Publication 525

Taxable and Nontaxable Income

For use in preparing

2023 Returns

Volume 4 of 5

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The result of step 2 is the amount of the recovery to include in your income for the year you receive the recovery. If your taxable income for the earlier year was a negative amount, reduce your recovery by the negative amount.

If you had unused tax credits in the earlier year, see *Unused tax credits*, later.

For more information on this calculation, see Revenue Ruling 93-75. This ruling is in Cumulative Bulletin 1993-2.year. For this purpose, any increase to a credit carried over to the current year that resulted from deducting the recovered amount in the earlier year is considered to have reduced your tax in the earlier year. If the recovery is for an itemized deduction claimed in a year in which the deductions were limited, see *Itemized deductions limited*, earlier.

If your tax, after application of the credits, doesn't change, you didn't have a tax benefit from the deduction. Don’t include the recovery in your income.

Example 35. In 2022, you filed as head of household and itemized your deductions on Schedule A (Form 1040). Your taxable income was $5,260 and your tax was $528. You claimed a child care credit of $1,200. The credit reduced your tax to zero, and you had an unused tax credit of $672 ($1,200 − $528). In 2023, you recovered $1,000 of your itemized deductions. You reduce your 2022 itemized deductions by $1,000 and refigure that year's tax on taxable income of $6,260. However, the child care credit exceeds the refigured tax of $628. Your tax liability for 2022 isn't changed by reducing your deductions by the recovery. You didn't have a tax benefit from the recovered deduction and don’t include any of the recovery in your income for 2023.

Worksheet 2a. **Computations for Worksheet 2, lines 1a and 1b**

Keep for Your Records

To determine amounts to enter on lines 1a and 1b of Worksheet 2, complete the following.

1.	Enter the income tax refund from Form(s) 1099-G (or similar statement)	1. ______
2.	Enter the refunds received for state and local real estate taxes and state and local personal property taxes	2. ______
3.	Total state and local refunds. Add lines 1 and 2. But don't enter more than the amount of your state and local taxes shown on your 2022 Schedule A, line 5d	3. ______
4.	Is the amount of state and local income taxes (or general sales taxes), real estate taxes, and personal property taxes paid in 2022 (generally, this is the amount reported on your 2022 Schedule A, line 5d) more than the amount on your 2022 Schedule A, line 5e? ☐ **No.** Enter the amount from line 3 on line 4 and go to line 5. ☐ **Yes.** Subtract the amount on your 2022 Schedule A, line 5e, from the amount of state and local income taxes (or general sales taxes), real estate taxes, and personal property taxes paid in 2022 (generally, this is the amount reported on your 2022 Schedule A, line 5d). Enter the result here	4. ______
5.	Is the amount on line 3 more than the amount on line 4? ☐ **No.** [STOP] None of the refunds on line 1 or 2 are taxable. ☐ **Yes.** Subtract line 4 from line 3 and enter the result here	5. ______
6.	Add lines 1 and 2 and enter the result here	6. ______
7.	Divide line 1 by line 6. Then multiply by the amount on line 5 and enter the result here and on Worksheet 2, line 1a	7. ______
8.	Divide line 2 by line 6. Then multiply by the amount on line 5 and enter the result here and on Worksheet 2, line 1b	8. ______

Worksheet 2. **Recoveries of Itemized Deductions**

Keep for Your Records

To determine whether you should complete this worksheet to figure the part of a recovery amount to include in income on your 2023 tax return, see *Itemized Deduction Recoveries*. If you recovered amounts from more than 1 year, such as a state income tax refund from 2022 and a casualty loss reimbursement from 2021, complete a separate worksheet for each year. Use information from your tax return for the year the expense was deducted.

A recovery is included in income only to the extent of the deduction amount that reduced your tax in the prior year (year of the deduction). If you were subject to the AMT or your tax credits reduced your tax to zero, see *Unused tax credits* and *Subject to AMT* under *Itemized Deduction Recoveries*. If your recovery was for an itemized deduction that was limited, you should read *Itemized deductions limited* under *Itemized Deduction Recoveries*.

NOTE: Before completing lines 1a and 1b, see Worksheet 2a, Computations for Worksheet 2, lines 1a and 1b.

1a.	State/local income tax refund or credit[1a]		1a. ______
1b.	State/local real estate and personal property taxes[1a]		1b. ______
2.	Enter the total of all other Schedule A refunds or reimbursements (excluding the amounts you entered on lines 1a and 1b)[2]		2. ______
3.	Add lines 1a, 1b, and 2		3. ______
4.	Itemized deductions for the prior year. For 2022: • Form 1040, Schedule A, line 17 • Form 1040-NR, Schedule A, line 8	4. ______	
5.	Enter any amount previously refunded to you (don't enter an amount from line 1a or line 1b or line 2)	5. ______	
6.	Subtract line 5 from line 4	6. ______	
7.	Standard deduction for the prior year.[3] If you filed Form 1040-NR, enter -0-	7. ______	
8.	Subtract line 7 from line 6. If the result is zero or less, stop here. The amounts on lines 1a, 1b, and 2 aren't taxable		8. ______
9.	Enter the smaller of line 3 or line 8		9. ______
10.	Taxable income for prior year[4] (2022 Form 1040, line 15; or 2022 Form 1040-NR, line 15)	10. ______	
11.	**Amount to include in income for 2023:** • If line 10 is zero or more, enter the amount from line 9. • If line 10 is a negative amount, add lines 9 and 10 and enter the result (but not less than zero)[5]		11. ______

If line 11 equals line 3—
Enter the amount from line 1a on Schedule 1 (Form 1040), line 1.
Enter the amounts from lines 1b and 2 on Schedule 1 (Form 1040), line 8z.

If line 11 is less than line 3 and either line 1a or line 1b or line 2 is zero—
If there is an amount on line 1a, enter the amount from line 11 on Schedule 1 (Form 1040), line 1.
If there is an amount on lines 1b and/or 2, enter the amount from line 11 on Schedule 1 (Form 1040), line 8z.

If line 11 is less than line 3, and there are amounts on line 1a and on line 1b or 2, complete the following worksheet.

A. Divide the amount on line 1a by the amount on line 3. Enter the percentage	A. ______	
B. Multiply the amount on line 11 by the percentage on line A. Enter the result here and on Schedule 1 (Form 1040), line 1		B. ______
C. Subtract the amount on line B from the amount on line 11. Enter the result here and on Schedule 1 (Form 1040), line 8z		C. ______

[1a] Don't enter more than the amount deducted for the prior year. Don't enter more than the excess of your state and local income tax deduction over your state and local general sales taxes you could have deducted.

[2] Don't enter more than the amount deducted for the prior year. If you deducted state and local general sales taxes and received a refund of those taxes, include the amount on line 2, but don't enter more than the excess of your sales tax deduction over your state and local income tax you could have deducted.

[3] See the instructions for prior year forms at *IRS.gov* for prior year standard deduction.

[4] If taxable income is a negative amount, enter that amount in brackets. Don't enter zero unless your taxable income is exactly zero. See *Negative taxable income*. Taxable income will have to be adjusted for any net operating loss carryover. For more information, see Pub. 536.

[5] For example, $700 + ($400) = $300.

