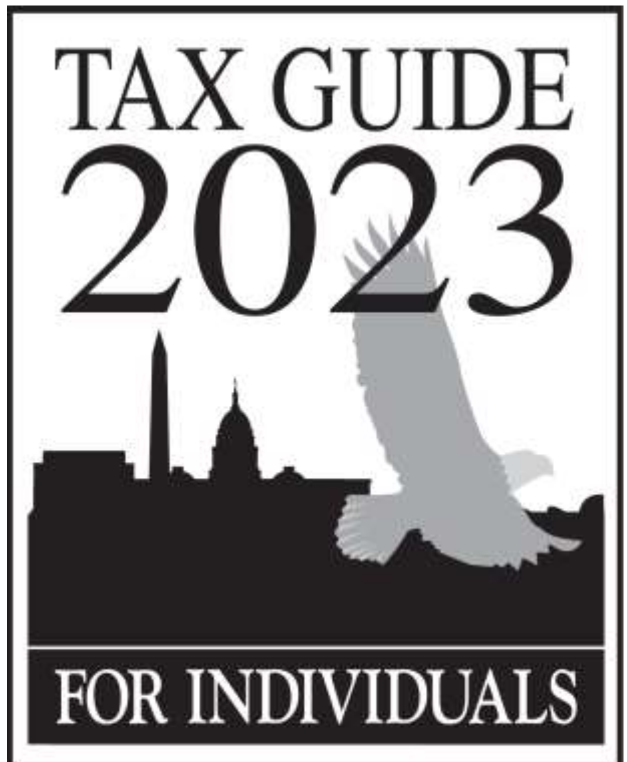
Publication 17

Your Federal Income

For use in preparing

2023 Returns)

Volume 7 of 14



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Publication 17 (Rev 2023) Catalog Number 39244E
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U.S. Treasury Bills, Notes, and Bonds

Treasury bills, notes, and bonds are direct debts (obligations) of the U.S. Government.

Taxation of interest. Interest income from Treasury bills, notes, and bonds is subject to federal income tax but is exempt from all state and local income taxes. You should receive a Form 1099-INT showing the interest paid to you for the year in box 3.

Treasury bills. These bills generally have a 4-week, 8-week, 13-week, 26-week, or 52-week maturity period. They are generally issued at a discount in the amount of $100 and multiples of $100. The difference between the discounted price you pay for the bills and the face value you receive at maturity is interest income. Generally, you report this interest income when the bill is paid at maturity. If you paid a premium for a bill (more than the face value), you generally report the premium as a section 171 deduction when the bill is paid at maturity.

If you reinvest your Treasury bill at its maturity in a new Treasury bill, note, or bond, you will receive payment for the difference between the proceeds of the maturing bill (par amount less any tax withheld) and the purchase price of the new Treasury security. However, you must report the full amount of the interest income on each of your Treasury bills at the time it reaches maturity.

Treasury notes and bonds. Treasury notes generally have maturity periods of more than 1 year, ranging up to 10 years. Maturity periods for Treasury bonds are generally longer than 10 years. Both are generally issued in denominations of $100 to $1,000,000 and generally pay interest every 6 months. Generally, you report this interest for the year paid. For more information, see *U.S. Treasury Bills, Notes, and Bonds* in Publication 550, chapter 1.

For other information on Treasury notes or bonds, write to:

Treasury Retail Securities Services
P.O. Box 9150
Minneapolis, MN 55480-9150

Or, on the Internet, go to *TreasuryDirect.gov/ marketablesecurities/*.

For information on Series EE, Series I, and Series HH savings bonds, see *U.S. Savings Bonds*, earlier.

Treasury inflation-protected securities (TIPS). These securities pay interest twice a year at a fixed rate, based on a principal amount adjusted to take into account inflation and deflation. For the tax treatment of these securities, see *Inflation-Indexed Debt Instruments* under *Original Issue Discount (OID)* in *IRS.gov/ Pub550*.

Bonds Sold Between Interest Dates

If you sell a bond between interest payment dates, part of the sales price represents interest accrued to the date of sale. You must report that part of the sales price as interest income for the year of sale.

If you buy a bond between interest payment dates, part of the purchase price represents interest accrued before the date of purchase. When that interest is paid to you, treat it as a nontaxable return of your capital investment, rather than as interest income. See *Accrued interest on bonds* under *How To Report Interest Income* in Publication 550, chapter 1 for information on reporting the payment.

Insurance

Life insurance proceeds paid to you as beneficiary of the insured person are usually not taxable. But if you receive the proceeds in installments, you must usually report a part of each installment payment as interest income.

For more information about insurance proceeds received in installments, see Pub. 525, Taxable and Nontaxable Income.

Annuity. If you buy an annuity with life insurance proceeds, the annuity payments you receive are taxed as pension and annuity income from a nonqualified plan, not as interest income. See chapter 5 for information on pension and annuity income from nonqualified plans.

State or Local Government Obligations

Interest on a bond used to finance government operations generally isn't taxable if the bond is issued by a state, the District of Columbia, a territory of the United States, or any of their political subdivisions.

Bonds issued after 1982 by an Indian tribal government (including tribal economic development bonds issued after February 17, 2009) are treated as issued by a state. Interest on these bonds is generally tax exempt if the bonds are part of an issue of which substantially all proceeds are to be used in the exercise of any essential government function. However, the essential government function requirement does not apply to tribal economic development bonds issued after February 17, 2009. See section 7871(f).

For information on federally guaranteed bonds, mortgage revenue bonds, arbitrage bonds, private activity bonds, qualified bonds, and tax credit bonds, including whether interest on some of these bonds is taxable, see *State or Local Government Obligations* in Publication 550, chapter 1.

Information reporting requirement. If you file a tax return, you are required to show any tax-exempt interest you received on your return. Tax-exempt interest paid to you will be reported to you on Form 1099-INT, box 8. This is an information reporting requirement only. It doesn't change tax-exempt interest to taxable interest.

