Publication 525

Taxable and Nontaxable Income

For use in preparing

2023 Returns

Volume 1 of 5

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Future Developments

For the latest information about developments related to Pub. 525, such as legislation enacted after it was published, go to *IRS.gov/Pub525*

What's New

Deferred compensation contribution limit increased. If you participate in a 401(k), 403(b), or the federal government's Thrift Savings Plan (TSP), the total annual amount you can contribute is increased to $22,500 ($30,000 if age 50 or older). This also applies to most 457 plans.

Health flexible spending arrangements (health FSAs) under cafeteria plans. For tax years beginning in 2023, the dollar limitation under section 125(i) on voluntary employee salary reductions for contributions to health FSAs is $3,050.

Temporary allowance of 100% business meal deduction has expired. The temporary allowance of a 100% business meal deduction for food or beverages provided by a restaurant and paid or incurred after December 31, 2020, and before January 1, 2023, has expired. Taxpayers may continue to deduct 50% of the cost of business meals if the taxpayer (or an employee of the taxpayer) is present and the food or beverages aren't considered lavish or extravagant.

Contributions to simplified employee pension plan (SEP) and savings incentive match plan for employees (SIMPLE) Roth IRAs. Section 601 of the SECURE 2.0 Act of 2022 provided that your employer may provide for contributions to a Roth IRA under a SEP or SIMPLE IRA plan.

Designated Roth nonelective contributions and designated Roth matching contributions. Section 604 of the SECURE 2.0 Act of 2022 permits certain nonelective contributions and matching contributions that are made after December 29, 2022, to be designated as Roth contributions.

De minimis financial incentives. Section 113 of the SECURE 2.0 Act of 2022 provided that employers can offer their employees de minimis financial incentives to make elective deferrals. These incentives may not exceed $250 in value, and, in general, are includible in employees' income.

Reminders

Paycheck Protection Program loan forgiveness. Gross income doesn't include any amount arising from the forgiveness of a Paycheck Protection Program (PPP) loan, effective for taxable years ending after March

27, 2020. (See P.L. 116-136.) Likewise, gross income does not include any amount arising from the forgiveness of Second Draw PPP loans, effective December 27, 2020. (See P.L. 116-260.) When a taxpayer who does not factually satisfy the conditions for a qualifying forgiveness causes its lender to forgive the PPP loan by inaccurately representing that the taxpayer satisfies them, the taxpayer may not exclude the amount of the forgiven loan from gross income under 15 U.S.C. section 636m(i) or section 276(b)(1) of the COVID-related Tax Relief Act of 2020. For more information, see *Forgiveness of Paycheck Protection Program (PPP) Loans*.

Emergency financial aid grants. Certain emergency financial aid grants under the CARES Act are excluded from the income of college and university students, effective for grants made after March 26, 2020. (See P.L. 116-136 and P.L. 116-260.)

Other loan forgiveness under the CARES Act. Gross income does not include any amount arising from the forgiveness of certain loans, emergency Economic Injury Disaster Loan (EIDL) grants, and certain loan repayment assistance, each as provided by the CARES Act, effective for tax years ending after March 27, 2020. (See P.L. 116-136 and P.L. 116-260.)

Exclusion of income for volunteer firefighters and emergency medical responders. If you are a volunteer firefighter or emergency medical responder, you may be able to exclude from gross income certain rebates or reductions of state or local property or income taxes and up to $50 per month provided by a state or local government. For more information, see *Volunteer firefighters and emergency medical responders*.

Repeal of deduction for alimony payments and corresponding inclusion in gross income. Alimony received under a divorce or separation instrument executed after 2018 won't be includible in your income. The same is true of alimony received under a divorce or separation instrument executed before 2019 and modified after 2018, if the modification expressly states that the alimony isn't deductible to the payer or includible in your income. For more information, see Pub. 504.

Forms 1040A and 1040EZ no longer available. Forms 1040A and 1040EZ aren't available to file your 2023 taxes. If you used one of these forms in the past, you'll now file Form 1040 or 1040-SR.

Qualified equity grants. For tax years beginning after 2017, certain qualified employees can make a new election to defer income taxation for up to 5 years for the

qualified stocks received. See *Qualified Equity Grants* under *Employee Compensation*, later.

Suspension of qualified bicycle commuting reimbursement exclusion. For tax years beginning after 2017, reimbursement you receive from your employer for the purchase, repair, or storage of a bicycle you regularly use for travel between your residence and place of employment must be included in your gross income.

Unemployment compensation. If you received unemployment compensation but did not 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.

Achieving a Better Life Experience (ABLE) account. This is a type of savings account for individuals with disabilities and their families. Distributions are tax free if

used to pay the beneficiary's qualified disability expenses. See Pub. 907 for more information.

Certain amounts received by wrongfully incarcerated individuals. Certain amounts you receive due to a wrongful incarceration may be excluded from gross income. See *IRS.gov/ Newsroom/IRS-Updates-Frequently-AskedQuestions-Related-to-Wrongful-Incarceration* for more information.

Foreign income. If you're a U.S. citizen or resident alien, you must report income from sources outside the United States (foreign income) on your tax return unless it’s exempt by U.S. law. This is true whether you reside inside or outside the United States and whether or not you receive a Form W-2, Wage and Tax Statement, or Form 1099 from the foreign payer. This applies to earned income (such as wages and tips) as well as unearned income (such as interest, dividends, capital gains, pensions, rents, and royalties).

If you reside outside the United States, you may be able to exclude part or all of your foreign source earned income. For details, see Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad.

Olympic and Paralympic medals and United States Olympic Committee (USOC) prize money. If you receive Olympic and Paralympic medals and USOC prize money, the value of the medals and the amount of the prize money may be nontaxable. See the Instructions for Schedule 1 (Form 1040), line 8m, at *IRS.gov/Form1040* for more information.

Public safety officers. A spouse, former spouse, and child of a public safety officer killed in the line of duty can exclude from gross income survivor benefits received from a governmental section 401(a) plan attributable to the officer's service. See section 101(h).

