

Income – Other Income

As an AARP Foundation Tax-Aide Counselor, this lesson will help you determine other forms of income and how to report other sources of income.

Learning Objectives

- Identify other types of income and how to report them
- Determine the requirements for the cancellation of debt on nonbusiness credit card debt when preparing tax returns
- Determine when canceled credit card debt is included in gross income on Form 1040
- How to properly report income earned from worldwide sources
- Determine if taxpayer is eligible for the foreign earned income exclusion
- Determine how to calculate the excludable amount using Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion

Getting Started



Study the associated IRS VITA/TCE Training Guide, Chapter 16.



Open [Pub 4012 Volunteer Resource Guide](#) Tab D, Income. Find Other Income

Hint from NTTC Modifications to the IRS Training Guide

Gambling winnings

The IRS provides rules that allow a taxpayer who maintains detailed gambling records to use a per-session rule. If the taxpayer maintains detailed session records, they can report the net session gains as income. The net session losses are claimed as an itemized deduction up to the amount of winnings.

Taxpayers who wish to claim gambling as a business (Sch. C) should be referred to a paid preparer.

Long-term care benefits

Forms 1099-LTC and 8853 Section C are in scope for Tax-Aide. Long term care benefits can be based on a per-diem rate or as a direct reimbursement of actual expenses. Use Form 8853 Section C to determine whether long-term care benefits are taxable. If any benefit is taxable, the return is out of scope.

Income – Other Income

Worldwide income

CAUTION: Taxpayers with foreign income or assets may have additional filing responsibilities, which are out of scope. These include a taxpayer:

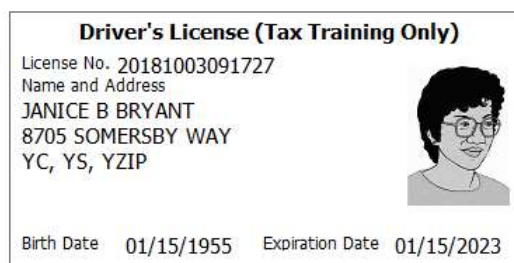
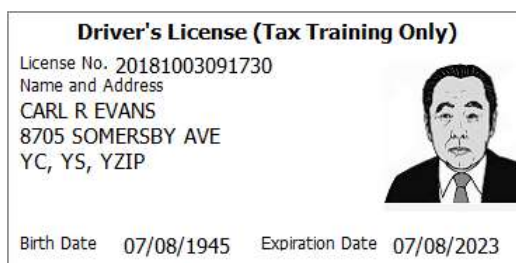
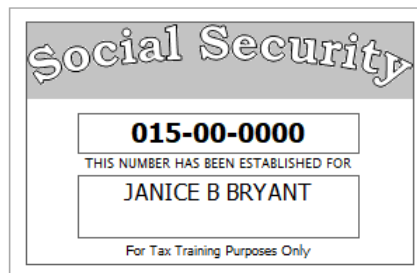
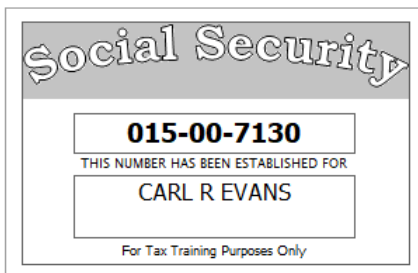
- with a foreign bank account, including signature authority over a foreign account,
- who has other specified foreign financial assets over certain values,
- who is the grantor of a foreign trust, made a transfer to a foreign trust, or received a distribution from a foreign trust, or
- who receives a foreign gift or inheritance

See forms FinCEN 114, 3520 and 8938. Refer affected taxpayers to a paid preparer.

To review the tutorial covering less common income, open [TaxSlayer Practice Lab](#) and login. Find and view the **Entering Basic Income Part 2** video in the Practice lab, Home Page, Section 4. In the attached pdf, start on page 55.

