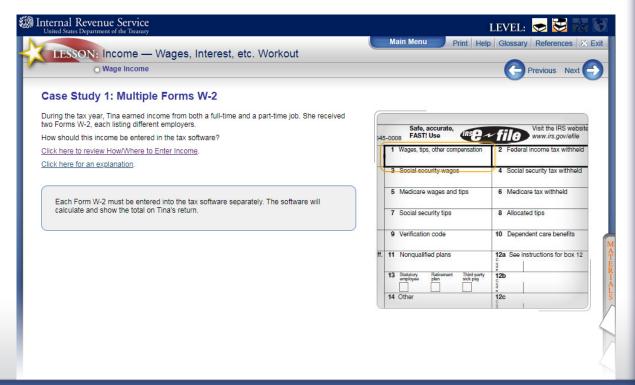


Income from Form 1040 Wages, Interest

	1	Wages, salaries, tips, etc. Attach	1				
Attach Sch. B if	2a	Tax-exempt interest	2a	b Taxable inter	est	2b	
	3a	Qualified dividends	3a	b Ordinary divid	dends	3b	
required.	4a	IRA distributions	4a	b Taxable amo	unt	4b	
	5a	Pensions and annuities	5a	b Taxable amo	unt	5b	
Standard	6a	Social security benefits	6a	b Taxable amo	unt	6b	
Deduction for—	7	Capital gain or (loss). Attach Sch	edule D if required. If not r	equired, check here	▶ 🗌	7	
Single or Married filing	8	Other income from Schedule 1, li	ine 10			8	
separately, \$12,550	9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7				9	
Married filing	10	Adjustments to income from Sch	edule 1, line 26			10	
jointly or Qualifying	11	Subtract line 10 from line 9. This	is your adjusted gross in	come		11	
widow(er), \$25,100	12a	Standard deduction or itemized	d deductions (from Sched	ule A)	12a		
Head of	b	Charitable contributions if you tak	e the standard deduction (s	see instructions)	12b		
household, \$18.800	С	Add lines 12a and 12b				12c	
If you checked	13	Qualified business income deduc	ction from Form 8995 or Fo	orm 8995-A		13	
any box under Standard	14	Add lines 12c and 13				14	
Deduction, see instructions.	15	Taxable income. Subtract line 1	4 from line 11. If zero or le	ss, enter -0		15	
For Disclosure,	Privacy	y Act, and Paperwork Reduction Act	Notice, see separate instruc	tions.	Cat. No. 11320B		Form 1040 (2021)

About Income from Form 1040 Wages, Interest, etc.

- Additional resources listed in L< "References" tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise



Objectives – Income from Form 1040 Wages, Interest, etc.

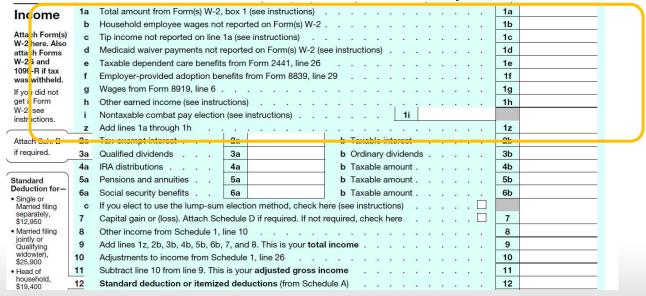
- Compute taxable and nontaxable income
- Distinguish between earned and unearned income
- Report income correctly on Form 1040
- Time Required: 30 minutes

Topics



- Determining taxable and nontaxable income
- Reporting wages, salaries, tips, etc.
- Scholarship and Fellowship income

- Interest income
- Dividends
- State and local refunds
- Alimony



Key Terms

Definitions are always available in the L< online Glossary.

- Allocated Tips
- Capital Gain Distributions
- Earned Income
- Gross Income
- Ordinary Dividends
- Taxable Income
- Tax-exempt Income
- Unearned Income

Determining Taxable and Nontaxable Income

What are the differences between taxable and nontaxable income?

- Nontaxable (excludable)
 - Gifts and inheritances
 - Exempt income
- Earned
 - Received for work, such as wages, business income
- Unearned
 - Interest income from investments
- Review Pub 4012, Income tab, for <u>examples</u>

Income Quick Reference Guide

This list is a quick reference and volunteers should refer to Publication 17 for more information. Don't rely on this list sione. Some of the income item on this chart are Out of Scope for VITA/TCE. Review the Scope of Service chart to identify Out of Scope Items. Refer texpayers 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.