A public safety officer that's permanently and totally disabled or killed in the line of duty and a surviving spouse or child can exclude from income death or disability benefits received from the federal Bureau of Justice Assistance or death benefits paid by a state program. See section 104(a)(6).

Qualified Medicaid waiver payments. Certain payments you receive for providing care to an eligible individual in your home under a state's Medicaid waiver program may be excluded from your income under Notice 2014-7. See also Instructions for Schedule 1 (Form 1040), line 8s.

Qualified settlement income. 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 contribution, reduce the qualified settlement income that you must

include in income. See *Exxon Valdez settlement income* under *Other Income*, later. Also, see Pub. 590-A for more information.

Taxpayer identification number (TIN). A TIN is your social security number (SSN), individual taxpayer identification number (ITIN), adoption taxpayer identification number (ATIN), or employer identification number (EIN).

Terrorist attacks. You can exclude from income certain disaster assistance, disability, and death payments received as a result of a terrorist or military action. For more information, see *Sickness and Injury Benefits*, later; Pub. 3920, Tax Relief for Victims of Terrorist Attacks; and Pub. 907, Tax Highlights for Persons With Disabilities.

Photographs of missing children. The Internal Revenue Service is a proud partner with the *National Center for Missing & Exploited Children® (NCMEC)*. Photographs of missing children selected by the Center may

appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 800-THE-LOST (800-843-5678) if you recognize a child.

Introduction

You can receive income in the form of money, property, or services. This publication discusses many kinds of income and explains whether they are taxable or nontaxable. It includes discussions on employee wages and fringe benefits, and income from bartering, partnerships, S corporations, and royalties. It also includes information on disability pensions, life insurance proceeds, and welfare and other public assistance benefits. Check the index for the location of a specific subject.

In most cases, an amount included in your income is taxable unless it is specifically exempted by law. Income that is taxable must be reported on your return and is

subject to tax. Income that is nontaxable may have to be shown on your tax return but isn't taxable.

Constructively received income. If you are a cash method taxpayer, you are generally taxed on income that is available to you, regardless of whether it is actually in your possession.

A valid check that you received or that was made available to you before the end of the tax year is considered income constructively received in that year, even if you don't cash the check or deposit it to your account until the next year. For example, if the postal service tries to deliver a check to you on the last day of the tax year but you aren't at home to receive it, you must include the amount in your income for that tax year. If the check was mailed so that it couldn't possibly reach you until after the end of the tax year, and you otherwise couldn't get the funds before the end of the year, you include

the amount in your income for the next tax year.

Assignment of income. Income received by an agent for you is income you constructively received in the year the agent received it. If you agree by contract that a third party is to receive income for you, you must include the amount in your income when the third party receives it.

Example 1. You and your employer agree that part of your salary is to be paid directly to one of your creditors. You must include that amount in your income when your creditor receives it.

Advance payments. Generally, you report an advance payment for goods, services, or other items as income in the year you receive the payment. However, if you use an accrual method of accounting and are otherwise eligible, you can elect to postpone including the advance payment in income until the next year. See Pub. 538 for more information.

Comments and suggestions. We welcome your comments about this publication and suggestions for future editions.

You can send us comments through *IRS.gov/FormComments.* Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications. **Don't** send tax questions, tax returns, or payments to the above address.

Getting answers to your tax questions. If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at *IRS.gov/ Help/ITA* where you can find topics

by using the search feature or viewing the categories listed.

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Useful Items

You may want to see:

Publication

- ☐ **334** Tax Guide for Small Business
- ☐ **523** Selling Your Home

- ☐ **527** Residential Rental Property
- ☐ **541** Partnerships
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **550** Investment Income and Expenses
- ☐ **554** Tax Guide for Seniors
- ☐ **559** Survivors, Executors, and Administrators
- ☐ **575** Pension and Annuity Income
- ☐ **907** Tax Highlights for Persons With Disabilities
- ☐ **915** Social Security and Equivalent Railroad Retirement Benefits
- ☐ **970** Tax Benefits for Education
- ☐ **4681** Canceled Debts, Foreclosures, Repossessions, and Abandonments

Form (and Instructions)

- ☐ **1040** U.S. Individual Income Tax Return
- ☐ **1040-NR** U.S. Nonresident Alien Income Tax Return
- ☐ **1040-SR** U.S. Tax Return for Seniors
- ☐ **1099-R** Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- ☐ **W-2** Wage and Tax Statement

See *How To Get Tax Help* at the end of this publication for information about getting these publications.

Employee Compensation

In most cases, you must include in gross income everything you receive in payment for personal services. In addition to wages, salaries, commissions, fees, and tips, this

includes other forms of compensation such as fringe benefits and stock options.

You should receive a Form W-2 from your employer or former employer showing the pay you received for your services. Include all your pay on Form 1040 or 1040-SR, line 1a, even if you don't receive Form W-2, or you receive a Form W-2 that doesn't include all pay that should be included on the Form W-2.

If you performed services, other than as an independent contractor, and your employer didn't withhold social security and Medicare taxes from your pay, you must file Form 8919 with your Form 1040 or 1040-SR. These wages must be included on Form 1040 or 1040-SR, line 1g. See Form 8919 for more information.

Fair market value (FMV). The FMV of an item of property is the price at which the item would change hands between a willing buyer and a willing seller, neither being required to

buy or sell and both having reasonable knowledge of the relevant facts.

Childcare providers. If you provide childcare, either in the child's home or in your home or other place of business, the pay you receive must be included in your income. If you're not an employee, you're probably self-employed and must include payments for your services on Schedule C (Form 1040), Profit or Loss From Business. You generally aren’t an employee unless you're subject to the will and control of the person who employs you as to what you're to do, and how you're to do it.

Babysitting. If you babysit for relatives or neighborhood children, whether on a regular basis or only periodically, the rules for childcare providers apply to you.

Self-employment tax. Whether you're an employee or self-employed person, your income could be subject to self-employment tax. See the Instructions for Schedule C

(Form 1040) and the Instructions for Schedule SE (Form 1040) if you're self-employed. Also see Pub. 926 for more information.