Subject to AMT. If you were subject to the AMT in the year of the deduction, you'll have to refigure your tax for the earlier year to determine if the recovery must be included in your income. This will require a refiguring of your regular tax, as shown in *Example 35*, and a refiguring of your AMT. If inclusion of the recovery doesn't change your total tax, you don't include the recovery in your income. However, if your total tax increases by any amount, you received a tax benefit from the deduction and you must include the recovery in your income up to the amount of the deduction that reduced your tax in the earlier year.

Nonitemized Deduction Recoveries

This section discusses recovery of deductions other than itemized deductions.

Total recovery included in income. If you recover an amount that you deducted in an earlier year when you were figuring your AGI, you must generally include the full amount of the recovery in your income in the year received.

Total recovery not included in income. If any part of the deduction you took for the recovered amount didn't reduce your tax, you may be able to exclude at least part of the recovery from your income. You must include the recovery in your income only up to the amount of the deduction that reduced your tax in the year of the deduction. (See *Tax benefit rule*, earlier.)

Negative taxable income. If your taxable income for the prior year was a negative amount, the recovery you must include in income is reduced by that amount. You have a negative taxable income for 2022 if your:

- Form 1040, the sum of lines 12 and 13, was more than line 11; or
- Form 1040-NR, line 14, was more than line 11.

If you had a net operating loss (NOL) in a prior year, you'll have to adjust your taxable income for any NOL carryover. See Pub. 536 for more information.

Unused tax credits. If you recover an item deducted in an earlier year in which you had unused tax credits, you must refigure the earlier year's tax to determine if you must include the recovery in your income. To do this, add the amount of the recovery to your earlier year's taxable income and refigure the tax and the credits on the refigured amount. If the refigured tax, after application of the credits, is more than the actual tax in the earlier year, include the recovery in your income up to the amount of the deduction that reduced the tax in the earlier year. For this purpose, any increase to a credit carried over to the current year that resulted from deducting the recovered amount in the earlier year is considered to have reduced your tax in the earlier year.

If your tax, after application of the credits, doesn't change, you didn't have a tax benefit from the deduction. Don’t include the recovery in your income.

Capital gains. If you determined your tax in the earlier year by using the Schedule D Tax Worksheet, or the Qualified Dividends and Capital Gain Tax Worksheet, and you receive a refund in 2023 of a deduction claimed in that year, you'll have to refigure your tax for the earlier year to determine if the recovery must be included in your income. If inclusion of the recovery doesn't change your total tax, you don't include the recovery in income. However, if your total tax increases by any amount, you must include the recovery in your income up to the amount of the deduction that reduced your tax in the earlier year.

Amounts Recovered for Credits

If you received a recovery in 2023 for an item for which you claimed a tax credit in an earlier year, you must increase your 2022 tax by the amount of the recovery, up to the amount by which the credit reduced your tax in the earlier year. You had a recovery if there was a downward price adjustment or similar adjustment on the item for which you claimed a credit.

This rule doesn't apply to the investment credit or the foreign tax credit. Recoveries of these credits are covered by other provisions of the law. See Pub. 514 or Form 4255 for details.

Sharing/Gig Economy

A sharing economy is one in which assets are shared between individuals for a fee, usually through the internet. For example, you rent out your car when you don’t need it, or you share your wi-fi account for a fee.

A gig economy is one in which a short-term contract or freelance work is the norm, as opposed to a permanent job. For example, you drive for a ride-sharing service, or work as a fitness trainer, babysitter, or tutor.

Generally, if you have income from sharing economy transactions, or you did gig work, you must include all income received whether you received a Form 1099-K, Payment Card and Third Party Network Transactions, or not. See the Instructions for Schedule C (Form 1040) and the Instructions for Schedule SE (Form 1040).

Survivor Benefits

In most cases, payments made by or for an employer because of an employee's death must be included in income. The following discussions explain the tax treatment of certain payments made to survivors. For additional information, see Pub. 559.

Lump-sum payments. Lump-sum payments you receive from a decedent's employer as the surviving spouse or beneficiary may be accrued salary payments; distributions from employee profit-sharing, pension, annuity, or stock bonus plans; or other items that should be treated separately for tax purposes. The tax treatment of these lump-sum payments depends on the type of payment.

Salary or wages. Salary or wages received after the death of the employee are usually ordinary income to you.

Qualified employee retirement plans. Lump-sum distributions from qualified employee retirement plans are subject to special tax treatment. For information on these distributions, see Pub. 575 (or Pub. 721 if you're the survivor of a federal employee or retiree).

Public safety officer killed in the line of duty. If you're a survivor of a public safety officer who was killed in the line of duty, you can exclude from income any amount received as a survivor annuity on account of the death of a public safety officer killed in the line of duty.

For this purpose, the term “public safety officer” includes law enforcement officers, firefighters, chaplains, and rescue squad and ambulance crew members. For more information, see Pub. 559.

Unemployment Benefits

The tax treatment of unemployment benefits you receive depends on the type of program paying the benefits.

Unemployment compensation. Generally, you must include in income all unemployment compensation you receive. You should receive a Form 1099-G showing in box 1 the total unemployment compensation paid to you. In most cases, you enter unemployment compensation on Schedule 1 (Form 1040), line 7.

CAUTION *If you received unemployment compensation but didn't receive Form 1099-G, Certain Government Payments, through the mail, you may need to* *access your information through your state's website to get your electronic Form 1099-G.*

Types of unemployment compensation. Unemployment compensation generally includes any amount received under an unemployment compensation law of the United States or of a state. It includes the following benefits.

- Benefits paid by a state or the District of Columbia from the Federal Unemployment Trust Fund.
- State unemployment insurance benefits.
- Railroad unemployment compensation benefits.
- Disability payments from a government program paid as a substitute for unemployment compensation. (Amounts received as workers' compensation for injuries or illness aren't unemployment compensation. See *Workers'*

Compensation under *Sickness and Injury Benefits*, earlier.)

- Trade readjustment allowances under the Trade Act of 1974.
- Unemployment assistance under the Disaster Relief and Emergency Assistance Act of 1974.
- Unemployment assistance under the Airline Deregulation Act of 1978 Program.

Governmental program. If you contribute to a governmental unemployment compensation program and your contributions aren't deductible, amounts you receive under the program aren't included as unemployment compensation until you recover your contributions. If you deducted all of your contributions to the program, the entire amount you receive under the program is included in your income.

Repayment of unemployment compensation. If you repaid in 2023 unemployment compensation you received in 2023, subtract the amount you repaid from the total amount you received and enter the difference on Schedule 1 (Form 1040), line 7. On the dotted line next to your entry, enter "Repaid" and the amount you repaid. If you repaid unemployment compensation in 2023 that you included in your income in an earlier year and the amount is more than $3,000, you can deduct the amount repaid on Schedule A (Form 1040), line 16, if you itemize deductions or you can take a credit against your tax on Schedule 3 (Form 1040), line 13b. See *Repayments*, later.

Tax withholding. You can choose to have federal income tax withheld from your unemployment compensation. To make this choice, complete Form W-4V and give it to the paying office. Tax will be withheld at 10% of your payment.

If you don't choose to have tax withheld from your unemployment compensation, you may be liable for estimated tax. If you don't pay enough tax, either through withholding or estimated tax, or a combination of both, you may have to pay a penalty. For more information, see Pub. 505.