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)

Wages, salaries, bonuses, commissions Allmony (for divorce/modification before 2019, see How/Where to Enter Income, later)

Breach of contract payment

Business income/Self-employment income

Compensation for personal services

Disability benefits (employer-funded)

Dividends

Employee awards Employee bonuses

Estate and trust Income

Gains from sale of property or securities

Hobby Income

Interest on life insurance dividends

IRA distributions

Military pay (not exempt from taxation)

Jury duty fees

Military pension Nonemployee compensation Notary fees Partnership, Estate and S-Corporation Income

(Schedule K-1s, Taxpayer's share) Pensions

Punitive damage award

Railroad retirement—Tier I (portion may be taxable)

Rallroad retirement—Tier II

Recovery of prior year deduction? (medical property taxes, etc.)

Refunds of State and local Income tax (if

Rents (gross rent)

Rewards

Severance pay Self-employment (gross Income)

Social security benefits - portion may be taxable -

(See Tab D, Income, Railroad Retirement, Civil Service, and

Social Security Benefits) Supplemental unemployment benefits

Taxable scholarships and grants

Tribal per capita payments Unemployment compensation

Table B – Examples of Nontaxable Income

(Examples of income items to exclude when determining whether a return must be filed)

Aid to Families with Dependent Children (AFDC) Child support

Civil damages, restitution or other monetary award paid to someone because that person was wrongfully

Damages for physical injury (other than punitive)

Dividends on life insurance

Federal Employees' Compensation Act payments Federal Income tax refunds

Payments to the beneficiary of a deceased employee Payments in fleu of worker's compensation

Qualified Medicald walver payments Relocation payments

Rebate/Patronage Dividends issued by co-ops for

personal use are not taxable. Rental less than 15 days⁵ Rental allowance of clergyman Reverse mortgages

Sickness and injury payments

Social security benefits - portion may not be taxable (See Tab D. Income, Rallroad Retirement, Civil Service, and

Determining Taxable and Nontaxable Income

Examples of income items used to determine entries in TaxSlayer.

Review Pub 4012, Using TaxSlayer® Pro Online tab, Navigating

TaxSlayer chart

- Tax Forms:
 - W-2
 - 1099-INT
 - 1099-DIV
 - 1099-G

Navigating TaxSlayer

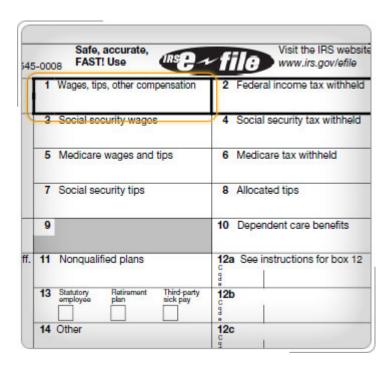
Form or Topic	Keyword	Navigation to Data Entry Screen	Pub 4012 Page	
982 Reduction of Tax Attributes	98	Income>Other Income>Cancellation of Debt Form 1099-C, Form 982	D-60	
1040-ES Estimated Tax Payments	1040	Payments & Estimates>Vouchers for Next Year's Estimated Payments	K-17	
1040X Amended Return	N/A	Select 2018 Amended Return Section from side menu or create prior year return	M-1	
1095-A Health Insurance	N/A	Select Health Insurance Section from side menu>Follow screens to Advanced Premium Tax Credit	H-23	
1098 Mortgage Interest Statement	1098	Deductions>Itemized Deductions>Mortgage Interest and Expenses>Mortgage Interest Reported on Form 1098	F-9	
1098-E Student Loan Interest	1098	Deductions>Adjustments>Student Loan Interest Deduction	E-10	
1098-T Tuition Statement	1098	Deductions>Credits Menu>Education Credits	J-6	
1099-A Acquisition or Abandonment	Capital	Income>Capital Gain and Losses>Sale of Main Home Worksheet or use Capital Gains and Loss Items	EXT-1	
1099-B Proceeds from Broker and Barter Exchange	10	Income>Capital Gain and Losses>Capital Gain and Loss Items	D-21	
1099-C Cancellation of Debt	C or CANC	Income>Other Income>Cancellation of Debt Form 1099-C, Form 982	D-58	
1099-DIV Dividends	D	Income >Interest and Dividends>Interest or Dividend Income	D-11	
1099-G State Tax Refund	G	Income>State and Local refunds	D-12	
1099-G Unemployment Compensation	10, UN	Income>Unemployment Compensation	D-3	
1099-INT Interest Income	INT	Income>Interest and Dividends>Interest or Dividend Income	D-8	
1099-INT Box 9, Private Activity Bond Interest (PAB)	INT	Other Taxes>Alternative Minimum Taxes>Interest from specified private activity bonds exempt from the regular tax	D-8	
1099-K Payment Card and Third Party	N/A	Income>Payment Card and Third-Party Network Transactions Form 1099K>C>Income (include in gross receipts or sales)	D-13	