Bankruptcy. If you filed for bankruptcy under chapter 11 of the Bankruptcy Code, you must allocate your wages and withheld income tax. Your Form W-2 will show your total wages and withheld income tax for the year. On your tax return, you report the wages and withheld income tax for the period before you filed for bankruptcy. Your bankruptcy estate reports the wages and withheld income tax for the period after you filed for bankruptcy. If you receive other information returns (such as Form 1099-DIV or Form 1099-INT) that report gross income to you, rather than to the bankruptcy estate, you must allocate that income.

The only exception is for purposes of figuring your self-employment tax if you're self-employed. For that purpose, you must take

into account all your self-employment income for the year from services performed both before and after the beginning of the case.

You must file a statement with your income tax return stating you filed a chapter 11 bankruptcy case. The statement must show the allocation and describe the method used to make the allocation. For a sample of this statement and other information, see Notice 2006-83, 2006-40 I.R.B. 596, available at *IRS.gov/irb/ 2006-40_IRB#NOT-2006-83*.

Miscellaneous Compensation

This section discusses many types of employee compensation. The subjects are arranged in alphabetical order.

Advance commissions and other earnings. If you receive advance commissions or other amounts for services to be performed in the future and you're a cash-method taxpayer, you must include these

amounts in your income in the year you receive them.

If you repay unearned commissions or other amounts in the same year you receive them, reduce the amount of unearned commissions included in your income by the repayment. If you repay them in a later tax year, you can deduct the repayment as an itemized deduction on your Schedule A (Form 1040), Other Itemized Deductions, line 16, or you may be able to take a credit for that year. See *Repayments*, later.

Allowances and reimbursements. If you receive travel, transportation, or other business expense allowances or reimbursements from your employer, see Pub. 463.

Back pay awards. Include in income amounts you're awarded in a settlement or judgment for back pay. These include payments made to you for damages, unpaid life insurance premiums, and unpaid health

insurance premiums. They should be reported to you by your employer on Form W-2.

Bonuses and awards. Bonuses or awards you receive for outstanding work are included in your income and should be shown on your Form W-2. These include prizes such as vacation trips for meeting sales goals. If the prize or award you receive is goods or services, you must include the FMV of the goods or services in your income. However, if your employer merely promises to pay you a bonus or award at some future time, it isn't taxable until you receive it or it's made available to you.

Employee achievement award. If you receive tangible personal property (other than cash, a gift certificate, or an equivalent item) as an award for length of service or safety achievement, you must generally exclude its value from your income. However, the amount you can exclude is limited to your employer's cost and can't be more than

$1,600 ($400 for awards that aren’t qualified plan awards) for all such awards you receive during the year. Your employer can tell you whether your award is a qualified plan award. Your employer must make the award as part of a meaningful presentation, under conditions and circumstances that don’t create a significant likelihood of it being disguised pay.

However, the exclusion doesn’t apply to the following awards.

- A length-of-service award if you received it for less than 5 years of service or if you received another length-of-service award during the year or the previous 4 years.
- A safety achievement award if you're a manager, administrator, clerical employee, or other professional employee or if more than 10% of eligible employees previously received safety achievement awards during the year.

Example 2. You received three employee achievement awards during the year: a nonqualified plan award of a watch valued at $250, and two qualified plan awards of a stereo valued at $1,000 and a set of golf clubs valued at $500. Assuming that the requirements for qualified plan awards are otherwise satisfied, each award by itself would be excluded from income. However, because the $1,750 total value of the awards is more than $1,600, you must include $150 ($1,750 − $1,600) in your income.

Differential wage payments. This is any payment made by an employer to an individual for any period during which the individual is, for a period of more than 30 days, an active duty member of the uniformed services and represents all or a portion of the wages the individual would have received from the employer for that period. These payments are treated as wages and are subject to income tax withholding,

but not FICA or FUTA taxes. The payments are reported as wages on Form W-2.

Government cost-of-living allowances.

Most payments received by U.S. Government civilian employees for working abroad are taxable. However, certain cost-of-living allowances are tax free. Pub. 516 explains the tax treatment of allowances, differentials, and other special pay you receive for employment abroad.

Nonqualified deferred compensation plans. Your employer will report to you the total amount of deferrals for the year under a nonqualified deferred compensation plan. This amount is shown in Form W-2, box 12, using code Y. This amount isn't included in your income.

However, if at any time during the tax year, the plan fails to meet certain requirements, or isn't operated under those requirements, all amounts deferred under the plan for the tax

year and all preceding tax years are included in your income for the current year. This amount is included in your wages shown in Form W-2, box 1. It's also shown in Form W-2, box 12, using code Z.

Nonqualified deferred compensation plans of nonqualified entities. In most cases, any compensation deferred under a nonqualified deferred compensation plan of a nonqualified entity is included in gross income when there is no substantial risk of forfeiture of the rights to such compensation. For this purpose, a nonqualified entity is one of the following.

1. A foreign corporation, unless substantially all of its income is:
    a. Effectively connected with the conduct of a trade or business in the United States, or
    b. Subject to a comprehensive foreign income tax.

2. A partnership, unless substantially all of its income is allocated to persons other than:

   a. Foreign persons for whom the income isn't subject to a comprehensive foreign income tax, and

   b. Tax-exempt organizations.

Note received for services. If your employer gives you a secured note as payment for your services, you must include the FMV (usually the discount value) of the note in your income for the year you receive it. When you later receive payments on the note, a proportionate part of each payment is the recovery of the FMV that you previously included in your income. Don't include that part again in your income. Include the rest of the payment in your income in the year of payment.

If your employer gives you a nonnegotiable unsecured note as payment for your services, payments on the note that are credited toward the principal amount of the note are compensation income when you receive them.

Severance pay. You must include in income amounts you receive as severance pay and any payment for the cancellation of your employment contract.

Severance payments are subject to social security and Medicare taxes, income tax withholding, and FUTA tax. Severance payments are wages subject to social security and Medicare taxes. As noted in section 15 of Pub. 15, *Special Rules for Various Types of Services and Payments*, severance payments are also subject to income tax withholding and FUTA tax.

Accrued leave payment. If you're a federal employee and receive a lump-sum payment for accrued annual leave when you retire or

resign, this amount will be included as wages on your Form W-2.