Supplemental unemployment benefits. Benefits received from an employer-financed fund (to which the employees didn't contribute) aren't unemployment compensation. They're taxable as wages and are subject to withholding for income tax. They may be subject to social security and Medicare taxes. For more information, see *Supplemental Unemployment Benefits* in section 5 of Pub. 15-A. Report these payments on line 1a of Form 1040 or 1040-SR.

Repayment of benefits. You may have to repay some of your supplemental unemployment benefits to qualify for trade readjustment allowances under the Trade Act of 1974. If you repay supplemental unemployment benefits in the same year you receive them, reduce the total benefits by the amount you repay. If you repay the benefits in a later year, you must include the full amount of the benefits in your income for the year you received them.

Deduct the repayment in the later year as an adjustment to gross income on Form 1040 or 1040-SR. Include the repayment on Schedule 1 (Form 1040), line 24e. If the amount you repay in a later year is more than $3,000, you may be able to take a credit against your tax for the later year instead of deducting the amount repaid. For information on this, see *Repayments*, later.

Private unemployment fund. Unemployment benefit payments from a private (nonunion) fund to which you voluntarily contribute are taxable only if the amounts you receive are more than your total payments into the fund. Report the taxable amount on Schedule 1 (Form 1040), line 8z.

Payments by a union. Benefits paid to you as an unemployed member of a union from regular union dues are included in your income on Schedule 1 (Form 1040), line 8z. However, if you contribute to a special union fund and your payments to the fund aren't deductible, the unemployment benefits you receive from the fund are includible in your income only to the extent they're more than your contributions.

Guaranteed annual wage. Payments you receive from your employer during periods of unemployment, under a union agreement that guarantees you full pay during the year, are taxable as wages. Include them on line 1a of Form 1040 or 1040-SR.

State employees. Payments similar to a state's unemployment compensation may be made by the state to its employees who aren't covered by the state's unemployment compensation law. Although the payments are fully taxable, don't report them as unemployment compensation. Report these payments on Schedule 1 (Form 1040), line 8z.

Welfare and Other Public Assistance Benefits

Don’t include in your income governmental benefit payments from a public welfare fund based upon need, such as payments due to blindness. Payments from a state fund for the victims of crime shouldn't be included in the victims' incomes if they're in the nature of welfare payments. Don’t deduct medical expenses that are reimbursed by such a fund.

You must include in your income any welfare payments that are compensation for services or that are obtained fraudulently.

Work-training program. Payments you receive from a state welfare agency for taking part in a work-training program aren't included in your income, as long as the payments (exclusive of extra allowances for transportation or other costs) don't total more than the public welfare benefits you would have received otherwise. If the payments are more than the welfare benefits you would have received, the entire amount must be included in your income as wages.

Reemployment Trade Adjustment Assistance (RTAA) payments. Payments you receive from a state agency under the RTAA must be included in your income. The state must send you Form 1099-G to advise you of the amount you should include in income. The amount should be reported on Schedule 1 (Form 1040), line 8z.

Persons with disabilities. If you have a disability, you must include in income compensation you receive for services you perform unless the compensation is otherwise excluded. However, you don't include in income the value of goods, services, and cash that you receive, not in return for your services, but for your training and rehabilitation because you have a disability. Excludable amounts include payments for transportation and attendant care, such as interpreter services for the deaf, reader services for the blind, and services to help individuals with an intellectual disability do their work.

Disaster relief grants. Don’t include post-disaster grants received under the Disaster Relief and Emergency Assistance Act in your income if the grant payments are made to help you meet necessary expenses or serious needs for medical, dental, housing, personal property, transportation, or funeral expenses.

Don’t deduct casualty losses or medical expenses that are specifically reimbursed by these disaster relief grants. If you have deducted a casualty loss for the loss of your personal residence and you later receive a disaster relief grant for the loss of the same residence, you may have to include part or all of the grant in your taxable income. See *Recoveries*, earlier. Unemployment assistance payments under the Act are taxable unemployment compensation. See *Unemployment compensation* under *Unemployment Benefits*, earlier.

Disaster relief payments. You can exclude from income any amount you receive that is a qualified disaster relief payment. A qualified disaster relief payment is an amount paid to you:

1. To reimburse or pay reasonable and necessary personal, family, living, or funeral expenses that result from a qualified disaster;

2. To reimburse or pay reasonable and necessary expenses incurred for the repair or rehabilitation of your home or repair or replacement of its contents to the extent it’s due to a qualified disaster;

3. By a person engaged in the furnishing or sale of transportation as a common carrier because of the death or personal physical injuries incurred as a result of a qualified disaster; or

4. By a federal, state, or local government, or agency or instrumentality in connection with a qualified disaster in order to promote the general welfare.

You can exclude this amount only to the extent any expense it pays for isn't paid for by insurance or otherwise. The exclusion doesn't apply if you were a participant or conspirator in a terrorist action or a representative of one. A qualified disaster is:

- A disaster that results from a terrorist or military action;
- A federally declared disaster; or
- A disaster that results from an accident involving a common carrier, or from any other event, which is determined to be catastrophic by the Secretary of the Treasury or his or her delegate.

For amounts paid under item 4, a disaster is qualified if it's determined by an applicable federal, state, or local authority to warrant assistance from the federal, state, or local government, agency, or instrumentality.

Disaster mitigation payments. You can also exclude from income any amount you receive that is a qualified disaster mitigation payment. Qualified disaster mitigation payments are commonly paid to you in the period immediately following damage to property as a result of a natural disaster. However, disaster mitigation payments are used to mitigate (reduce the severity of) potential damage from future natural disasters. They're paid to you through state and local governments based on the provisions of the Robert T. Stafford Disaster Relief and Emergency Assistance Act or the National Flood Insurance Act.

You can't increase the basis or adjusted basis of your property for improvements made with nontaxable disaster mitigation payments.

Home Affordable Modification Program (HAMP). If you benefit from Pay-for-Performance Success Payments under HAMP, the payments aren't taxable.

Hardest Hit Fund and Emergency Homeowners' Loan Program. If you receive or benefit from payments made under:

- A State Housing Finance agency (State HFA) Hardest Hit Fund program in which program payments can be used to pay mortgage interest, or

- An Emergency Homeowners' Loan Program (EHLP) administered by the Department of Housing and Urban Development (HUD) or a state,
- The Homeowner Assistance Fund (HAF) program in which program payments are used to provide financial assistance to eligible homeowners for purposes of paying certain expenses related to their principal residence to prevent mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and also displacements of homeowners experiencing financial hardship after January 21, 2020,the payments aren't included in gross income and aren't taxable.

For more details about the HAF program, go to *Home.Treasury.gov/Policy-Issues/Coronavirus/Assistance-for-State-Local-andTribal-Governments/Homeowner-AssistanceFund*.

If you are a tribal member and wish more details about the HAF program, go to *IRS.gov/ Newsroom/FAQs-for-Payments-by-Indian-TribalGovernments-and-Alaska-Native-Corporationsto-Individuals-Under-Covid-Relief-Legislation*.