Determining Taxable and Nontaxable Income

- Remember: Volunteers probe taxpayers to determine all sources of income
- Media: Videos & Audio for topic
 - FAQ, <u>1099-DIV Dividend Income</u>
- End of topic Q & A

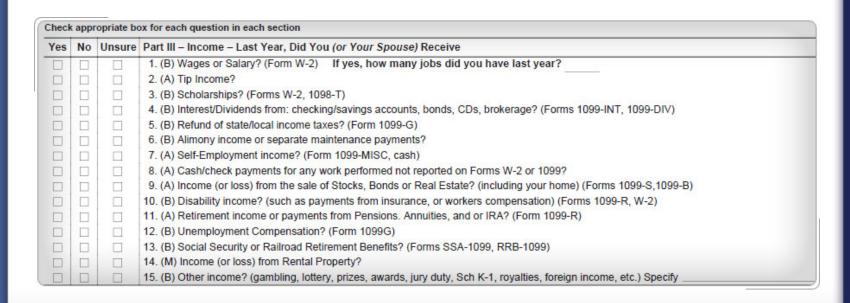
Reporting Wages, Salaries, Tips, etc.

- Form W-2: Issued to employees by January 31, reports wages and other compensation
- Pub 4012, Income tab
 - How/Where to Enter Income
 - Form W-2 Instructions



Reporting Wages, Salaries, Tips, etc.

- TaxSlayer Practice
 - Click Income from Federal Section, then click Wages and Salaries
 - Complete Form W-2
 - To enter tips not shown on Form W-2, click on Other Taxes from Federal Section, then Tax on Unreported Tip Income



Reporting Wages, Salaries, Tips, etc.

- Remember:
 - Household employees earning less than \$2,200 may not receive a
 Form W-2, but the income must be reported
 - Self-employed taxpayers who receive tips should include their tips in gross receipts on Schedule C
- Media: Videos & Audio for topic
 - Missing Form W-2 (<u>YouTube video</u>)
- End of topic Q & A

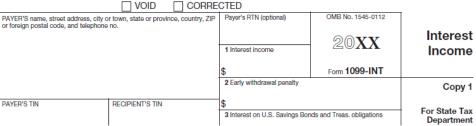
Scholarship and Fellowship Income

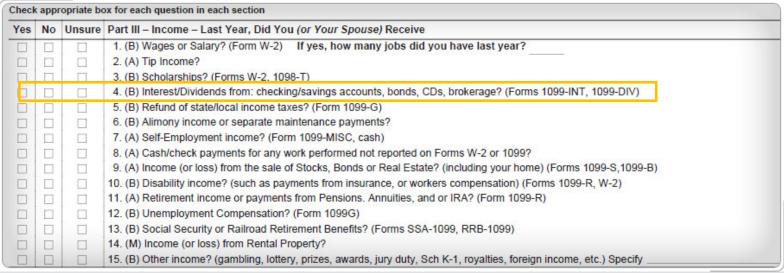
- Taxable scholarship income may be reported on Form W-2 and Form 1098-T
- If the taxpayer did not receive a Form W-2, the taxable amount should still be reported
- Review Pub 4012, Education Benefits Tab, <u>Tax Treatment of Scholarship</u> and <u>Fellowship Payments</u>