If you resign from one agency and are reemployed by another agency, you may have to repay part of your lump-sum annual leave payment to the second agency. You can reduce gross wages by the amount you repaid in the same tax year in which you received it. Attach to your tax return a copy of the receipt or statement given to you by the agency you repaid to explain the difference between the wages on your return and the wages on your Forms W-2.

Outplacement services. If you choose to accept a reduced amount of severance pay so that you can receive outplacement services (such as training in résumé writing and interview techniques), you must include the unreduced amount of the severance pay in income.

Sick pay. Pay you receive from your employer while you're sick or injured is part of your salary or wages. In addition, you must include in your income sick pay benefits received from any of the following payers.

- A welfare fund.
- A state sickness or disability fund.
- An association of employers or employees.
- An insurance company, if your employer paid for the plan.

However, if you paid the premiums on an accident or health insurance policy, the benefits you receive under the policy aren't taxable. For more information, see *Other Sickness and Injury Benefits* under *Sickness and Injury Benefits*, later.

Social security and Medicare taxes paid by employer. If you and your employer have an agreement that your employer pays your social security and Medicare taxes without

deducting them from your gross wages, you must report the amount of tax paid for you as taxable wages on your tax return. The payment is also treated as wages for figuring your social security and Medicare taxes and your social security and Medicare benefits. However, these payments aren’t treated as social security and Medicare wages if you're a household worker or a farm worker.

Stock appreciation rights. Don’t include a stock appreciation right granted by your employer in income until you exercise (use) the right. When you use the right, you're entitled to a cash payment equal to the FMV of the corporation's stock on the date of use minus the FMV on the date the right was granted. You include the cash payment in income in the year you use the right.

Digital assets. If your employer gives you digital assets (such as Bitcoin) as payment for your services, you must include the FMV of the digital assets as of the date(s) of receipt

in your income. The FMV of digital assets paid as wages is subject to federal income tax withholding, Federal Insurance Contribution Act (FICA) tax, and Federal Unemployment Tax Act (FUTA) tax and must be reported on Form W-2. Notice 2014-21, 2014-16 I.R.B. 938, describes how digital assets are treated for federal tax purposes and is available at *IRS.gov/irb/ 2014-16 IRB#NOT-2014-21*. For further information, see *IRS.gov/DigitalAssets.*

Fringe Benefits

Fringe benefits received in connection with the performance of your services are included in your income as compensation unless you pay FMV for them or they're specifically excluded by law. Refraining from the performance of services (for example, under a covenant not to compete) is treated as the performance of services for purposes of these rules.

See *Valuation of Fringe Benefits*, later in this discussion, for information on how to determine the amount to include in income.

Recipient of fringe benefit. You're the recipient of a fringe benefit if you perform the services for which the fringe benefit is provided. You're considered to be the recipient even if it’s given to another person, such as a member of your family. An example is a car your employer gives to your spouse for services you perform. The car is considered to have been provided to you and not to your spouse.

You don’t have to be an employee of the provider to be a recipient of a fringe benefit. If you're a partner, a director, or an independent contractor, you can also be the recipient of a fringe benefit.

Provider of benefit. Your employer or another person for whom you perform services is the provider of a fringe benefit regardless of whether that person actually

provides the fringe benefit to you. The provider can be a client or customer of an independent contractor.

Accounting period. You must use the same accounting period your employer uses to report your taxable noncash fringe benefits. Your employer has the option to report taxable noncash fringe benefits by using either of the following rules.

- The general rule: benefits are reported for a full calendar year (January 1–December 31).
- The special accounting period rule: benefits provided during the last 2 months of the calendar year (or any shorter period) are treated as paid during the following calendar year. For example, each year your employer reports the value of benefits provided during the last 2 months of the prior year and the first 10 months of the current year.

Your employer doesn’t have to use the same accounting period for each fringe benefit, but must use the same period for all employees who receive a particular benefit.

You must use the same accounting period that you use to report the benefit to claim an employee business deduction (for example, use of a car).

Form W-2. Your employer must include all taxable fringe benefits in Form W-2, box 1, as wages, tips, and other compensation, and, if applicable, in boxes 3 and 5 as social security and Medicare wages. Although not required, your employer may include the total value of fringe benefits in box 14 (or on a separate statement). However, if your employer provided you with a vehicle and included 100% of its annual lease value in your income, the employer must separately report this value to you in box 14 (or on a separate statement).

Accident or Health Plan

In most cases, the value of accident or health plan coverage provided to you by your employer isn't included in your income. Benefits you receive from the plan may be taxable, as explained under *Sickness and Injury Benefits*, later.

For information on the items covered in this section, other than *Long-term care coverage*, see Pub. 969.

Long-term care coverage. Contributions by your employer to provide coverage for long-term care services generally aren't included in your income. However, contributions made through a flexible spending or similar arrangement (such as a cafeteria plan) must be included in your income. This amount will be reported as wages in Form W-2, box 1.

Archer MSA contributions. Contributions by your employer to your Archer MSA generally aren't included in your income. Their total will

be reported in Form W-2, box 12, with code R. You must report this amount on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts. File the form with your return.

Health flexible spending arrangement (health FSA). If your employer provides a health FSA that qualifies as an accident or health plan, the amount of your salary reduction, and reimbursements of your medical care expenses, in most cases aren't included in your income.

For 2023, health FSAs are subject to a $3,050 limit on salary reduction contributions.

Health reimbursement arrangement (HRA). If your employer offers an HRA that qualifies as an accident or health plan, your coverage under the HRA and reimbursements of your medical care expenses from the HRA generally aren't included in your income.

Health savings account (HSA). If you're an eligible individual, you and any other person, including your employer or a family member, can make contributions to your HSA. Contributions, other than employer contributions, are deductible on your return whether or not you itemize deductions. Contributions made by your employer aren't included in your income. Distributions from your HSA that are used to pay qualified medical expenses aren't included in your income. Distributions not used for qualified medical expenses are included in your income. See Pub. 969 for the requirements of an HSA.