Original Issue Discount (OID)

OID is a form of interest. You generally include OID in your income as it accrues over the term of the debt instrument, whether or not you receive any payments from the issuer.

A debt instrument generally has OID when the instrument is issued for a price that is less than its stated redemption price at maturity. OID is the difference between the stated redemption price at maturity and the issue price.

All debt instruments that pay no interest before maturity are presumed to be issued at a discount. Zero coupon bonds are one example of these instruments.

The OID accrual rules generally don't apply to short-term obligations (those with a fixed maturity date of 1 year or less from date of issue). See *Discount on Short-Term Obligations* in Publication 550, chapter 1.

De minimis OID. You can treat the discount as zero if it is less than one-fourth of 1% (0.0025) of the stated redemption price at maturity multiplied by the number of full years from the date of original issue to maturity. This small discount is known as de minimis OID.

Example 1. You bought a 10-year bond with a stated redemption price at maturity of $1,000, issued at $980 with OID of $20. One-fourth of 1% of $1,000 (stated redemption price) times 10 (the number of full years from the date of original issue to maturity) equals

$25. Because the $20 discount is less than $25, the OID is treated as zero. (If you hold the bond at maturity, you will recognize $20 ($1,000 − $980) of capital gain.)

Example 2. The facts are the same as in *Example 1*, except that the bond was issued at $950. The OID is $50. Because the $50 discount is more than the $25 figured in *Example 1*, you must include the OID in income as it accrues over the term of the bond.

Debt instrument bought after original issue. If you buy a debt instrument with de minimis OID at a premium, the de minimis OID isn't includible in income. If you buy a debt instrument with de minimis OID at a discount, the discount is reported under the market discount rules. See *Market Discount Bonds* in Publication 550, chapter 1.

Exceptions to reporting OID as current income. The OID rules discussed in this chapter don't apply to the following debt instruments.

1. Tax-exempt obligations. (However, see *Stripped tax-exempt obligations* under *Stripped Bonds and Coupons* in Publication 550, chapter 1.)
2. U.S. savings bonds.
3. Short-term debt instruments (those with a fixed maturity date of not more than 1 year from the date of issue).
4. Loans between individuals if all the following are true.
    a. The loan is not made in the course of a trade or business of the lender.
    b. The amount of the loan, plus the amount of any outstanding prior

loans between the same individuals, is $10,000 or less.

c. Avoiding any federal tax isn't one of the principal purposes of the loan.

5. A debt instrument purchased at a premium.

Form 1099-OID. The issuer of the debt instrument (or your broker if you held the instrument through a broker) should give you Form 1099-OID, or a similar statement, if the total OID for the calendar year is $10 or more. Form 1099-OID will show, in box 1, the amount of OID for the part of the year that you held the bond. It will also show, in box 2, the stated interest you must include in your income. Box 8 shows OID on a U.S. Treasury obligation for the part of the year you owned it and isn't included in box 1. A copy of Form 1099-OID will be sent to the IRS. Don't file your copy with your return. Keep it for your records.

In most cases, you must report the entire amount in boxes 1, 2, and 8 of Form 1099-OID as interest income. But see *Refiguring OID shown on Form 1099-OID*, later in this discussion, for more information.

Form 1099-OID not received. If you had OID for the year but didn't receive a Form 1099-OID, you may have to figure the correct amount of OID to report on your return. See Pub. 1212 for details on how to figure the correct OID.

Nominee. If someone else is the holder of record (the registered owner) of an OID instrument belonging to you and receives a Form 1099-OID on your behalf, that person must give you a Form 1099-OID.

Refiguring OID shown on Form 1099-OID. You may need to refigure the OID shown in box 1 or box 8 of Form 1099-OID if either of the following applies.

- You bought the debt instrument after its original issue and paid a premium or an acquisition premium.
- The debt instrument is a stripped bond or a stripped coupon (including certain zero coupon instruments).

If you acquired your debt instrument before 2014, your payer is only required to report a gross amount of OID in box 1 or box 8 of Form 1099-OID.

For information about figuring the correct amount of OID to include in your income, see *Figuring OID on Long-Term Debt Instruments* in Pub. 1212 and the Form 1099-OID Instructions for Recipient.

If you acquired your debt instrument after 2013, unless you have informed your payer that you do not want to amortize bond premium, your payer must generally report either (1) a net amount of OID that reflects the offset of OID by the amount of bond premium or acquisition premium amortization for the year, or (2) a gross amount for both the OID and the bond premium or acquisition premium amortization for the year.

Refiguring periodic interest shown on Form 1099-OID. If you disposed of a debt instrument or acquired it from another holder during the year, see *Bonds Sold Between Interest Dates*, earlier, for information about the treatment of periodic interest that may be shown in box 2 of Form 1099-OID for that instrument.

Certificates of deposit (CDs). A CD is a debt instrument. If you buy a CD with a maturity of more than 1 year, you must include in income each year a part of the total interest due and report it in the same manner as other OID.

This also applies to similar deposit arrangements with banks, building and loan associations, etc., including:

- Time deposits,
- Bonus plans,
- Savings certificates,
- Deferred income certificates,
- Bonus savings certificates, and
- Growth savings certificates.

Bearer CDs. CDs issued after 1982 must generally be in registered form. Bearer CDs are CDs not in registered form. They aren't issued in the depositor's name and are transferable from one individual to another.

Banks must provide the IRS and the person redeeming a bearer CD with a Form 1099-INT.

More information. See Publication 550, chapter 1 for more information about OID and related topics, such as market discount bonds.

When To Report Interest Income

When to report your interest income depends on whether you use the cash method or an accrual method to report income.

Cash method. Most individual taxpayers use the cash method. If you use this method, you generally report your interest income in the year in which you actually or constructively receive it. However, there are special rules for reporting the discount on certain debt instruments. See *U.S. Savings Bonds* and *Original Issue Discount (OID)*, earlier.