☐ CORRECTED									
FILER'S name, street address, city or town, sta foreign postal code, and telephone number	te or province, country, ZIP or	Payments received for qualified tuition and related expenses 2	OMB No. 1545-1574	Tuition Statement					
			Form 1098-T						
FILER'S employer identification no. STUDE	NT'S TIN	3		Copy B					
				For Student					
STUDENT'S name		4 Adjustments made for a prior year	5 Scholarships or grants	This is important					
		prior year		tax information					
		\$	\$	and is being furnished to the					
Street address (including apt. no.)		6 Adjustments to scholarships or grants	7 Checked if the amount in box 1 includes	IRS. This form					
		for a prior year	amounts for an	must be used to complete Form 8863					
City or town, state or province, country, and ZI	P or foreign postal code		academic period beginning January-	to claim education					
		\$	March 2022	credits. Give it to the tax preparer or use it to					
Service Provider/Acct. No. (see instr.)	8 Checked if at least	9 Checked if a graduate	10 Ins. contract reimb./refund	prepare the tax return.					
	half-time student	student	\$						
Form 1098-T (keep for yo	our records)	www.irs.gov/Form1098T	Department of the Treasury	- Internal Revenue Service					

Interest Income

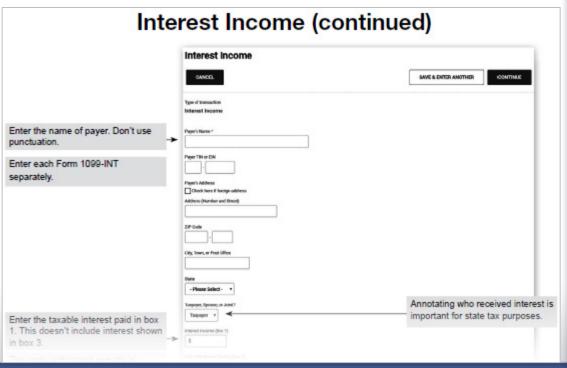
- Interest income (unearned income) is reported on <u>Form 1099-INT</u>
- Common sources: savings accounts, CDs, saving certificates, government bonds, interest on insurance proceeds, loan interest
- Enter interest income as directed in the software





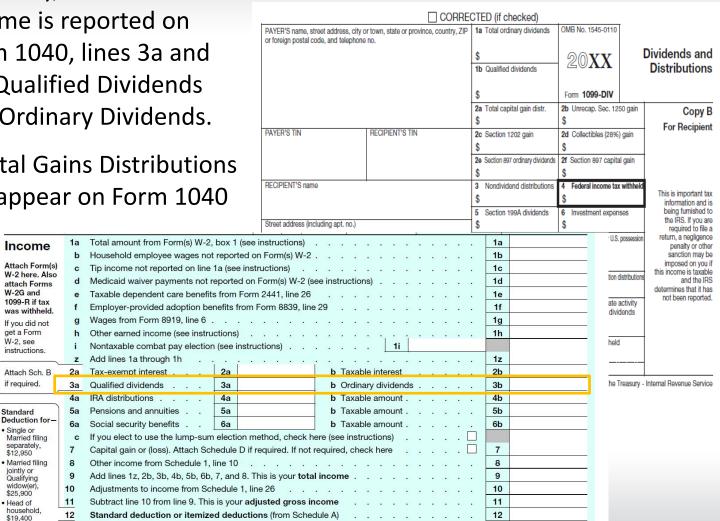
Dividends

- Reported to the taxpayer on Form 1099-DIV
 - Ordinary dividends
 - Section 199A dividends
 - Qualified dividends: Eligible for lower tax rate
- Review Pub 4012, Income tab, <u>Interest and Dividend Income</u>
- See Publication 17,
 Dividends and
 Other Distributions
 for more details



Dividends

- Generally, all dividend income is reported on Form 1040, lines 3a and 3b, Qualified Dividends and Ordinary Dividends.
- Capital Gains Distributions will appear on Form 1040



\$25,900

Head of

\$19,400

Dividends

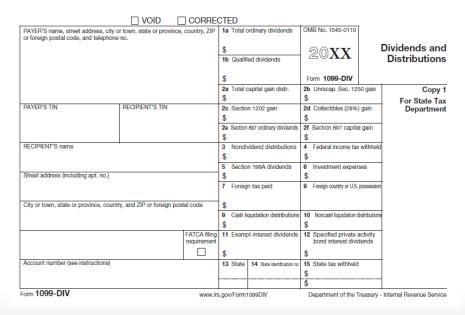
- Ask taxpayers for their annual brokerage statement if they did not receive Form 1099-DIV for a dividend
- Schedule B is needed if the taxpayer's ordinary dividends are greater than \$1,500