Contributions by a partnership to a bona fide partner's HSA aren't contributions by an employer. The contributions are treated as a distribution of money and aren't included in the partner's gross income. Contributions by a partnership to a partner's HSA for services rendered are treated as guaranteed payments

that are includible in the partner's gross income. In both situations, the partner can deduct the contribution made to the partner's HSA.

Contributions by an S corporation to a 2%-shareholder-employee's HSA for services rendered are treated as guaranteed payments and are includible in the shareholder-employee's gross income. The shareholder-employee can deduct the contribution made to the shareholder-employee's HSA.

Qualified HSA funding distribution. You can make a one-time distribution from your individual retirement arrangement (IRA) to an HSA and you generally won’t include any of the distribution in your income. See Pub. 590-B for the requirements for these qualified HSA funding distributions.

Adoption Assistance

You may be able to exclude from your income amounts paid or expenses incurred by your

employer for qualified adoption expenses in connection with your adoption of an eligible child. See the Instructions for Form 8839 for more information.

Adoption benefits are reported by your employer in Form W-2, box 12, with code T. They are also included as social security and Medicare wages in boxes 3 and 5. However, they aren’t included as wages in box 1. To determine the taxable and nontaxable amounts, you must complete Part III of Form 8839. File the form with your return.

Athletic Facilities

If your employer provides you with the free or low-cost use of an employer-operated gym or other athletic club on your employer's premises, the value isn’t included in your compensation. The gym must be used primarily by employees, their spouses, and their dependent children.

If your employer pays for a fitness program provided to you at an off-site resort hotel or athletic club, the value of the program is included in your compensation.

De Minimis (Minimal) Benefits

If your employer provides you with a product or service and the cost of it is so small that it would be unreasonable for the employer to account for it, the value isn't included in your income. In most cases, the value of benefits such as discounts at company cafeterias, cab fares home when working overtime, occasional personal use of an employer's copying machine (where at least 85% of the use of the machine is for business), and company picnics aren't included in your income. Also, see *Employee Discounts*, later.

Holiday gifts. If your employer gives you a turkey, ham, or other item of nominal value at Christmas or other holidays, don't include the value of the gift in your income. However, if your employer gives you cash, a gift

certificate, or a similar item that you can easily exchange for cash, you include the value of that gift as extra salary or wages regardless of the amount involved.

Dependent Care Benefits

If your employer provides dependent care benefits under a dependent care assistance plan, you may be able to exclude these benefits from your income. Dependent care benefits include:

- Amounts your employer pays directly to either you or your care provider for the care of your qualifying person while you work,
- The FMV of care in a daycare facility provided or sponsored by your employer, and
- Pre-tax contributions you made under a dependent care FSA.

The amount you can exclude is limited to the lesser of:

- The total amount of dependent care benefits you received during the year,
- The total amount of qualified expenses you incurred during the year,
- Your earned income,
- Your spouse's earned income, or
- $5,000 ($2,500 if married filing separately).

Your employer must show the total amount of dependent care benefits provided to you during the year under a dependent care assistance plan in Form W-2, box 10. Any amount over your employer’s plan limit is also included in box 1. See Form 2441.

To claim the exclusion, you must complete Part III of Form 2441. See the Instructions for Form 2441 for more information.

Educational Assistance

You can exclude from your income up to $5,250 of qualified employer-provided educational assistance. For more information, see Pub. 970.

Employee Discounts

If your employer sells you property or services at a discount, you may be able to exclude the amount of the discount from your income. The exclusion applies to discounts on property or services offered to customers in the ordinary course of the line of business in which you work. However, it doesn’t apply to discounts on real property or property commonly held for investment (such as stocks or bonds).

The exclusion is limited to the price charged nonemployee customers multiplied by the following percentage.

- For a discount on property, your employer's gross profit percentage (gross

profit divided by gross sales) on all property sold during the employer's previous tax year. (Ask your employer for this percentage.)

- For a discount on services, 20% (0.20).

Financial Counseling Fees

Financial counseling fees paid for you by your employer are included in your income and must be reported as part of wages. Fees for tax or investment counseling are miscellaneous itemized deductions and are no longer deductible.

Qualified retirement planning services paid for you by your employer may be excluded from your income. For more information, see *Retirement Planning Services*, later.

Employer-Provided Group-Term Life Insurance

In most cases, the cost of up to $50,000 of group-term life insurance coverage provided

to you by your employer (or former employer) isn't included in your income. However, you must include in income the cost of employer-provided insurance that is more than the cost of $50,000 of coverage reduced by any amount you pay toward the purchase of the insurance.

For exceptions to this rule, see *Entire cost excluded* and *Entire cost taxed*, later.

If your employer provided more than $50,000 of coverage, the amount included in your income is reported as part of your wages in Form W-2, box 1. Also, it's shown separately in box 12 with code C.

Group-term life insurance. This insurance is term life insurance protection (insurance for a fixed period of time) that:

- Provides a general death benefit,
- Is provided to a group of employees,

- Is provided under a policy carried by the employer, and
- Provides an amount of insurance to each employee based on a formula that prevents individual selection.

Permanent benefits. If your group-term life insurance policy includes permanent benefits, such as a paid-up or cash surrender value, you must include in your income, as wages, the cost of the permanent benefits minus the amount you pay for them. Your employer should be able to tell you the amount to include in your income.

Accidental death benefits. Insurance that provides accidental or other death benefits but doesn't provide general death benefits (for example, travel insurance) isn’t group-term life insurance.

Former employer. If your former employer provided more than $50,000 of group-term life insurance coverage during the year, the

amount included in your income is reported as wages in Form W-2, box 1. Also, it's shown separately in box 12 with code C. Box 12 will also show the amount of uncollected social security and Medicare taxes on the excess coverage, with codes M and N. You must pay these taxes with your income tax return. Include them on Schedule 2 (Form 1040), line 13. For more information, see the Instructions for Forms 1040 and 1040-SR.

Two or more employers. Your exclusion for employer-provided group-term life insurance coverage can’t exceed the cost of $50,000 of coverage, whether the insurance is provided by a single employer or multiple employers. If two or more employers provide insurance coverage that totals more than $50,000, the amounts reported as wages on your Forms W-2 won’t be correct. You must figure how much to include in your income. Reduce the amount you figure by any amount reported in Form W-2, box 12, with code C, add the

result to the wages reported in box 1, and report the total on your return.