Example. On September 1, 2021, you loaned another individual $2,000 at 4% interest, compounded annually. You aren't in the business of lending money. The note stated that principal and interest would be due on August 31, 2023. In 2023, you received $2,163.20 ($2,000 principal and $163.20 interest). If you use the cash method, you must include in income on your 2023 return the $163.20 interest you received in that year.

Constructive receipt. You constructively receive income when it is credited to your account or made available to you. You don't need to have physical possession of it. For example, you are considered to receive interest, dividends, or other earnings on any deposit or account in a bank, savings and loan, or similar financial institution, or interest on life insurance policy dividends left to accumulate, when they are credited to your account and subject to your withdrawal.

You constructively receive income on the deposit or account even if you must:

- Make withdrawals in multiples of even amounts;
- Give a notice to withdraw before making the withdrawal;
- Withdraw all or part of the account to withdraw the earnings; or

- Pay a penalty on early withdrawals, unless the interest you are to receive on an early withdrawal or redemption is substantially less than the interest payable at maturity.

Accrual method. If you use an accrual method, you report your interest income when you earn it, whether or not you have received it. Interest is earned over the term of the debt instrument.

Example. If, in the previous example, you use an accrual method, you must include the interest in your income as you earn it. You would report the interest as follows: 2021, $26.67; 2022, $81.06; and 2023, $55.47.

Coupon bonds. Interest on bearer bonds with detachable coupons is generally taxable in the year the coupon becomes due and payable. It doesn't matter when you mail the coupon for payment.

How To Report Interest Income

Generally, you report all your taxable interest income on Form 1040 or 1040-SR, line 2b.

Schedule B (Form 1040). You must complete Schedule B (Form 1040), Part I, if you file Form 1040 or 1040-SR and any of the following apply.

1. Your taxable interest income is more than $1,500.
2. You are claiming the interest exclusion under the *Education Savings Bond Program* (discussed earlier).
3. You received interest from a seller-financed mortgage, and the buyer used the property as a home.
4. You received a Form 1099-INT for U.S. savings bond interest that includes amounts you reported in a previous tax year.

5. You received, as a nominee, interest that actually belongs to someone else.
6. You received a Form 1099-INT for interest on frozen deposits.
7. You received a Form 1099-INT for interest on a bond you bought between interest payment dates.
8. You are reporting OID in an amount less than the amount shown on Form 1099-OID.
9. You reduce interest income from bonds by amortizable bond premium.

In Part I, line 1, list each payer's name and the amount received from each. If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the brokerage firm as the payer.

The box references discussed below are from the January 2022 revisions of Form 1099-INT and Form 1099-DIV. Later revisions may have different box references.

Reporting tax-exempt interest. Total your tax-exempt interest (such as interest or accrued OID on certain state and municipal bonds, including zero coupon municipal bonds) reported on Form 1099-INT, box 8; Form 1099-OID, box 11; and exempt-interest dividends from a mutual fund or other regulated investment company reported on Form 1099-DIV, box 12. Add these amounts to any other tax-exempt interest you received. Report the total on line 2a of Form 1040 or 1040-SR.

Form 1099-INT, box 9, and Form 1099-DIV, box 13, show the tax-exempt interest subject to the AMT on Form 6251. These amounts are already included in the amounts on Form 1099-INT, box 8, and Form 1099-DIV, box

12. Don't add the amounts in Form 1099-INT, box 9, and Form 1099-DIV, box 13, to, or subtract them from, the amounts on Form 1099-INT, box 8, and Form 1099-DIV, box 12.

CAUTION *Don't report interest from an IRA as tax-exempt interest.*

Form 1099-INT. Your taxable interest income, except for interest from U.S. savings bonds and Treasury obligations, is shown in box 1 of Form 1099-INT. Add this amount to any other taxable interest income you received. See the Form 1099-INT Instructions for Recipient if you have interest from a security acquired at a premium. You must report all of your taxable interest income even if you don't receive a Form

1099-INT. Contact your financial institution if you don't receive a Form 1099-INT by February 15. Your identifying number may be truncated on any Form 1099-INT you receive.

If you forfeited interest income because of the early withdrawal of a time deposit, the deductible amount will be shown on Form 1099-INT in box 2. See *Penalty on early withdrawal of savings* in Publication 550, chapter 1.

Box 3 of Form 1099-INT shows the interest income you received from U.S. savings bonds, Treasury bills, Treasury notes, and Treasury bonds. Generally, add the amount shown in box 3 to any other taxable interest income you received. If part of the amount shown in box 3 was previously included in your interest income, see *U.S. savings bond interest previously reported*, later. If you acquired the security at a premium, see the Form 1099-INT Instructions for Recipient.

Box 4 of Form 1099-INT will contain an amount if you were subject to backup withholding. Include the amount from box 4 on Form 1040 or 1040-SR, line 25b (federal income tax withheld).

Box 5 of Form 1099-INT shows investment expenses. This amount is not deductible. See chapter 12 for more information about investment expenses.

Box 6 of Form 1099-INT shows foreign tax paid. You may be able to claim this tax as a deduction or a credit on your Form 1040 or 1040-SR. See your tax return instructions.

Box 7 of Form 1099-INT shows the country or U.S. territory to which the foreign tax was paid.

U.S. savings bond interest previously reported. If you received a Form 1099-INT for U.S. savings bond interest, the form may show interest you don't have to report. See *Form 1099-INT for U.S. savings bonds interest*, earlier.

On Schedule B (Form 1040), Part I, line 1, report all the interest shown on your Form 1099-INT. Then follow these steps.

1. Several rows above line 2, enter a subtotal of all interest listed on line 1.
2. Below the subtotal, enter “U.S. Savings Bond Interest Previously Reported” and enter amounts previously reported or interest accrued before you received the bond.
3. Subtract these amounts from the subtotal and enter the result on line 2.

More information. For more information about how to report interest income, see Publication 550, chapter 1 or the instructions for the form you must file.

7.