Mortgage assistance payments under section 235 of the National Housing Act. Payments made under section 235 of the National Housing Act for mortgage assistance aren't included in the homeowner's income. Interest paid for the homeowner under the mortgage assistance program can't be deducted.

Replacement housing payments. Replacement housing payments made under the Uniform Relocation Assistance and Real

Property Acquisition Policies Act for Federal and Federally Assisted Programs aren't includible in gross income, but are includible in the basis of the newly acquired property.

Relocation payments and home rehabilitation grants. A relocation payment under section 105(a)(11) of the Housing and Community Development Act made by a local jurisdiction to a displaced individual moving from a flood-damaged residence to another residence isn't includible in gross income. Home rehabilitation grants received by low-income homeowners in a defined area under the same Act are also not includible in gross income.

Indian financing grants. Nonreimbursable grants under title IV of the Indian Financing Act of 1974 to Indians to expand profit-making Indian-owned economic enterprises on or near reservations aren't includible in gross income.

Indian general welfare benefit. Gross income doesn't include the value of any Indian general welfare benefit. “Indian general welfare benefit” includes any payment made or services provided to or on behalf of a member (or any spouse or dependent of that member) of an Indian tribe or Alaska Native Corporation under an Indian tribal government program, but only if:

1. The program is administered under specified guidelines and doesn't discriminate in favor of members of the governing body of the Indian tribe or Alaska Native Corporation; and
2. The benefits provided under the program (a) are available to any tribal member who meets guidelines, (b) are for the promotion of general welfare, (c) aren't lavish or extravagant, and (d) aren't compensation for services.

Generally, any items of cultural significance, reimbursement of costs, or cash honorarium for participation in cultural or ceremonial activities for the transmission of tribal culture aren't treated as compensation for services.

Note. The above exclusion was enacted by the Tribal General Welfare Exclusion Act of 2014, September 26, 2014. The exclusion applies to tax years for which the period of limitation on refund or credit under section 6511 has not expired (generally, within 3 years from the time the return was filed or 2 years from the time the tax was paid, whichever expires later). Additionally, a claim for the above exclusion will be allowed if made within 1 year of the enactment of the exclusion.

Note. The enactment of the above exclusion generally codifies the exclusion afforded under Revenue Procedure 2014-35, June 4, 2014. See Revenue Procedure 2014-35 for more details.

Medicare. Medicare benefits received under title XVIII of the Social Security Act aren't includible in the gross income of the individuals for whom they're paid. This includes basic (Part A (Hospital Insurance Benefits for the Aged)) and supplementary (Part B (Supplementary Medical Insurance Benefits for the Aged)).

Social security benefits (including lump-sum payments attributable to prior years), Supplemental Security Income (SSI) benefits, and lump-sum death benefits. The Social Security Administration (SSA) provides benefits such as old-age benefits, benefits to disabled workers, and benefits to spouses and dependents. These benefits may be subject to federal income tax depending on your filing status and other income. See Pub. 915 for more information. An individual originally denied benefits, but later approved, may receive a lump-sum payment for the period when benefits were denied (which may be prior years). See Pub. 915 for information on how to make a lump-sum election, which may reduce your tax liability. There are also other types of benefits paid by the SSA. However, SSI benefits and lump-sum death benefits (one-time payment to spouse and children of deceased) aren't subject to federal income tax. For more information on these benefits, go to *SSA.gov*.

Form SSA-1099. If you received social security benefits during the year, you'll receive Form SSA-1099, Social Security Benefit Statement. An IRS Notice 703 will be enclosed with your Form SSA-1099. This notice includes a worksheet you can use to figure whether any of your benefits are taxable.

For an explanation of the information found on your Form SSA-1099, see Pub. 915.

Form RRB-1099. If you received equivalent railroad retirement or special guaranty benefits during the year, you'll receive Form

RRB-1099, Payments by the Railroad Retirement Board.

For an explanation of the information found on your Form RRB-1099, see Pub. 915.

Joint return. If you're married and file a joint return, you and your spouse must combine your incomes and your social security and equivalent railroad retirement benefits when figuring whether any of your combined benefits are taxable. Even if your spouse didn't receive any benefits, you must add your spouse's income to yours when figuring if any of your benefits are taxable.

Taxable amount. Use the worksheet in the Forms 1040 and 1040-SR instruction package to determine the amount of your benefits to include in your income. Pub. 915 also has worksheets you can use. However, you must use the worksheets in Pub. 915 if any of the following situations apply.

- You received a lump-sum benefit payment during the year that is for one or more earlier years.
- You exclude employer-provided adoption benefits or interest from qualified U.S. savings bonds.
- You take the foreign earned income exclusion, the foreign housing exclusion or deduction, the exclusion of income from American Samoa, or the exclusion of income from Puerto Rico by bona fide residents of Puerto Rico.

Benefits may affect your IRA deduction. You must use the special worksheets in Appendix B of Pub. 590-A to figure your taxable benefits and your IRA deduction if all of the following conditions apply.

- You receive social security or equivalent railroad retirement benefits.
- You have taxable compensation.

- You contribute to your IRA.
- You or your spouse is covered by a retirement plan at work.

How to report. If any of your benefits are taxable, you must use Form 1040 or 1040-SR to report the taxable part. Report your net benefits (as shown on your Forms SSA-1099 and RRB-1099) on line 6a of Form 1040 or 1040-SR. Report the taxable part on line 6b of Form 1040 or 1040-SR. If you elect to use the lump-sum election method, check the box on line 6c of Form 1040 or 1040-SR and see the instructions.

Nutrition Program for the Elderly. Food benefits you receive under the Nutrition Program for the Elderly aren't taxable. If you prepare and serve free meals for the program, include in your income as wages the cash pay you receive, even if you're also eligible for food benefits.

Payments to reduce cost of winter energy. Payments made by a state to qualified people to reduce their cost of winter energy use aren't taxable.

Other Income

The following brief discussions are arranged in alphabetical order. Other income items briefly discussed below are referenced to publications that provide more information.

Activity not for profit. You must include on your return income from an activity from which you don't expect to make a profit. An example of this type of activity is a hobby or a farm you operate mostly for recreation and pleasure. Enter this income on Schedule 1 (Form 1040), line 8j. Deductions for expenses related to the activity are limited. They can't total more than the income you report and can be taken only if you itemize deductions on Schedule A (Form 1040).

Alaska Permanent Fund dividend. If you received a payment from Alaska's mineral income fund (Alaska Permanent Fund dividend), report it as income on Schedule 1 (Form 1040), line 8g. The state of Alaska sends each recipient a document that shows the amount of the payment with the check. The amount is also reported to the IRS.

Alimony. Include in your income on Schedule 1 (Form 1040), line 2a, any taxable alimony payments you receive. Amounts you receive for child support aren't income to you. For complete information, see Pub. 504 and the Instructions for Forms 1040 and 1040-SR.

Don’t include alimony payments you receive under a divorce or separation instrument (1) executed after 2018, or (2) executed before 2019 but modified after 2018, if the modification expressly states the alimony isn’t deductible to the payer or includible in your income.

Below-market loans. A below-market loan is a loan on which no interest is charged or on which the interest is charged at a rate below the applicable federal rate. If you make a below-market gift or demand loan, you must include the forgone interest (at the federal rate) as interest income on your return. These loans are considered a transaction in which you, the lender, are treated as having made:

- A loan to the borrower in exchange for a note that requires the payment of interest at the applicable federal rate; and
- An additional payment to the borrower, which the borrower transfers back to you as interest.