Practice Lab

Carl Evans and Janise Bryant – Other Income



Income – Other Income

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, address, city, state, and ZIP code STATE LOTTERY COMMISSION 578 DOLLAR TREE AVE YC, YS, YZIP		1. Gross winnings \$2,000.00	2. Date won 06/28/2018	<div style="font-size: 2em; font-weight: bold;">2018</div> <div style="font-weight: bold;">Form W2-G</div> <div style="font-weight: bold; margin-top: 10px;">Certain Gambling Winnings</div>
		3. Type of wager LOTTERY	4. Federal income tax withheld \$200.00	
		5. Transaction	6. Race	
		7. Winnings from identical wagers	8. Cashier	
PAYER'S Federal identification number 86-0123456	Payer's Telephone number 8005551212	9. Winner's taxpayer identification no. 015-00-7130		This information is being furnished to the Internal Revenue Service <div style="font-weight: bold;">Copy B</div> Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.
WINNER'S name, address, city, state, and ZIP CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		11. First I.D.	12. Second I.D.	
		13. State Payer's identification no.	14. State Winnings	
		15. State income tax withheld	16. Local Winnings	
		17. Local income tax withheld	18. Name of locality	
Under penalty of perjury, I declare that, to the best of my knowledge and belief, the name, address, taxpayer identification number that I furnished correctly identify me as the recipient of this payment and any payment from identical wagers, and no other person is entitled to any part of these payments.				
<div style="display: flex; justify-content: space-between;"> Signature > Date > </div>				
Form W-2G				

<input type="checkbox"/> CORRECTED (if checked)				
CREDITOR'S name, address, city, state, and ZIP code CHASE CARD SERVICES PO BOX 17799 WILMINGTON DE 19850-7799		1 Date of Identifiable Event 12/01/2018	<div style="font-size: 2em; font-weight: bold;">2018</div> <div style="font-weight: bold;">Form 1099-C</div>	<div style="font-weight: bold;">Cancellation of Debt</div>
		2 Amount of debt discharged \$1,623.47		
		3 Interest if included in Box 2 \$237.16		
CREDITOR'S federal identification number 76-5123456	DEBTOR'S identification number 015-00-7130	4 Debt description CREDIT CARD		<div style="font-weight: bold;">Copy B For Debtor</div> This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
DEBTOR'S name, address, , state, and ZIP code CARL R EVANS AND JANICE BRYANT 8705 SOMERSBY AVE YC, YS, YZIP		5 If checked, the debtor was personally liable for repayment of this debt <input type="checkbox"/>		
		6 Identifiable Event Code	7 Fair market value of property	
Account number (see instructions)				
Form 1099-C				

Income – Other Income

If a taxpayer receives Form 1099-C for canceled credit card debt and was in bankruptcy or was **insolvent** (assets less than liabilities) immediately before the debt was canceled, **the return is out of scope.**

Insolvency is a condition in which the fair market value (FMV) of all assets is less than one's liabilities. The amount or level of insolvency is expressed as a negative net worth.

For solvent taxpayers all the **canceled nonbusiness credit card debt** in Form 1099-C Box 2 will be included on the tax return as other income.

If the debt canceled is less than \$600, some lenders or creditors may send a letter or some other form of notification to the taxpayer. Taxpayers must include all canceled amounts (even if less than \$600) in income.

Located in the Volunteer Resource Guide, Tab D, Income is Pub 4731, *Screening Sheet for Volunteers Assisting Taxpayers with Form 1099-C*. This provides step-by-step guidance for the volunteer tax preparer to determine if the cancellation of credit card debt is within scope.

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

Income – Other Income

Learning Review

Other Income

<p>1. A credit card company sent Greg a Form 1099-C showing canceled credit card debt of \$5,000. Greg is fairly certain he has more debt than he has assets. Can the AARP Tax-Aide site provide tax return preparation assistance to Greg?</p> <p>A. Yes, since the entire \$5,000 in canceled debt is considered income and reported on Form 1040.</p> <p>B. No, because it appears Greg is insolvent, which might mean some of the canceled credit card debt would be nontaxable and beyond the scope for AARP Foundation Tax-Aide volunteers.</p>	
<p>2. A credit card company issued Kay a Form 1099-C, reporting \$7,500 as the amount of debt discharged. She owed \$10,000 to her credit card company, which agreed to accept \$2,500 as payment in full. Kay was not in bankruptcy and determined she was solvent (assets greater than liabilities) at the time she paid the credit card company . Can Kay be assisted at her local VITA/TCE site?</p>	Yes or No
<p>3. Follow up to Question 2 regarding Kay's canceled debt. If the Tax-Aide site is able to assist Kay, what amount would be reported on Kay's Form 1040?</p> <p>A. \$0</p> <p>B. \$10,000</p> <p>C. \$2,500</p> <p>D. D. \$7,500</p>	

Feedback:

Please email: selfstudy@aarpfdntaxaide.org. Appreciate suggestions and comments.

Income – Other Income

Answers to Learning Review

1: B. Greg is fairly certain that he has more debt than he has assets, which means he is insolvent. This situation is beyond the scope of AARP Foundation Tax-Aide.

2: Yes. Kay was solvent and not in bankruptcy, and the credit card company issued her a Form 1099-C.

3: D. Kay would report \$7,500 on her Form 1040.