Social Security and Equivalent Railroad Retirement Benefits

Reminders

Lines 1a through 1z on Forms 1040 and 1040-SR. Line 1 was expanded and there are lines 1a through 1z. Some amounts that in prior years were reported on Form 1040, and some amounts reported on Form 1040-SR, are now reported on Schedule 1.

- Scholarships and fellowship grants are now reported on Schedule 1, line 8r.
- Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan is now reported on Schedule 1, line 8t.
- Wages earned while incarcerated are now reported on Schedule 1, line 8u.

Line 6c on Forms 1040 and 1040-SR. A checkbox was added on line 6c. Taxpayers who elect to use the lump-sum election method for their benefits will check this box. See *Lump-Sum Election* in Pub. 915, Social Security and Equivalent Railroad Retirement Benefits, for details.

Introduction

This chapter explains the federal income tax rules for social security benefits and equivalent tier 1 railroad retirement benefits. It explains the following topics.

- How to figure whether your benefits are taxable.
- How to report your taxable benefits.
- How to use the Social Security Benefits Worksheet (with examples).
- Deductions related to your benefits and how to treat repayments that are more

than the benefits you received during the year.

Social security benefits include monthly retirement, survivor, and disability benefits. They don’t include Supplemental Security Income (SSI) payments, which aren’t taxable.

Equivalent tier 1 railroad retirement benefits are the part of tier 1 benefits that a railroad employee or beneficiary would have been entitled to receive under the social security system. They are commonly called the social security equivalent benefit (SSEB) portion of tier 1 benefits.

If you received these benefits during 2023, you should have received a Form SSA-1099, Social Security Benefit Statement; or Form

RRB-1099, Payments by the Railroad Retirement Board. These forms show the amounts received and repaid, and taxes withheld for the year. You may receive more than one of these forms for the same year.

You should add the amounts shown on all the Forms SSA-1099 and Forms RRB-1099 you receive for the year to determine the total amounts received and repaid, and taxes withheld for that year. See the Appendix at the end of Pub. 915 for more information.

Note. When the term “benefits” is used in this chapter, it applies to both social security benefits and the SSEB portion of tier 1 railroad retirement benefits.

***my Social Security* account.** Social security beneficiaries may quickly and easily obtain information from the SSA's website with a *my Social Security* account to:

- Keep track of your earnings and verify them every year,
- Get an estimate of your future benefits if you are still working,
- Get a letter with proof of your benefits if you currently receive them,

- Change your address,
- Start or change your direct deposit,
- Get a replacement Medicare card, and
- Get a replacement Form SSA-1099 for the tax season.

For more information and to set up an account, go to *SSA.gov/myaccount*.

What isn’t covered in this chapter. This chapter doesn’t cover the tax rules for the following railroad retirement benefits.

- Non-social security equivalent benefit (NSSEB) portion of tier 1 benefits.
- Tier 2 benefits.
- Vested dual benefits.
- Supplemental annuity benefits.

For information on these benefits, see Pub. 575, Pension and Annuity Income.

This chapter doesn’t cover the tax rules for social security benefits reported on Form SSA-1042S, Social Security Benefit Statement; or Form RRB-1042S, Statement for Nonresident Alien Recipients of Payments by the Railroad Retirement Board. For information about these benefits, see Pub. 519, U.S. Tax Guide for Aliens; and Pub. 915.

This chapter also doesn’t cover the tax rules for foreign social security benefits. These benefits are taxable as annuities, unless they are exempt from U.S. tax or treated as a U.S. social security benefit under a tax treaty.

Useful Items

You may want to see:

Publication

- ☐ **501** Dependents, Standard Deduction, and Filing Information
- ☐ **505** Tax Withholding and Estimated Tax

- ☐ **519** U.S. Tax Guide for Aliens
- ☐ **575** Pension and Annuity Income
- ☐ **590-A** Contributions to Individual Retirement Arrangements (IRAs)
- ☐ **915** Social Security and Equivalent Railroad Retirement Benefits

Form (and Instructions)

- ☐ **1040-ES** Estimated Tax for Individuals
- ☐ **SSA-1099** Social Security Benefit Statement
- ☐ **RRB-1099** Payments by the Railroad Retirement Board
- ☐ **W-4V** Voluntary Withholding Request

For these and other useful items, go to *IRS.gov/ Forms*.

Are Any of Your Benefits Taxable?

To find out whether any of your benefits may be taxable, compare the base amount (explained later) for your filing status with the total of:

1. One-half of your benefits; plus
2. All your other income, including tax-exempt interest.

Exclusions. When making this comparison, don’t reduce your other income by any exclusions for:

- Interest from qualified U.S. savings bonds,
- Employer-provided adoption benefits,
- Interest on education loans,
- Foreign earned income or foreign housing, or
- Income earned by bona fide residents of American Samoa or Puerto Rico.

Children's benefits. The rules in this chapter apply to benefits received by children. See *Who is taxed*, later.

Figuring total income. To figure the total of one-half of your benefits plus your other income, use Worksheet 7-1, discussed later. If the total is more than your base amount, part of your benefits may be taxable.

If you are married and file a joint return for 2023, you and your spouse must combine your incomes and your benefits to figure 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 to figure whether any of your benefits are taxable.

TIP *If the only income you received during 2023 was your social security or the SSEB portion of tier 1 railroad retirement benefits, your benefits generally aren't taxable and you probably don't have to file a return. If you have income in addition to your benefits, you may have to file a return even if none of your benefits are taxable. See* Do I Have To File a Return? *in chapter 1,* *earlier; Pub. 501; or your tax return instructions to find out if you have to file a return.*

Base amount. Your base amount is:

- $25,000 if you are single, head of household, or qualifying surviving spouse;
- $25,000 if you are married filing separately and lived apart from your spouse for all of 2023;
- $32,000 if you are married filing jointly; or
- $0 if you are married filing separately and lived with your spouse at any time during 2023.

Worksheet 7-1. You can use Worksheet 7-1 to figure the amount of income to compare with your base amount. This is a quick way to check whether some of your benefits may be taxable.