Depending on the transaction, the additional payment to the borrower is treated as a:

- Gift,
- Dividend,

- Contribution to capital,
- Payment of compensation, or
- Another type of payment.

The borrower may have to report this payment as income, depending on its classification.

For more information on below-market loans, see chapter 1 of Pub. 550.

Bribes. If you receive a bribe, include it in your income.

Campaign contributions. These contributions aren't income to a candidate unless they're diverted to the candidate’s personal use. To be exempt from tax, the contributions must be spent for campaign purposes or kept in a fund for use in future campaigns. However, interest earned on bank deposits, dividends received on contributed securities, and net gains realized on sales of contributed securities are taxable and must be reported on Form 1120-POL. Excess campaign funds transferred to an office account must be included in the officeholder's income on Schedule 1 (Form 1040), line 8z, in the year transferred.

Canceled sales contract. If you sell property (such as land or a residence) under a contract, but the contract is canceled and you return the buyer's money in the same tax year as the original sale, you have no income from the sale. If the contract is canceled and you return the buyer's money in a later tax year, you must include your gain in your income for the year of the sale. When you return the money and take back the property in the later year, you treat the transaction as a purchase that gives you a new basis in the property equal to the funds you return to the buyer.

Special rules apply to the reacquisition of real property where a secured indebtedness (mortgage) to the original seller is involved.

For further information, see *Repossession* in Pub. 537.

Carpools. Don’t include in your income amounts you receive from the passengers for driving a car in a carpool to and from work. These amounts are considered reimbursement for your expenses. However, this rule doesn't apply if you have developed carpool arrangements into a profit-making business of transporting workers for hire.

Cash rebates. A cash rebate you receive from a dealer or manufacturer of an item you buy isn't income, but you must reduce your basis by the amount of the rebate.

Example 36. You buy a new car for $24,000 cash and receive a $2,000 rebate check from the manufacturer. The $2,000 isn't income to you. Your basis in the car is $22,000. This is the basis on which you figure gain or loss if you sell the car, and figure depreciation if you use it for business.

Casualty insurance and other reimbursements. You generally shouldn't report these reimbursements on your return unless you're figuring gain or loss from the casualty or theft. See Pub. 547.

Charitable gift annuities. If you're the beneficiary of a charitable gift annuity, you must include the yearly annuity or fixed percentage payment in your income.

The payer will report the types of income you received on Form 1099-R. Report the gross distribution from box 1 on Form 1040 or 1040-SR, line 5a, and the part taxed as ordinary income (box 2a minus box 3) on Form 1040 or 1040-SR, line 5b. Report the portion taxed as capital gain as explained in the Instructions for Schedule D (Form 1040).

Child support payments. You shouldn't report these payments on your return. See Pub. 504 for more information.

Court awards and damages. To determine if settlement amounts you receive by compromise or judgment must be included in your income, you must consider the item that the settlement replaces. The character of the income as ordinary income or capital gain depends on the nature of the underlying claim. Include the following as ordinary income.

1. Interest on any award.
2. Compensation for lost wages or lost profits in most cases.
3. Punitive damages in most cases. It doesn't matter if they relate to a physical injury or physical sickness.
4. Amounts received in settlement of pension rights (if you didn't contribute to the plan).
5. Damages for:
   a. Patent or copyright infringement,

b. Breach of contract, or

c. Interference with business operations.

6. Back pay and damages for emotional distress received to satisfy a claim under title VII of the Civil Rights Act of 1964.

7. Attorney fees and costs (including contingent fees) where the underlying recovery is included in gross income.

8. Attorney fees and costs relating to whistleblower awards where the underlying recovery is included in gross income.

Don’t include in your income compensatory damages for personal physical injury or physical sickness (whether received in a lump sum or installments).

Emotional distress. Emotional distress itself isn't a physical injury or physical sickness, but damages you receive for emotional distress due to a physical injury or sickness are treated as received for the physical injury or sickness. Don’t include them in your income.

If the emotional distress is due to a personal injury that isn't due to a physical injury or sickness (for example, unlawful discrimination or injury to reputation), you must include the damages in your income, except for any damages you receive for medical care due to that emotional distress. Emotional distress includes physical symptoms that result from emotional distress, such as headaches, insomnia, and stomach disorders.

Deduction for costs involved in unlawful discrimination suits. You may be able to deduct attorney fees and court costs paid to recover a judgment or settlement for a claim of unlawful discrimination under various provisions of federal, state, and local law listed in section 62(e), a claim against the U.S. Government, or a claim under section 1862(b)(3)(A) of the Social Security Act. You can claim this deduction as an adjustment to income on Schedule 1 (Form 1040), line 24h. The following rules apply.

- The attorney fees and court costs may be paid by you or on your behalf in connection with the claim for unlawful discrimination, the claim against the U.S. Government, or the claim under section 1862(b)(3)(A) of the Social Security Act.
- The deduction you're claiming can't be more than the amount of the judgment or settlement you're including in income for the tax year.
- The judgment or settlement to which your attorney fees and court costs apply must occur after October 22, 2004.

Pre-existing agreement. If you receive damages under a written binding agreement, court decree, or mediation award that was in effect (or issued on or before) September 13, 1995, don't include in income any of those damages received on account of personal injuries or sickness.

Credit card insurance. In most cases, if you receive benefits under a credit card disability or unemployment insurance plan, the benefits are taxable to you. These plans make the minimum monthly payment on your credit card account if you can't make the payment due to injury, illness, disability, or unemployment. Report on Schedule 1 (Form 1040), line 8z, the amount of benefits you received during the year that is more than the amount of the premiums you paid during the year.

Down payment assistance. If you purchase a home and receive assistance from a nonprofit corporation to make the down payment, that assistance isn't included in your income. If the corporation qualifies as a tax-exempt charitable organization, the assistance is treated as a gift and is included in your basis of the house. If the corporation doesn't qualify, the assistance is treated as a rebate or reduction of the purchase price and isn't included in your basis.

Employment agency fees. If you get a job through an employment agency, and the fee is paid by your employer, the fee isn't includible in your income if you aren't liable for it. However, if you pay it and your employer reimburses you for it, it’s includible in your income.

Energy conservation subsidies. You can exclude from gross income any subsidy provided, either directly or indirectly, by public utilities for the purchase or installation of an energy conservation measure for a dwelling unit.

Energy conservation measure. This includes installations or modifications that are primarily designed to reduce consumption of electricity or natural gas, or improve the management of energy demand.

Dwelling unit. This includes a house, apartment, condominium, mobile home, boat, or similar property. If a building or structure contains both dwelling and other units, any subsidy must be properly allocated.

Estate and trust income. An estate or trust, unlike a partnership, may have to pay federal income tax. If you're a beneficiary of an estate or trust, you may be taxed on your share of its income distributed or required to be distributed to you. However, there is never a double tax. Estates and trusts file their returns on Form 1041, and your share of the income is reported to you on Schedule K-1 (Form 1041).

Current income required to be distributed. If you're the beneficiary of an estate or trust that must distribute all of its current income, you must report your share of the distributable net income, whether or not you actually received it.