Figuring the taxable cost. Use the following worksheet to figure the amount to include in your income.

If you pay any part of the cost of the insurance, your entire payment reduces, dollar for dollar, the amount you would otherwise include in your income. However, you can't reduce the amount to include in your income by:

- Payments for coverage in a different tax year;
- Payments for coverage through a cafeteria plan, unless the payments are after-tax contributions; or
- Payments for coverage not taxed to you because of the exceptions discussed later under *Entire cost excluded*.

Worksheet 1. **Figuring the Cost of Group-Term Life Insurance To Include in Income**

Keep for Your Records

1.	Enter the total amount of your insurance coverage from your employer(s)	**1.** _____
2.	Limit on exclusion for employer-provided group-term life insurance coverage	**2.** *50,000*
3.	Subtract line 2 from line 1	**3.** _____
4.	Divide line 3 by $1,000. Figure to the nearest tenth	**4.** _____
5.	Go to Table 1. Using your age on the last day of the tax year, find your age group in the left column, and enter the cost from the column on the right for your age group	**5.** _____
6.	Multiply line 4 by line 5	**6.** _____
7.	Enter the number of full months of coverage at this cost	**7.** _____
8.	Multiply line 6 by line 7	**8.** _____
9.	Enter the premiums you paid per month	**9.** _____
10.	Enter the number of months you paid the premiums	**10.** _____
11.	Multiply line 9 by line 10	**11.** _____
12.	Subtract line 11 from line 8. **Include this amount in your income as wages**	**12.** _____

Table 1. **Cost of $1,000 of Group-Term Life Insurance for 1 Month**

Age	Cost
Under 25	$ .05
25 through 29	.06
30 through 34	.08
35 through 39	.09
40 through 44	.10
45 through 49	.15
50 through 54	.23
55 through 59	.43
60 through 64	.66
65 through 69	1.27
70 and above	2.06

Example 3. You're 51 years old and work for employers A and B. Both employers provide group-term life insurance coverage for you for the entire year. Your coverage is $35,000 with employer A and $45,000 with employer B. You pay premiums of $4.15 a month under the employer B group plan. You figure the amount to include in your income as follows.

Worksheet 1. **Figuring the Cost of Group-Term Life Insurance To Include in Income—Illustrated**

Keep for Your Records

1.	Enter the total amount of your insurance coverage from your employer(s)	**1.**	*80,000*
2.	Limit on exclusion for employer-provided group-term life insurance coverage	**2.**	***50,000***
3.	Subtract line 2 from line 1	**3.**	*30,000*
4.	Divide line 3 by $1,000. Figure to the nearest tenth	**4.**	*30.0*
5.	Go to Table 1. Using your age on the last day of the tax year, find your age group in the left column, and enter the cost from the column on the right for your age group	**5.**	*.23*
6.	Multiply line 4 by line 5	**6.**	*6.90*
7.	Enter the number of full months of coverage at this cost	**7.**	*12*
8.	Multiply line 6 by line 7	**8.**	*82.80*
9.	Enter the premiums you paid per month	**9.**	*4.15*
10.	Enter the number of months you paid the premiums	**10.**	*12*
11.	Multiply line 9 by line 10	**11.**	*49.80*
12.	Subtract line 11 from line 8. **Include this amount in your income as wages**	**12.**	*33.00*

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The total amount to include in income for the cost of excess group-term life insurance is $33. Neither employer provided over $50,000 insurance coverage, so the wages shown on your Forms W-2 don't include any part of that $33. You must add it to the wages shown on your Forms W-2 and include the total on your return.

Entire cost excluded. You aren't taxed on the cost of group-term life insurance if any of the following circumstances apply.

1. You're permanently and totally disabled and have ended your employment.
2. Your employer is the beneficiary of the policy for the entire period the insurance is in force during the tax year.
3. A charitable organization to which contributions are deductible is the only beneficiary of the policy for the entire

period the insurance is in force during the tax year.

(You aren’t entitled to a deduction for a charitable contribution for naming a charitable organization as the beneficiary of your policy.)

1. The plan existed on January 1, 1984, and:

   a. You retired before January 2, 1984, and were covered by the plan when you retired; or

   b. You reached age 55 before January 2, 1984, and were employed by the employer or its predecessor in 1983.

Entire cost taxed. You’re taxed on the entire cost of group-term life insurance if either of the following circumstances applies.

- The insurance is provided by your employer through a qualified employees'

trust, such as a pension trust or a qualified annuity plan.

- You’re a key employee and your employer's plan discriminates in favor of key employees.

Meals and Lodging

You don't include in your income the value of meals and lodging provided to you and your family by your employer at no charge if the following conditions are met.

1. The meals are:
    a. Furnished on the business premises of your employer, and
    b. Furnished for the convenience of your employer.
2. The lodging is:
    a. Furnished on the business premises of your employer,

b. Furnished for the convenience of your employer, and

c. A condition of your employment. (You must accept it in order to be able to properly perform your duties.)

You also don't include in your income the value of meals or meal money that qualifies as a minimal fringe benefit. See *De Minimis (Minimal) Benefits*, earlier.

Faculty lodging. If you're an employee of an educational institution or an academic health center and you're provided with lodging that doesn't meet the three conditions given earlier, you may still not have to include the value of the lodging in income. However, the lodging must be qualified campus lodging, and you must pay an *Adequate rent*.

Academic health center. This is an organization that meets the following conditions.

- Its principal purpose or function is to provide medical or hospital care or medical education or research.
- It receives payments for graduate medical education under the Social Security Act.
- One of its principal purposes or functions is to provide and teach basic and clinical medical science and research using its own faculty.

Qualified campus lodging. Qualified campus lodging is lodging furnished to you, your spouse, or any of your dependents by, or on behalf of, the institution or center for use as a home. The lodging must be located on or near a campus of the educational institution or academic health center.

Adequate rent. The amount of rent you pay for the year for qualified campus lodging is considered adequate if it's at least equal to the lesser of:

- 5% of the appraised value of the lodging, or
- The average of rentals paid by individuals (other than employees or students) for comparable lodging held for rent by the educational institution.