Worksheet 7-1. **A Quick Way To Check if Your Benefits May Be Taxable**

Note. If you plan to file a joint income tax return, include your spouse's amounts, if any, on lines A, C, and D.

A. Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Include the full amount of any lump-sum benefit payments received in 2023, for 2023 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.) . . . . A. ______

Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.

B. Multiply line A by 50% (0.50) . B. ______

C. Enter your total income that is taxable (excluding line A), such as pensions, wages, interest, ordinary dividends, and capital gain distributions. Don't reduce your income by any deductions, exclusions (listed earlier), or exemptions C. ______

D. Enter any tax-exempt interest income, such as interest on municipal bonds . . . . D. ______

E. Add lines B, C, and D . . . . E. ______

Note. Compare the amount on line E to your **base amount** for your filing status. If the amount on line E equals or is less than the **base amount** for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your **base amount,** some of your benefits may be taxable and you will need to complete

Worksheet 1 in Pub. 915 (or the Social Security Benefits Worksheet in your tax form instructions). If none of your benefits are taxable, but you must otherwise file a tax return, see *Benefits not taxable*, later, under *How To Report Your Benefits*.

Example. You and your spouse (both over 65) are filing a joint return for 2023 and you both received social security benefits during the year.

In January 2024, you received a Form SSA-1099 showing net benefits of $1,500 in box 5. Your spouse received a Form SSA-1099 showing net benefits of $700 in box 5. You also received a taxable pension of $30,100 and interest income of $700. You didn't have any tax-exempt interest income. Your benefits aren't taxable for 2023 because your income, as figured in Worksheet 7-1, isn't more than your base amount ($32,000) for married filing jointly.

Even though none of your benefits are taxable, you must file a return for 2023 because your taxable gross income ($30,800) exceeds the minimum filing requirement amount for your filing status.

Filled-in Worksheet 7-1. **A Quick Way To Check if Your Benefits May Be Taxable**

Note. If you plan to file a joint income tax return, include your spouse's amounts, if any, on lines A, C, and D.

A.	Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Include the full amount of any lump-sum benefit payments received in 2023, for 2023 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.) . .	A.	$2,200

Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.

B. Multiply line A by 50% (0.50) .	B.	$1,100
C. Enter your total income that is taxable (excluding line A), such as pensions, wages, interest, ordinary dividends, and capital gain distributions. Don’t reduce your income by any deductions, exclusions (listed earlier), or exemptions	C.	$30,800
D. Enter any tax-exempt interest income, such as interest on municipal bonds .	D.	-0-

E. Add lines B, C, and D . . . . E. $31,900

Note. Compare the amount on line E to your **base amount** for your filing status. If the amount on line E equals or is less than the **base amount** for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your **base amount,** some of your benefits may be taxable and you will need to complete Worksheet 1 in Pub. 915 (or the Social Security Benefits Worksheet in your tax form instructions). If none of your benefits are taxable, but you otherwise must file a tax return, see *Benefits not taxable*, later, under *How To Report Your Benefits*.

Who is taxed. Benefits are included in the taxable income (to the extent they are taxable) of the person who has the legal right to receive the benefits. For example, if you and your child receive benefits, but the check for your child is made out in your name, you must use only your part of the benefits to see whether any benefits are taxable to you. One-half of the part that belongs to your child must be added to your child's other income to see whether any of those benefits are taxable to your child.

Repayment of benefits. Any repayment of benefits you made during 2023 must be subtracted from the gross benefits you received in 2023. It doesn’t matter whether the repayment was for a benefit you received in 2023 or in an earlier year. If you repaid more than the gross benefits you received in 2023, see *Repayments More Than Gross Benefits*, later.

Your gross benefits are shown in box 3 of Form SSA-1099 or RRB-1099. Your repayments are shown in box 4. The amount in box 5 shows your net benefits for 2023 (box 3 minus box 4). Use the amount in box 5 to figure whether any of your benefits are taxable.

Tax withholding and estimated tax. You can choose to have federal income tax withheld from your social security benefits and/or the SSEB portion of your tier 1 railroad retirement benefits. If you choose to do this, you must complete a Form W-4V.

If you don’t choose to have income tax withheld, you may have to request additional withholding from other income or pay estimated tax during the year. For details, see chapter 4, earlier; Pub. 505; or the Instructions for Form 1040-ES.

How To Report Your Benefits

If part of your benefits are taxable, you must use Form 1040 or 1040-SR.

Reporting on Form 1040 or 1040-SR. Report your net benefits (the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099) on line 6a and the taxable part on line 6b. If you are married filing separately and you lived apart from your spouse for all of 2023, also enter “D” to the right of the word “benefits” on line 6a.

Benefits not taxable. Report your net benefits (the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099) on Form 1040 or 1040-SR, line 6a. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you lived apart from your spouse for all of 2023, also enter “D” to the right of the word “benefits” on Form 1040 or 1040-SR, line 6a.

How Much Is Taxable?

If part of your benefits are taxable, how much is taxable depends on the total amount of your benefits and other income. Generally, the higher that total amount, the greater the taxable part of your benefits.

Maximum taxable part. Generally, up to 50% of your benefits will be taxable. However, up to 85% of your benefits can be taxable if either of the following situations applies to you.

- The total of one-half of your benefits and all your other income is more than $34,000 ($44,000 if you are married filing jointly).
- You are married filing separately and lived with your spouse at any time during 2023.

Which worksheet to use. A worksheet you can use to figure your taxable benefits is in the Instructions for Form 1040. You can use either that worksheet or Worksheet 1 in Pub. 915, unless any of the following situations applies to you.

1. You contributed to a traditional individual retirement arrangement (IRA) and you or your spouse is covered by a retirement plan at work. In this situation, you must use the special worksheets in Appendix B of

Pub. 590-A to figure both your IRA deduction and your taxable benefits.