Current income not required to be distributed. If you're the beneficiary of an estate or trust and the fiduciary has the choice of whether to distribute all or part of the current income, you must report all income that is required to be distributed to you, whether or not it's actually distributed, plus all other amounts actually paid or credited to you, up to the amount of your share of distributable net income.

How to report. Treat each item of income the same way that the estate or trust would treat it. For example, if a trust's dividend income is distributed to you, you report the distribution as dividend income on your return. The same rule applies to distributions of tax-exempt interest and capital gains.

The fiduciary of the estate or trust must tell you the type of items making up your share of the estate or trust income and any credits you're allowed on your individual income tax return.

Losses. Losses of estates and trusts generally aren't deductible by the beneficiaries.

Grantor trust. Income earned by a grantor trust is taxable to the grantor, not the beneficiary, if the grantor keeps certain control over the trust. (The grantor is the one who transferred property to the trust.) This rule applies if the property (or income from the property) put into the trust will or may revert (be returned) to the grantor or the grantor's spouse.

Generally, a trust is a grantor trust if the grantor has a reversionary interest valued (at the date of transfer) at more than 5% of the value of the transferred property, or has certain other powers.

Expenses paid by another. If your personal expenses are paid for by another person, such as a corporation, the payment may be taxable to you depending upon your relationship with that person and the nature of the payment. But if the payment makes up for a loss caused by that person, and only restores you to the position you were in before the loss, the payment isn't includible in your income.

Exxon Valdez settlement income. Include in your income on Schedule 1 (Form 1040), line 8z, any qualified settlement income you receive as a qualified taxpayer. See *Statement*, later. Qualified settlement income is any interest and punitive damage awards that are:

- Otherwise includible in taxable income, and
- Received in connection with the civil action *In re Exxon Valdez*, No. 89-095-CV (HRH) (Consolidated) (D. Alaska).

You're a qualified taxpayer if you were a plaintiff in the civil action mentioned earlier or you were a beneficiary of the estate of your spouse or a close relative who was such a plaintiff and from whom you acquired the right to receive qualified settlement income.

The income can be received as a lump sum or as periodic payments. You'll receive a Form 1099-MISC showing the gross amount of the settlement income paid to you in the tax year.

Contributions to eligible retirement plan. If you're a qualified taxpayer, you can contribute all or part of your qualified settlement income, up to $100,000, to an eligible retirement plan, including an IRA.

Contributions to eligible retirement plans, other than a Roth IRA or a designated Roth account, reduce the qualified settlement income that you must include in income. See *Statement*, later. For more information on these contributions, see Pubs. 575 and 590-A.

Legal expenses. For tax years after 2017, you can no longer deduct legal expenses that were subject to the 2%-of-adjusted-gross-income floor. If the qualified settlement income was received in connection with your trade or business (other than as an employee), you can reduce the taxable amount of qualified settlement income by these expenses.

Statement. If you report on Schedule 1 (Form 1040), line 8z, qualified settlement income that is less than the gross amount shown on Form 1099-MISC, you must attach a statement to your tax return. The statement must identify and show the gross amount of the qualified settlement income, the reductions for the amount contributed to an eligible retirement plan, and the net amount.

Income averaging. For purposes of the income averaging rules that apply to an individual engaged in a farming or fishing business, qualified settlement income is treated as attributable to a fishing business for the tax year in which it's received. See Schedule J (Form 1040) and its instructions for more information.

Fees for services. Include all fees for your services in your income. Examples of these fees are amounts you receive for services you perform as:

- A corporate director;
- An executor, administrator, or personal representative of an estate;
- A manager of a trade or business you operated before declaring chapter 11 bankruptcy;

- A notary public; or
- An election precinct official.

TIP *If you aren't an employee and the fees for your services from a single payer in the course of the payer's trade or business total $600 or more for the year, the payer should send you Form 1099-MISC.*

Corporate director. Corporate director fees are self-employment income. Report these payments on Schedule C (Form 1040).

Personal representatives. All personal representatives must include in their gross income fees paid to them from an estate. If you aren't in the trade or business of being an executor (for instance, you're the executor of a friend's or relative's estate), report these fees on Schedule 1 (Form 1040), line 8z. If you're in the trade or business of being an executor, report these fees as self-employment income on Schedule C (Form

1040). The fee isn't includible in income if it's waived.

Manager of trade or business for bankruptcy estate. Include in your income all payments received from your bankruptcy estate for managing or operating a trade or business that you operated before you filed for bankruptcy. Report this income on Schedule 1 (Form 1040), line 8z.

Notary public. Report payments for these services on Schedule C (Form 1040). These payments aren't subject to self-employment tax. See the separate Instructions for Schedule SE (Form 1040) for details.

Election precinct official. You should receive a Form W-2 showing payments for services performed as an election official or election worker. Report these payments on line 1a of Form 1040 or 1040-SR.

Food program payments to daycare providers. If you operate a daycare service and receive payments under the Child and Adult Care Food Program administered by the Department of Agriculture that aren't for your services, the payments aren't included in your income in most cases. However, you must include in your income any part of the payments you don't use to provide food to individuals eligible for help under the program.

Foreign currency transactions. If you have a gain on a personal foreign currency transaction because of changes in exchange rates, you don't have to include that gain in your income unless it's more than $200. If the gain is more than $200, report it as a capital gain.

Foster care providers. Generally, payment you receive from a state, political subdivision, or a qualified foster care placement agency for caring for a qualified foster individual in your home is excluded from your income. However, you must include in your income payment to the extent it's received for the care of more than 5 qualified foster individuals age 19 years or older.

A qualified foster individual is a person who:

1. Is living in a foster family home; and
2. Was placed there by:
    a. An agency of a state or one of its political subdivisions, or
    b. A qualified foster care placement agency.

Difficulty-of-care payments. These are payments that are designated by the payer as compensation for providing the additional care that is required for physically, mentally, or emotionally handicapped qualified foster individuals. A state must determine that the additional compensation is needed, and the care for which the payments are made must be provided in the foster care provider's home in which the qualified foster individual was placed.

Certain Medicaid waiver payments are treated as difficulty-of-care payments when received by an individual care provider for caring for an eligible individual (whether related or unrelated) living in the provider's home. See Notice 2014-7, available at *IRS.gov/irb/2014-4_IRB#NOT-2014-7*, and related questions and answers, available at *IRS.gov/Individuals/Certain-Medicaid-Waiver-PaymentsMay-Be-Excludable-From-Income*, for more information.

You must include in your income difficulty-of-care payments to the extent they're received for more than:

- 10 qualified foster individuals under age 19, or
- Five qualified foster individuals age 19 or older.

Maintaining space in home. If you're paid to maintain space in your home for emergency foster care, you must include the payment in your income.

Reporting taxable payments. If you receive payments that you must include in your income and you're in business as a foster care provider, report the payments on Schedule C (Form 1040). See Pub. 587 to help you determine the amount you can deduct for the use of your home.

Found property. If you find and keep property that doesn't belong to you that has been lost or abandoned (treasure trove), it's taxable to you at its FMV in the first year it's your undisputed possession.

