page 2) Questions

BEGIN

## Form 1041 K-1

CANCEL

### Part I - Information About the Estate/Trust

Estate/Trust Belongs To \*

- Taxpayer
- Spouse

Estate/Trust Name \*

### Part III - Beneficiary's Share of Income, Deductions, Credits, etc

1 Interest Income

2a Ordinary Dividends

2b Qualified Dividends

3 Net Short-Term Capital Gain(Loss)

4a Net Long-Term Capital Gain(Loss)

11a Excess Deductions on Termination

11b Excess Deductions on Termination - Non-Miscellaneous Itemized Deductions

11c Short Term Capital Loss Carryover

11d Long Term Capital Loss Carryover

11e Net Operating Loss Carryover for Regular Tax Purposes

# Unemployment compensation

- Money paid to unemployed workers who lost their jobs due to layoffs
- 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>  <b>Copy 1 For State Tax Department</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 \$ _____	
RECIPIENT'S name  Street address (including apt. no.)  City or town, state or province, country, and ZIP or foreign postal code		5 RTAA payments \$ _____	6 Taxable grants \$ _____	
		7 Agriculture payments \$ _____	8 Check if box 2 is trade or business income <input type="checkbox"/>	
Account number (see instructions)		9 Market gain \$ _____	11 State income tax withheld \$ _____	
		10a State	10b State identification no.	\$ _____



## **Module 3C: OTHER INCOME**

- Schedule 1, Line 8

# 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 received \$600 or more from the payor. 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



## 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 - 2025.
  - Check your [Publication 4012](#) for more information
- **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.

# 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
- **Box 3:** All other income, which includes income not listed elsewhere on a 1099-MISC
  - Example: Amber received a \$3,000 cash prize from a contest at her local grocery store. Amber chose to use this prize to get ahead on her bills. This will be reported as other income.
- **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.

# Impact on the tax return

**Business Income:** When a taxpayer has business income (generally income reported on Form 1099-K and 1099-NEC):

- 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.
- The taxpayer must file a Schedule 1 with the return.