Out of scope: Form 1099-DIV boxes labeled Unrecap. Sec. 1250 gain,

Section 1202 gain, Cash liquidation distributions, and Noncash liquidation distributions

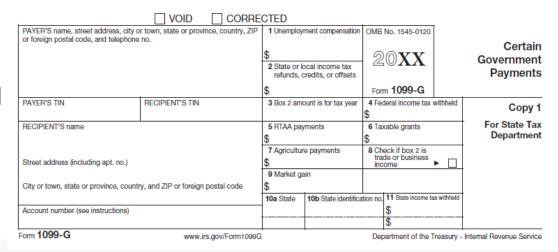
 Media: Videos & Audio for topic

• FAQ: <u>1099-DIV Dividend</u> <u>Income</u>



State and Local Refunds

- Will be shown on Form 1099-G
- Report only if:
 - Taxpayer itemized deductions last year, and
 - Received an income tax benefit.
 - Do not report if state sales tax was deducted.
- Taxable refund is reported on Form 1040, Schedule 1
- Click Income from the Federal Section then state and local refunds

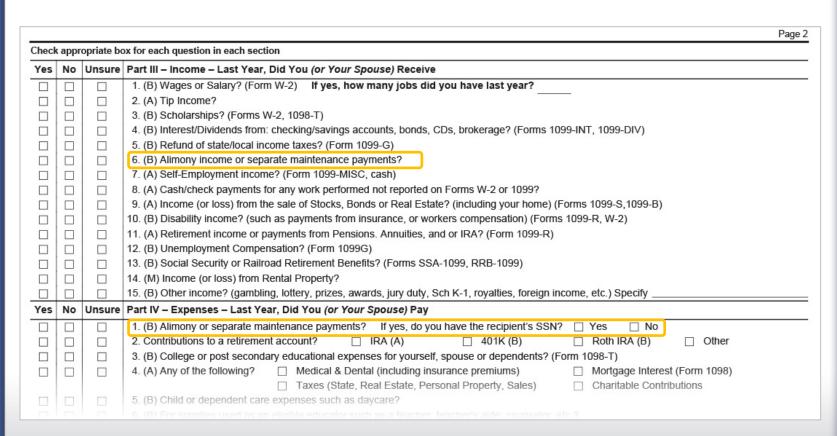


Alimony

- Do not confuse child support payments with alimony
- Where do you get alimony information?
 - Ask the taxpayer if they have:
 - Post 1984 and pre 2019 divorces
 - Post 2018 divorces
- How do you report alimony?
 - Form 1040, Schedule 1, if receiving
 - Schedule 1 Adjustments to Income section if paying
- For any divorce or separation instrument executed after December 31, 2018, or modified after that date, alimony and separate maintenance payments are not deductible by the payor spouse and are not included in income by the recipient of the payments.

Alimony

- Getting information about alimony
 - Form 13614-C
 - Pub 4012, Adjustments tab, <u>Alimony Requirements</u>



Summary

- This lesson covered:
 - Income reported on Form 1040 and Schedule 1
 - Differentiating taxable and nontaxable income
 - Earned and unearned income
- Check your understanding of this lesson by going to Certification Warm Up on your student landing page



Skills Workout



Certification Warm Up



Media: Videos & Audio



TaxWise Tutorial



Job Aids



Practice Lab

Out of Scope for this Lesson:

- Taxpayers with income from the following sources:
 - Other gains/losses
 - Farm income
- Accrual method for reporting income
- Taxpayers who buy or sell noncovered bonds between interest payment dates
- Form 1099-INT, with entry in Specified private activity bond interest box subject to AMT
- Adjustments needed for any of the amounts listed on Form 1099-OID, or if the taxpayer should have received Form 1099-OID but did not receive one
- Form 1099-DIV, boxes labeled Unrecap. Sec. 1250 gain, Section 1202 gain, Cash liquidation distributions, and Noncash liquidation distributions
- State or local income tax refunds received in the current tax year for a year other than the previous tax year
- Alimony/divorce agreements executed before 1985
- Minister tax returns with parsonage/housing allowance

Practice

- Select the problems from L< Skills Workout based on your certification course of study
- Complete the exercise