If the amount you pay is less than the lesser of these amounts, you must include the difference in your income.

The lodging must be appraised by an independent appraiser and the appraisal must be reviewed on an annual basis.

Example 4. You are a sociology professor for State University and rent a home from the university that is qualified campus lodging. The house is appraised at $200,000. The average rent paid for comparable university

lodging by persons other than employees or students is $14,000 a year. You pay an annual rent of $11,000. You don’t include in your income any rental value because the rent you pay equals at least 5% of the appraised value of the house (5% × $200,000 = $10,000). If you paid annual rent of only $8,000, you would have to include $2,000 in your income ($10,000 – $8,000).

Moving Expense Reimbursements

For tax years 2018 through 2025, reimbursements for certain moving expenses are no longer excluded from the gross income of nonmilitary taxpayers.

No-Additional-Cost Services

The value of services you receive from your employer for free, at cost, or for a reduced price isn't included in your income if your employer:

- Offers the same service for sale to customers in the ordinary course of the line of business in which you work, and
- Doesn’t have a substantial additional cost (including any sales income given up) to provide you with the service (regardless of what you paid for the service).

In most cases, no-additional-cost services are excess capacity services, such as airline, bus, or train tickets; hotel rooms; and telephone services.

Example 5. You're employed as a flight attendant for a company that owns both an airline and a hotel chain. Your employer allows you to take personal flights (if there is an unoccupied seat) and stay in any one of their hotels (if there is an unoccupied room) at no cost to you. The value of the personal flight isn't included in your income. However, the value of the hotel room is included in your income because you don't work in the hotel business.

Retirement Planning Services

If your employer has a qualified retirement plan, qualified retirement planning services provided to you (and your spouse) by your employer aren't included in your income. Qualified services include retirement planning advice, information about your employer's retirement plan, and information about how the plan may fit into your overall individual retirement income plan. You can't exclude the value of any tax preparation, accounting, legal, or brokerage services provided by your employer. Also, see *Financial Counseling Fees*, earlier.

Transportation

If your employer provides you with a qualified transportation fringe benefit, it can be excluded from your income, up to certain limits. A qualified transportation fringe benefit is:

- Transportation in a commuter highway vehicle (such as a van) between your home and work place,
- A transit pass, or
- Qualified parking.

Cash reimbursement by your employer for these expenses under a bona fide reimbursement arrangement is also excludable. However, cash reimbursement for a transit pass is excludable only if a voucher or similar item that can be exchanged only for a transit pass isn't readily available for direct distribution to you.

Exclusion limit. The exclusion for commuter vehicle transportation and transit pass fringe benefits can't be more than $300 a month.

The exclusion for the qualified parking fringe benefit can't be more than $300 a month.

If the benefits have a value that is more than these limits, the excess must be included in your income.

Commuter highway vehicle. This is a highway vehicle that seats at least six adults (not including the driver). At least 80% of the vehicle's mileage must reasonably be expected to be:

- For transporting employees between their homes and workplace, and
- On trips during which employees occupy at least half of the vehicle's adult seating capacity (not including the driver).

Transit pass. This is any pass, token, farecard, voucher, or similar item entitling a person to ride mass transit (whether public or private) free or at a reduced rate or to ride in a commuter highway vehicle operated by a person in the business of transporting persons for compensation.

Qualified parking. This is parking provided to an employee at or near the employer's place of business. It also includes parking provided on or near a location from which the employee commutes to work by mass transit, in a commuter highway vehicle, or by car pool. It doesn't include parking at or near the employee's home.

Tuition Reduction

You can exclude a qualified tuition reduction from your income. This is the amount of a reduction in tuition:

- For education (below graduate level) furnished by an educational institution to an employee, former employee who retired or became disabled, or his or her spouse and dependent children;
- For education furnished to a graduate student at an educational institution if the graduate student is engaged in teaching

or research activities for that institution; or

- Representing payment for teaching, research, or other services if you receive the amount under the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance program.

For more information, see Pub. 970.

Working Condition Benefits

If your employer provides you with a product or service and the cost of it would have been allowable as a business or depreciation deduction if you paid for it yourself, the cost isn't included in your income.

Example 6. You work as an engineer and your employer provides you with a subscription to an engineering trade magazine. The cost of the subscription isn't included in your income because the cost

would have been allowable to you as a business deduction if you had paid for the subscription yourself.

Valuation of Fringe Benefits

If a fringe benefit is included in your income, the amount included is generally its value determined under the general valuation rule or under the special valuation rules. For an exception, see *Employer-Provided Group-Term Life Insurance*, earlier.

General valuation rule. You must include in your income the amount by which the FMV of the fringe benefit is more than the sum of:

1. The amount, if any, you paid for the benefit, plus
2. The amount, if any, specifically excluded from your income by law.

If you pay FMV for a fringe benefit, no amount is included in your income.

Fringe benefit FMV. The FMV of a fringe benefit is determined by all the facts and circumstances. It's the amount you would have to pay a third party to buy or lease the benefit. This is determined without regard to:

- Your perceived value of the benefit, or
- The amount your employer paid for the benefit.

Employer-provided vehicles. If your employer provides a car (or other highway motor vehicle) to you, your personal use of the car is usually a taxable noncash fringe benefit.

Under the general valuation rules, the value of an employer-provided vehicle is the amount you would have to pay a third party to lease the same or a similar vehicle on the same or comparable terms in the same geographic area where you use the vehicle. An example of a comparable lease term is the amount of time the vehicle is available for

your use, such as a 1-year period. The value can't be determined by multiplying a cents-per-mile rate times the number of miles driven unless you prove the vehicle could have been leased on a cents-per-mile basis. See *Notice 2021-7* for more information on temporary relief for employers and employees using the automobile lease valuation rule to determine the value of an employer-provided vehicle in 2020 or 2021. The special valuation rule used for 2021 under the Notice must continue to be used by the employer and the employee for all subsequent years, except to the extent the employer uses the commuting valuation rule. See *Special valuation rules* below.