Free tour. If you received a free tour from a travel agency for organizing a group of tourists, you must include its value in your income. Report the FMV of the tour on Schedule 1 (Form 1040), line 8z, if you aren't in the trade or business of organizing tours.

You can't deduct your expenses in serving as the voluntary leader of the group at the group's request. If you organize tours as a trade or business, report the tour's value on Schedule C (Form 1040).

Gambling winnings. You must include your gambling winnings in your income on Schedule 1 (Form 1040), line 8b. Winnings from fantasy sports leagues are gambling winnings. If you itemize your deductions on Schedule A (Form 1040), you can deduct gambling losses you had during the year, but only up to the amount of your winnings. If you're in the trade or business of gambling, use Schedule C (Form 1040). For tax years 2018 through 2025, professional gambling losses and expenses are limited to the amount of your winnings.

Lotteries and raffles. Winnings from lotteries and raffles are gambling winnings. In addition to cash winnings, you must include in your income the FMV of bonds, cars, houses, and other noncash prizes. However, the difference between the FMV and the cost of an oil and gas lease obtained from the government through a lottery isn't includible in income.

Installment payments. Generally, if you win a state lottery prize payable in installments, you must include in your gross income the annual payments and any amounts you receive designated as interest on the unpaid installments. If you sell future lottery payments for a lump sum, you must report the amount you receive from the sale as ordinary income (on Schedule 1 (Form 1040), line 8b) in the year you receive it.

Form W-2G. You may have received a Form W-2G showing the amount of your gambling winnings and any tax taken out of them. Include the amount from box 1 on Schedule 1 (Form 1040), line 8b. Include the amount shown in box 4 on Form 1040 or 1040-SR, line 25c, as federal income tax withheld.

Gifts and inheritances. In most cases, property you receive as a gift, bequest, or inheritance isn't included in your income. However, if property you receive this way later produces income such as interest, dividends, or rents, that income is taxable to you. If property is given to a trust and the income from it is paid, credited, or distributed to you, that income is also taxable to you. If the gift, bequest, or inheritance is the income from the property, that income is taxable to you.

Inherited pension or IRA. If you inherited a pension or an IRA, you may have to include part of the inherited amount in your income. See *Survivors and Beneficiaries* in Pub. 575 if you inherited a pension. See *What if You Inherit an IRA?* in Pubs. 590-A and 590-B if you inherited an IRA.

Expected inheritance. If you sell an interest in an expected inheritance from a living person, include the entire amount you receive in gross income on Schedule 1 (Form 1040), line 8z.

Bequest for services. If you receive cash or other property as a bequest for services you performed while the decedent was alive, the value is taxable compensation.

Gulf oil spill. If you received payments for lost wages or income, property damage, or physical injury due to the Gulf oil spill, the payment may be taxable.

Lost wages or income. Payments you received for lost wages, lost business income, or lost profits are taxable.

Property damage. Payments you received for property damage aren't taxable if the payments aren't more than your adjusted basis in the property. If the payments are more than your adjusted basis, you'll realize a gain. If the damage was due to an involuntary conversion, you may defer the tax on the gain if you purchase qualified replacement property. See Pub. 544.

If the payments (including insurance proceeds) you received, or expect to receive, are less than your adjusted basis, you may be able to claim a casualty deduction. See Pub. 547.

Physical injury. Payments you received for personal physical injuries or physical sickness aren't taxable. This includes payments for emotional distress that is attributable to personal physical injuries or physical sickness. Payments for emotional distress that aren't attributable to personal physical injuries or physical sickness are taxable.

More information. For the most recent guidance, go to IRS.gov and enter “Gulf Oil Spill” in the search box.

Historic preservation grants. Don’t include in your income any payment you receive under the National Historic Preservation Act to preserve a historically significant property.

Hobby losses. Losses from a hobby aren't deductible from other income. A hobby is an activity from which you don't expect to make a profit. See *Activity not for profit*, earlier, under *Other Income.*

If you collect stamps, coins, or other items as a hobby for recreation and pleasure, and you sell any of the items, your gain is taxable as a capital gain. However, if you sell items from your collection at a loss, you can't deduct the loss.

Holocaust victims restitution. Restitution payments you receive as a Holocaust victim (or the heir of a Holocaust victim) and interest earned on the payments aren't taxable. Excludable interest is earned by escrow accounts or settlement funds established for holding funds prior to the settlement. You also don't include the restitution payments and interest the funds earned prior to disbursement in any calculation in which you ordinarily would add excludable income to your AGI, such as the calculation to determine the taxable part of social security benefits. If the payments are made in property, your basis in the property is its FMV when you receive it.

Excludable restitution payments are payments or distributions made by any country or any other entity because of persecution of an individual on the basis of race, religion, physical or mental disability, or sexual orientation by Nazi Germany, any other Axis regime, or any other Nazi-controlled or Nazi-allied country, whether the payments are made under a law or as a result of a legal action. They include compensation or reparation for property losses resulting from Nazi persecution, including proceeds under insurance policies issued before and during World War II by European insurance companies.

Illegal activities. Income from illegal activities, such as money from dealing illegal drugs, must be included in your income on Schedule 1 (Form 1040), line 8z, or on Schedule C (Form 1040) if from your self-employment activity.

Indian fishing rights. If you're a member of a qualified Indian tribe that has fishing rights secured by treaty, executive order, or an Act of Congress as of March 17, 1988, don't include in your income amounts you receive from activities related to those fishing rights. The income isn't subject to income tax, self-employment tax, or employment taxes.

Indian money account litigation settlement. Amounts received by an individual Indian as a lump sum or periodic payment pursuant to the Class Action Settlement Agreement dated December 7, 2009, aren't included in gross income. This amount won't be used to figure AGI or MAGI in applying any Internal Revenue Code provision that takes into account excludable income.

Interest on frozen deposits. In general, you exclude from your income the amount of interest earned on a frozen deposit. A deposit is frozen if, at the end of the calendar year, you can't withdraw any part of the deposit because:

- The financial institution is bankrupt or insolvent, or
- The state where the institution is located has placed limits on withdrawals because other financial institutions in the state are bankrupt or insolvent.

Excludable amount. The amount of interest you exclude from income for the year is the interest that was credited on the frozen deposit for that tax year minus the sum of:

1. The net amount withdrawn from the deposit during that year, and
2. The amount that could have been withdrawn at the end of that tax year (not reduced by any penalty for premature withdrawals of a time deposit).

The excluded part of the interest is included in your income in the tax year it becomes withdrawable.

Interest on qualified savings bonds. You may be able to exclude from income the interest from qualified U.S. savings bonds you redeem if you pay qualified higher education expenses in the same year. Qualified higher education expenses are those you pay for tuition and required fees at an eligible educational institution for you, your spouse, or your dependent. A qualified U.S. savings bond is a series EE bond issued after 1989 or a series I bond. The bond must have been issued to you when you were 24 years of age or older. For more information on this exclusion, see *Education Savings Bond Program* in chapter 1 of Pub. 550 and in chapter 10 of Pub. 970.

Interest on state and local government obligations. This interest is usually exempt from federal tax. However, you must show the amount of any tax-exempt interest on your federal income tax return. For more information, see *State or Local Government Obligations* in chapter 1 of Pub. 550.