2. Situation 1 doesn’t apply and you take an exclusion for interest from qualified U.S. savings bonds (Form 8815), for adoption benefits (Form 8839), for foreign earned income or housing (Form 2555), or for income earned in American Samoa (Form 4563) or Puerto Rico by bona fide residents. In this situation, you must use Worksheet 1 in Pub. 915 to figure your taxable benefits.

3. You received a lump-sum payment for an earlier year. In this situation, also complete Worksheet 2 or 3 and Worksheet 4 in Pub. 915. See *Lump-sum election* next.

Lump-sum election. You must include the taxable part of a lump-sum (retroactive) payment of benefits received in 2023 in your

2023 income, even if the payment includes benefits for an earlier year.

TIP *Line 6c: Check the box on line 6c if you elect to use the lump-sum election method for your benefits. If any of your benefits are taxable for 2023 and they include a lump-sum benefit payment that was for an earlier year, you may be able to reduce the taxable amount with the lump-sum election. See* Lump-Sum Election *in Pub. 915 for details.*

TIP *This type of lump-sum benefit payment shouldn't be confused with the lump-sum death benefit that both the SSA and RRB pay to many of their beneficiaries. No part of the lump-sum death benefit is subject to tax.*

Generally, you use your 2023 income to figure the taxable part of the total benefits received in 2023. However, you may be able to figure the taxable part of a lump-sum payment for an earlier year separately, using your income for the earlier year. You can elect this method if it lowers your taxable benefits.

Making the election. If you received a lump-sum benefit payment in 2023 that includes benefits for one or more earlier years, follow the instructions in Pub. 915 under *Lump-Sum Election* to see whether making the election will lower your taxable benefits. That discussion also explains how to make the election.

Because the earlier year's taxable benefits are included in your 2023 income, no adjustment is made to the earlier year's return. Don’t file an amended return for the earlier year.

Examples

The following are a few examples you can use as a guide to figure the taxable part of your benefits.

Example 1. George White is single and files Form 1040 for 2023. He received the following income in 2023.

Fully taxable pension	$18,600
Wages from part-time job	9,400
Taxable interest income	990
Total	$28,990

George also received social security benefits during 2023. The Form SSA-1099 he received in January 2024 shows $5,980 in box 5. To figure his taxable benefits, George completes the worksheet shown here.

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

1.	Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Also enter this amount on Form 1040 or 1040-SR, line 6a	$5,980
2.	Multiply line 1 by 50% (0.50) . .	2,990
3.	Combine the amounts from Form 1040 or 1040-SR, lines 1z, 2b, 3b, 4b, 5b, 7, and 8 . . .	28,990
4.	Enter the amount, if any, from Form 1040 or 1040-SR, line 2a .	-0-
5.	Enter the total of any exclusions/ adjustments for:	
	• Adoption benefits (Form 8839, line 28),	-0-

- Foreign earned income or housing (Form 2555, lines 45 and 50), and
- Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico . . . .

6. Combine lines 2, 3, 4, and 5 above . . . <u>31,980</u>

7. Enter the total of the amounts from Schedule 1 (Form 1040), lines 11 through 20, and 23 and 25 . . . . <u>-0-</u>

8. Is the amount on line 7 less than the amount on line 6?

No. None of your social security benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b.

Yes. Subtract line 7 from line 6 31,980

9. If you are:

Married filing jointly, enter $32,000; or

Single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023, enter $25,000 25,000

Note. If you are married filing separately and you lived with your spouse at any time in 2023, skip lines 9 through 16, multiply line 8 by 85% (0.85), and enter the result on line 17. Then, go to line 18.

10. Is the amount on line 9 less than the amount on line 8?

No. None of your benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you **lived apart** from your spouse for all of 2023, be sure you entered “D” to the right of the word “benefits” on Form 1040 or 1040-SR, line 6a.

Yes. Subtract line 9 from line 8 6,980

11. Enter $12,000 if married filing jointly; or $9,000 if single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023 9,000

12. Subtract line 11 from line 10. If zero or less, enter -0- . . . . -0-

13. Enter the **smaller** of line 10 or line 11 6,980

14. Multiply line 13 by 50% (0.50) 3,490

15. Enter the **smaller** of line 2 or line 14 . . 2,990

16. Multiply line 12 by 85% (0.85). If line 12 is zero, enter -0- . . . . -0-

17. Add lines 15 and 16 2,990

18. Multiply line 1 by 85% (0.85) 5,083

19. **Taxable benefits.** Enter the **smaller** of line 17 or line 18. Also enter this amount on Form 1040 or 1040-SR, line 6b . . . $2,990

Example 2. Ray and Alice Hopkins file a joint return on Form 1040 for 2023. Ray is retired and received a fully taxable pension of $15,500. He also received social security benefits, and his Form SSA-1099 for 2023 shows net benefits of $5,600 in box 5. Alice worked during the year and had wages of $14,000. She made a deductible payment to her IRA account of $1,000 and isn’t covered by a retirement plan at work. Ray and Alice have two savings accounts with a total of $250 in taxable interest income. They complete Worksheet 1, shown below, entering $29,750 ($15,500 + $14,000 + $250) on line 3. They find none of Ray's social security benefits are taxable. On Form 1040, they enter $5,600 on line 6a and -0- on line 6b.

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

1.	Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Also enter this amount on Form 1040 or 1040-SR, line 6a	$5,600
2.	Multiply line 1 by 50% (0.50) . .	2,800
3.	Combine the amounts from Form 1040 or 1040-SR, lines 1z, 2b, 3b, 4b, 5b, 7, and 8 . . .	29,750
4.	Enter the amount, if any, from Form 1040 or 1040-SR, line 2a	-0-
5.	Enter the total of any exclusions/ adjustments for:	
	• Adoption benefits (Form 8839, line 28),	-0-

- Foreign earned income or housing (Form 2555, lines 45 and 50), and
- Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico . . . .

6. Combine lines 2, 3, 4, and 5 above 32,550

7. Enter the total of the amounts from Schedule 1 (Form 1040), lines 11 through 20, and 23 and 25 1,000

8. Is the amount on line 7 less than the amount on line 6?

No. STOP None of your social security benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b.