Flights on employer-provided aircraft.

Under the general valuation rules, if your flight on an employer-provided piloted aircraft is primarily personal and you control the use of the aircraft for the flight, the value is the

amount it would cost to charter the flight from a third party.

If there is more than one employee on the flight, the cost to charter the aircraft must be divided among those employees. The division must be based on all the facts, including which employee or employees control the use of the aircraft.

Special valuation rules. Generally, you can use a special valuation rule for a fringe benefit only if your employer uses the rule. If your employer uses a special valuation rule, you can't use a different special rule to value that benefit. You can always use the general valuation rule discussed earlier, based on facts and circumstances, even if your employer uses a special rule.

If you and your employer use a special valuation rule, you must include in your income the amount your employer determines under the special rule minus the sum of:

1. Any amount you repaid your employer, plus
2. Any amount specifically excluded from income by law. The special valuation rules are the following.
   - The automobile lease rule.
   - The vehicle cents-per-mile rule.
   - The commuting rule.
   - The unsafe conditions commuting rule.
   - The employer-operated eating-facility rule.

For more information on these rules, see Pub. 15-B.

For information on the noncommercial flight and commercial flight valuation rules, see sections 1.61-21(g) and 1.61-21(h) of the regulations.

Retirement Plan Contributions

Except for Roth contributions, your employer's contributions to a qualified retirement plan for you aren’t included in income at the time contributed. (Your employer can tell you whether your retirement plan is qualified.) However, the cost of life insurance coverage included in the plan may have to be included.

If your employer pays into a nonqualified plan for you, you must generally include the contributions in your income as wages for the tax year in which the contributions are made. However, if your interest in the plan isn't transferable or is subject to a substantial risk of forfeiture (you have a good chance of losing it) at the time of the contribution, you don't have to include the value of your interest in your income until it's transferable or is no longer subject to a substantial risk of forfeiture.

For information on distributions from retirement plans, see Pub. 575 (or Pub. 721 if you're a federal employee or retiree).

Elective Deferrals

If you're covered by certain kinds of retirement plans, you can choose to have part of your compensation contributed by your employer to a retirement fund, rather than have it paid to you. The amount you set aside (called an "elective deferral") is treated as an employer contribution to a qualified plan. An elective deferral, other than a designated Roth contribution (discussed later), isn't included in wages subject to income tax at the time contributed. However, it's included in wages subject to social security and Medicare taxes.

Elective deferrals include elective contributions to the following retirement plans.

1. Cash or deferred arrangements (section 401(k) plans).
2. The TSP for federal employees.
3. Salary reduction simplified employee pension plans (SARSEP plans).
4. Savings incentive match plans for employees (SIMPLE plans).
5. Tax-sheltered annuity plans (section 403(b) plans).
6. Section 501(c)(18)(D) plans. (But see *Reporting by employer*, later.)
7. Section 457 plans.

Qualified automatic contribution arrangements. Under a qualified automatic contribution arrangement, your employer can treat you as having elected to have a part of your compensation contributed to a section 401(k) plan. You're to receive written notice of your rights and obligations under the

qualified automatic contribution arrangement. The notice must explain:

- Your rights to elect not to have elective contributions made, or to have contributions made at a different percentage; and
- How contributions made will be invested in the absence of any investment decision by you.

You must be given a reasonable period of time after receipt of the notice and before the first elective contribution is made to make an election with respect to the contributions.

Overall limit on deferrals. For 2023, you shouldn't have deferred more than a total of $22,500 of contributions to the plans listed in (1) through (3), earlier, unless you are 50 or older. The specific plan limits for the plans listed in (4) through (7), earlier, are discussed later. Amounts deferred under

specific plan limits are part of the overall limit on deferrals.

Your employer or plan administrator should apply the proper annual limit when figuring your plan contributions. However, you’re responsible for monitoring the total you defer to ensure that the deferrals aren't more than the overall limit.

Catch-up contributions. You may be allowed catch-up contributions (additional elective deferrals) if you're age 50 or older by the end of your tax year. For 2023, the catch-up limit for section 401(k) and 403(b) plans, the TSP, SARSEP plans, and governmental section 457 plans is $7,500. For SIMPLE plans, it’s $3,500.

For more information about catch-up contributions to:

- Section 401(k) plans, see *Elective Deferrals* in chapter 4 of Pub. 560;

- SARSEPs, see *Salary Reduction Simplified Employee Pensions* in chapter 2 of Pub. 560;
- SIMPLE plans, see *SIMPLE Plans* in chapter 3 of Pub. 560; and
- Section 457 plans, see *Limit for deferrals under section 457 plans*, later.

Limit for deferrals under SIMPLE plans. If you're a participant in a SIMPLE plan, you generally shouldn't have deferred more than $15,500 in 2023. Amounts you defer under a SIMPLE plan count toward the overall limit ($22,500 for 2023) and may affect the amount you can defer under other elective deferral plans.

Limit for tax-sheltered annuities. If you're a participant in a tax-sheltered annuity plan (section 403(b) plan), the limit on elective deferrals for 2023 is generally $22,500. However, if you have at least 15 years of service with a public school system, a

hospital, a home health service agency, a health and welfare service agency, a church, or a convention or association of churches (or associated organization), the limit on elective deferrals is increased by the least of the following amounts.

1. $3,000.
2. $15,000, reduced by the sum of:
    a. The additional pre-tax elective deferrals made in earlier years because of this rule, plus
    b. The aggregate amount of designated Roth contributions permitted for prior tax years because of this rule.
3. $5,000 times the number of your years of service for the organization, minus the total elective deferrals made by your employer on your behalf for earlier years.

If you qualify for the 15-year rule, your elective deferrals under this limit can be as high as $25,500 for 2023.

For more information, see Pub. 571.

Limit for deferral under section 501(c)(18) plans. If you're a participant in a section 501(c)(18) plan (a trust created before June 25, 1959, funded only by employee contributions), you should have deferred no more than the lesser of $7,000 or 25% of your compensation. Amounts you defer under a section 501(c)(18) plan count toward the overall limit ($22,500 in 2023) and may affect the amount you can defer under other elective deferral plans.