

Income Introduction

This lesson and its sub-lessons introduce specific income categories reportable on Form 1040:

- Wages and Employee Compensation - Line 1
- Tax-exempt and Taxable Interest Income – Line 2 - 2a and 2b
- Ordinary Dividends and Qualified Income- Line 3 – 3a and 3b
- Taxable State and Local Tax Refunds – Line 6 – Schedule 1 Line 10
- Alimony Income – Line 6 – Schedule 1 Line 11

A critical component of completing the taxpayer's return is distinguishing between taxable and nontaxable income.

Learning Objectives:

- Compute taxable and nontaxable income
- Distinguish between earned and unearned income
- Report income correctly on Form 1040, lines 1-3




Study the **VITA/TCE Volunteer Training Guide** Chapter 9.

1. Open [TaxSlayer Practice Lab](#) and login.

- TaxSlayer Videos are on the Practice Lab first page
- Find the **Entering Basic Income Part 1 video** under **Section 4**
- Click on the desired lesson.

Accessing Practice Lab/TaxSlayer videos either:

- **Setup Chrome Browser to allow “Flash” or use Internet Explorer**
 1. Open Chrome then:
 - Put “chrome://settings/content/flash” in the address line (url)
or
 • Click , then “Settings”, then “Advanced”, find “Privacy and security”, click on “Content settings”, then “Flash”
 2. Find “Allow” and click ADD, then enter:
“https://vita.taxslayerpro.com”
- Signing into the TaxSlayer Practice Lab video: use “AARP-Tax-Aide” as your organization and leave the SIDN blank.
- In the left-hand menu click on the “Attachments” link to view, save, and/or print a pdf version of the presentation.

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Key Terms

Allocated Tips: Tips an employer assigns to an employee. They are in addition to the tips the employee reported to the employer.

Capital Gain Distributions: Also called capital gain dividends. They come from mutual funds and real estate investment trusts (REITs).

Earned Income: Any income received for work, such as wages or business income.

Gross Income: All income received in the form of money, goods, property, and services that is not exempt from tax.

Ordinary Dividends: Corporate distributions paid out of the earnings and profits of the corporation.

Taxable Income: Any income subject to federal income tax.

Tax-exempt Income: Interest that is exempt from federal income tax such as bonds issued by state and political subdivisions (county or city), District of Columbia, and U.S. possessions and political subdivisions.

Unearned Income: Any income produced by investments, such as interest on savings, dividends on

See Volunteer Resource Guide (Pub 4012) Tab D for description of Earned vs. Unearned Income

- **Earned income** is any income received for work such as wages or business/self-employment income.
- **Unearned income** is any income produced by investments such as interest on savings dividends on stocks or rental income.



The **Income Quick Reference Guide** in the **Volunteer Resource Guide** (Pub 4012), Tab D, includes examples of taxable and nontaxable income.

- Income that is taxable is reported on a taxpayer's return and is subject to tax.
- Income that is nontaxable is exempt from tax, but may have to be shown on a taxpayer's return. Some nontaxable income such as gifts and inheritances are excludable and not shown on the return.

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What situations are out of scope for the VITA/TCE programs?

The following are out of scope for this lesson. While this list is not all inclusive, it is provided for your awareness.

- Taxpayers with income from the following sources reported on Form 1040: Other gains/losses (Schedule 1, line 14)
- Farm income (Schedule 1, line 18)
- Taxpayers affected by the Additional Medicare Tax
- ~~Certain children with unearned income who must file Form 8615~~
Form 8615 is now In Scope for TY18
- Accrual method for reporting income
- Taxpayers who buy or sell bonds between interest payment dates
- Form 1099-INT, box labeled Specified private activity bond interest if AMT applies
- 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 during the current tax year for a year other than the previous tax year - Unless it is wholly taxable or wholly nontaxable (Tax-Aide only)
- Alimony/divorce agreements executed before 1985, and on or before 12/31/2018
- Tax returns for ministers and members of the clergy because of unique tax issues

Learning Review

1. In the Volunteer Resource Guide, Pub 4012, where can you find examples of taxable and nontaxable income?	
2. In the Volunteer Resource Guide, Pub 4012, where can you find a table comparing earned and non-earned income?	

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Answers to Learning Review

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| 1. Find the Income Quick Reference Guide, Tables A and B. in Tab D-1. |
| 2. Find the Earned Income Table in Tab I-1. |