Yes. Subtract line 7 from line 6 . . . 31,550

9. If you are:

- Married filing jointly, enter $32,000; or
- Single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023, enter $25,000 32,000

Note. If you are married filing separately and you lived with your spouse at any time in 2023, skip lines 9 through 16, multiply line 8 by 85% (0.85), and enter the result on line 17. Then, go to line 18.

10. Is the amount on line 9 less than the amount on line 8?

No. STOP None of your benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you **lived apart** from your spouse for all of 2023, be sure you entered “D” to the right of the word “benefits” on Form 1040 or 1040-SR, line 6a.

Yes. Subtract line 9 from line 8 . . . . .

11. Enter $12,000 if married filing jointly; or $9,000 if single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023 . . . . . ______

12. Subtract line 11 from line 10. If zero or less, enter -0- . . . . ______

13. Enter the **smaller** of line 10 or line 11 . . . . ______

14. Multiply line 13 by 50% (0.50) . ______

15. Enter the **smaller** of line 2 or line 14 . . ______

16. Multiply line 12 by 85% (0.85). If line 12 is zero, enter -0- . . . . ______

17. Add lines 15 and 16 . . . . ______

18. Multiply line 1 by 85% (0.85) . . ______

19. **Taxable benefits.** Enter the **smaller** of line 17 or line 18. Also enter this amount on Form 1040 or 1040-SR, line 6b . . . ______

Example 3. Joe and Betty Johnson file a joint return on Form 1040 for 2023. Joe is a retired railroad worker and in 2023 received the SSEB portion of tier 1 railroad retirement benefits. Joe's Form RRB-1099 shows $10,000 in box 5. Betty is a retired government worker and received a fully taxable pension of $38,000. They had $2,300 in taxable interest income plus interest of $200 on a qualified U.S. savings bond. The savings bond interest qualified for the exclusion. They figure their taxable benefits by completing Worksheet 1, shown below. Because they have qualified U.S. savings bond interest, they follow the note at the beginning of the worksheet and use the amount from line 2 of their Schedule B (Form 1040) on line 3 of the worksheet instead of the amount from line 2b of their Form 1040. On line 3 of the worksheet, they enter $40,500 ($38,000 + $2,500).

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Before you begin:

- If you are married filing separately and you lived apart from your spouse for all of 2023, enter “D” to the right of the word “benefits” on Form 1040 or 1040-SR, line 6a.
- Don’t use this worksheet if you repaid benefits in 2023 and your total repayments (box 4 of Forms SSA-1099 and RRB-1099) were more than your gross benefits for 2023 (box 3 of Forms SSA-1099 and RRB-1099). None of your benefits are taxable for 2023. For more information, see *Repayments More Than Gross Benefits*, later.
- If you are filing Form 8815, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989, don’t include the amount from line 2b of Form

1040 or 1040-SR on line 3 of this worksheet. Instead, include the amount from Schedule B (Form 1040), line 2.

1.	Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Also enter this amount on Form 1040 or 1040-SR, line 6a	$10,000
2.	Multiply line 1 by 50% (0.50) .	5,000
3.	Combine the amounts from Form 1040 or 1040-SR, lines 1z, 2b, 3b, 4b, 5b, 7, and 8 . .	40,500
4.	Enter the amount, if any, from Form 1040 or 1040-SR, line 2a	-0-
5.	Enter the total of any exclusions/ adjustments for:	
	• Adoption benefits (Form 8839, line 28),	-0-

- Foreign earned income or housing (Form 2555, lines 45 and 50), and
- Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico . . . .

6. Combine lines 2, 3, 4, and 5 above . . . 45,500

7. Enter the total of the amounts from Schedule 1 (Form 1040), lines 11 through 20, and 23 and 25 . . . . -0-

8. Is the amount on line 7 less than the amount on line 6?

No. STOP None of your social security benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b.

Yes. Subtract line 7 from line 6 . . . 45,500

9. If you are:

- Married filing jointly, enter $32,000; or
- Single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023, enter $25,000 32,000

Note. If you are married filing separately and you lived with your spouse at any time in 2023, skip lines 9 through 16, multiply line 8 by 85% (0.85), and enter the result on line 17. Then, go to line 18.

10. Is the amount on line 9 less than the amount on line 8?

No. None of your benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you **lived apart** from your spouse for all of 2023, be sure you entered “D” to the right of the word “benefits” on Form 1040 or 1040-SR, line 6a.

Yes. Subtract line 9 from line 8 . . . 13,500

11. Enter $12,000 if married filing jointly; or $9,000 if single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023 12,000

12. Subtract line 11 from line 10. If zero or less, enter -0- 1,500

13.	Enter the **smaller** of line 10 or line 11	12,000
14.	Multiply line 13 by 50% (0.50)	6,000
15.	Enter the **smaller** of line 2 or line 14 . .	5,000
16.	Multiply line 12 by 85% (0.85). If line 12 is zero, enter -0- . . .	1,275
17.	Add lines 15 and 16	6,275
18.	Multiply line 1 by 85% (0.85) .	8,500
19.	**Taxable benefits.** Enter the **smaller** of line 17 or line 18. Also enter this amount on Form 1040 or 1040-SR, line 6b	$6,275

Deductions Related to Your Benefits

You may be entitled to deduct certain amounts related to the benefits you receive.

Disability payments. You may have received disability payments from your employer or an insurance company that you included as income on your tax return in an earlier year. If you received a lump-sum payment from the SSA or RRB, and you had to repay the employer or insurance company for the disability payments, you can take an itemized deduction for the part of the payments you included in gross income in the earlier year. If the amount you repay is more than $3,000, you may be able to claim a tax credit instead. Claim the deduction or credit in the same way explained under *Repayment of benefits received in an earlier year* under *Repayments More Than Gross Benefits* next.