Job interview expenses. If a prospective employer asks you to appear for an interview and either pays you an allowance or reimburses you for your transportation and other travel expenses, the amount you receive isn't taxable in most cases. You include in income only the amount you receive that is more than your actual expenses.

Jury duty. Jury duty pay you receive must be included in your income on Schedule 1 (Form 1040), line 8h. If you must give the pay to your employer because your employer continues to pay your salary while you serve on the jury, you can deduct the amount turned over to your employer as an adjustment to income. Enter the amount you repay your employer on Schedule 1 (Form 1040), line 24a.

Kickbacks. You must include kickbacks, side commissions, push money, or similar payments you receive in your income on Schedule 1

(Form 1040), line 8z, or on Schedule C (Form 1040) if from your self-employment activity.

Example 37. You sell cars and help arrange car insurance for buyers. Insurance brokers pay back part of their commissions to you for referring customers to them. You must include the kickbacks in your income.

Manufacturer incentive payments. You must include as other income on Schedule 1 (Form 1040), line 8z (or Schedule C (Form 1040) if you're self-employed), incentive payments from a manufacturer that you receive as a salesperson. This is true whether you receive the payment directly from the manufacturer or through your employer.

Example 38. You sell cars for an automobile dealership and receive incentive payments from the automobile manufacturer every time you sell a particular model of car. You report the incentive payments on Schedule 1 (Form 1040), line 8z.

Medical savings accounts (Archer MSAs and Medicare Advantage MSAs). In most cases, you don't include in income amounts you withdraw from your Archer MSA or Medicare Advantage MSA if you use the money to pay for qualified medical expenses. Generally, qualified medical expenses are those you can deduct on Schedule A (Form

1040). For more information about Archer MSAs or Medicare Advantage MSAs, see Pub. 969.

Moving expense reimbursements. For tax years beginning after 2017, reimbursements for certain moving expenses are no longer excluded from the gross income of nonmilitary taxpayers.

Prizes and awards. If you win a prize in a lucky number drawing, television or radio quiz program, beauty contest, or other event, you must include it in your income. For example, if you win a $50 prize in a photography contest, you must report this income on Schedule 1 (Form 1040), line 8i. If you refuse to accept a prize, don't include its value in your income.

Prizes and awards in goods or services must be included in your income at their FMV.

Employee awards or bonuses. Cash awards or bonuses given to you by your employer for good work or suggestions must generally be included in your income as wages. However, certain noncash employee achievement awards can be excluded from income. See *Bonuses and awards* under *Miscellaneous Compensation*, earlier.

Prize points. If you're a salesperson and receive prize points redeemable for merchandise that are awarded by a distributor or manufacturer to employees of dealers, you must include their FMV in your income. The prize points are taxable in the year they're paid or made available to you, rather than in the year you redeem them for merchandise.

Pulitzer, Nobel, and similar prizes. If you were awarded a prize in recognition of accomplishments in religious, charitable, scientific, artistic, educational, literary, or civic fields, you must generally include the value of the prize in your income. However, you don't include this prize in your income if you meet all of the following requirements.

1. You were selected without any action on your part to enter the contest or proceeding.
2. You aren't required to perform substantial future services as a condition for receiving the prize or award.
3. The prize or award is transferred by the payer directly to a governmental unit or tax-exempt charitable organization as designated by you. The following conditions apply to the transfer.
   a. You can't use the prize or award before it's transferred.
   b. You should provide the designation before the prize or award is presented to prevent a

disqualifying use. The designation should contain:

i. The purpose of the designation by making a reference to section 74(b)(3);

ii. A description of the prize or award;

iii. The name and address of the organization to receive the prize or award;

iv. Your name, address, and TIN; and

v. Your signature and the date signed.

c. In the case of an unexpected presentation, you must return the prize or award before using it (or spending, depositing, or investing it, etc., in the case of money) and then prepare the statement as described in (b) above.

d. After the transfer, you should receive from the payer a written response stating when and to whom the designated amounts were transferred.

These rules don't apply to scholarship or fellowship awards. See *Scholarships and fellowships*, later.

Qualified opportunity fund (QOF). Effective December 22, 2017, section 1400Z-2 provides a temporary deferral of inclusion in gross income for eligible gains invested in QOFs, and a stepped-up basis to fair market value of the investment in the QOF at time of sale or exchange, if the investment is held for at least 10 years. See the Form 8949 instructions on how to report your election to defer eligible gains invested in a QOF. See Form 8997, Initial and Annual Statement of

Qualified Opportunity Fund (QOF) Investments, and its instructions for reporting information. For additional information, see Opportunity Zones Frequently Asked Questions, available at *IRS.gov/Newsroom/Opportunity-Zones-Frequently-AskedQuestions*.

Qualified tuition program (QTP). A QTP (also known as a 529 program) is a program set up to allow you to either prepay or contribute to an account established for paying a student's qualified higher education expenses at an eligible educational institution. A program can be established and maintained by a state, an agency or instrumentality of a state, or an eligible educational institution.

The part of a distribution representing the amount paid or contributed to a QTP isn't included in income. This is a return of the investment in the program.

In most cases, the beneficiary doesn't include in income any earnings distributed from a QTP if the total distribution is less than or equal to adjusted qualified higher education expenses. See Pub. 970 for more information.

Railroad retirement annuities. The following types of payments are treated as pension or annuity income and are taxable under the rules explained in Pub. 575.

- Tier 1 railroad retirement benefits that are more than the social security equivalent benefit.
- Tier 2 benefits.
- Vested dual benefits.

Rewards. If you receive a reward for providing information, include it in your income.

Sale of home. You may be able to exclude from income all or part of any gain from the sale or exchange of your main home. See Pub. 523.

Sale of personal items. If you sold an item you owned for personal use, such as a car, refrigerator, furniture, stereo, jewelry, or silverware, your gain is taxable as a capital gain. Report it as explained in the Instructions for Schedule D (Form 1040). You can't deduct a loss.

However, if you sold an item you held for investment, such as gold or silver bullion, coins, or gems, any gain is taxable as a capital gain and any loss is deductible as a capital loss.

Example 39. You sold a painting on an online auction website for $100. You bought the painting for $20 at a garage sale years ago. Report your $80 gain as a capital gain as explained in the Instructions for Schedule D (Form 1040).

Scholarships and fellowships. A candidate for a degree can exclude amounts received as a qualified scholarship or fellowship. A qualified scholarship or fellowship is any amount you receive that is for:

- Tuition and fees required to enroll at or attend an eligible educational institution; or
- Course-related expenses, such as fees, books, and equipment that are required for courses at the eligible educational institution. These items must be required of all students in your course of instruction.

Amounts used for room and board don't qualify for the exclusion. See Pub. 970 for more information on qualified scholarships and fellowship grants.

Payment for services. Generally, you can't exclude from your gross income the part of any scholarship or fellowship that represents payment for teaching, research, or other services required as a condition for receiving the scholarship. This applies even if all candidates for a degree must perform the services to receive the degree.

Exceptions. You don't have to include in income the part of any scholarship or fellowship that represents payment for teaching, research, or other services if you receive the amount under:

- The National Health Services Corps Scholarship Program,
- The Armed Forces Health Professions Scholarship and Financial Assistance Program, or
- A comprehensive student work-learning-service program (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college (as defined in that section).