Repayments More Than Gross Benefits

In some situations, your Form SSA-1099 or RRB-1099 will show that the total benefits you repaid (box 4) are more than the gross benefits (box 3) you received. If this occurred, your net

benefits in box 5 will be a negative figure (a figure in parentheses) and none of your benefits will be taxable. Don’t use a worksheet in this case. If you receive more than one form, a negative figure in box 5 of one form is used to offset a positive figure in box 5 of another form for that same year.

If you have any questions about this negative figure, contact your local *SSA office* or your local *RRB field office*.

Joint return. If you and your spouse file a joint return, and your Form SSA-1099 or RRB-1099 has a negative figure in box 5, but your spouse's doesn’t, subtract the amount in box 5 of your form from the amount in box 5 of your spouse's form. You do this to get your net benefits when figuring if your combined benefits are taxable.

Example. John and Mary file a joint return for 2023. John received Form SSA-1099 showing $3,000 in box 5. Mary also received Form SSA-1099 and the amount in box 5 was ($500). John and Mary will use $2,500 ($3,000 minus $500) as the amount of their net benefits when figuring if any of their combined benefits are taxable.

Repayment of benefits received in an earlier year. If the total amount shown in box 5 of all of your Forms SSA-1099 and RRB-1099 is a negative figure, you may be able to deduct part of this negative figure that represents benefits you included in gross income in an earlier year if the figure is more than $3,000. If the figure is $3,000 or less, it is a miscellaneous itemized deduction and can no longer be deducted.

Deduction more than $3,000. If this deduction is more than $3,000, you should figure your tax two ways.

1. Figure your tax for 2023 with the itemized deduction included on Schedule A (Form 1040), line 16.
2. Figure your tax for 2023 in the following steps.
   a. Figure the tax without the itemized deduction included on Schedule A (Form 1040), line 16.
   b. For each year after 1983 for which part of the negative figure represents a repayment of benefits, refigure your taxable benefits as if your total benefits for the year were reduced by that part of the negative figure. Then refigure the tax for that year.

c. Subtract the total of the refigured tax amounts in (b) from the total of your actual tax amounts.

d. Subtract the result in (c) from the result in (a).

Compare the tax figured in methods 1 and 2. Your tax for 2023 is the smaller of the two amounts. If method 1 results in less tax, take the itemized deduction on Schedule A (Form 1040), line 16. If method 2 results in less tax, claim a credit for the amount from step 2c above on Schedule 3 (Form 1040), line 13z. Enter “I.R.C. 1341” on the entry line. If both methods produce the same tax, deduct the repayment on Schedule A (Form 1040), line 16.

8.

Other Income

What's New

Temporary allowance of 100% business meal deduction has expired. Section 210 of the Taxpayer Certainty and Disaster Tax Relief Act of 2020 provided for 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.

Reminders

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.

Introduction

You must include on your return all items of income you receive in the form of money, property, and services unless the tax law states that you don’t include them. Some items, however, are only partly excluded from income. This chapter discusses many kinds of income and explains whether they’re taxable or nontaxable. • Income that’s taxable must be reported on your tax return and is subject to tax. • Income that’s nontaxable may have to be shown on your tax return but isn’t taxable.

This chapter begins with discussions of the following income items.

- Bartering.
- Canceled debts.
- Sales parties at which you’re the host or hostess.
- Life insurance proceeds.

- Partnership income.
- S corporation income.
- Recoveries (including state income tax refunds).
- Rents from personal property.
- Repayments.
- Royalties.
- Unemployment benefits.
- Welfare and other public assistance benefits.

These discussions are followed by brief discussions of other income items.

Useful Items

You may want to see:

Publication

- ☐ **502** Medical and Dental Expenses
- ☐ **504** Divorced or Separated Individuals

- ☐ **523** Selling Your Home
- ☐ **525** Taxable and Nontaxable Income
- ☐ **544** Sales and Other Dispositions of Assets
- ☐ **547** Casualties, Disasters, and Thefts
- ☐ **550** Investment Income and Expenses
- ☐ **4681** Canceled Debts, Foreclosures, Repossessions, and Abandonments

For these and other useful items, go to *IRS.gov/ Forms*.

Bartering

Bartering is an exchange of property or services. You must include in your income, at the time received, the fair market value of property or services you receive in bartering. If you exchange services with another person and you both have agreed ahead of time on the value of the services, that value will be accepted as fair market value unless the value can be shown to be otherwise.

Generally, you report this income on Schedule C (Form 1040), Profit or Loss From Business. However, if the barter involves an exchange of something other than services, such as in <u>*Example 3*</u> below, you may have to use another form or schedule instead.

Example 1. You're a self-employed attorney who performs legal services for a client, a small corporation. The corporation gives you shares of its stock as payment for your services. You must include the fair market value of the shares in your income on Schedule C (Form 1040) in the year you receive them.

Example 2. You're self-employed and a member of a barter club. The club uses "credit units" as a means of exchange. It adds credit units to your account for goods or services you provide to members, which you can use to purchase goods or services offered by other members of the barter club. The club subtracts credit units from your account when you receive goods or services from other members. You must include in your income the value of the credit units that are added to your account, even though you may not actually receive goods or services from other members until a later tax year.

Example 3. You own a small apartment building. In return for 6 months rent-free use of an apartment, an artist gives you a work of art she created. You must report as rental income on Schedule E (Form 1040), Supplemental Income and Loss, the fair market value of the artwork, and the artist must report as income on Schedule C (Form 1040) the fair rental value of the apartment.

Form 1099-B from barter exchange. If you exchanged property or services through a barter exchange, Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, or a similar statement from the barter exchange should be sent to you by February 15, 2024. It should show the value of cash, property, services, credits, or scrip you received from exchanges during 2023. The IRS will also receive a copy of Form 1099-B.

Canceled Debts

In most cases, if a debt you owe is canceled or forgiven, other than as a gift or bequest, you must include the canceled amount in your income. You have no income from the canceled debt if it’s intended as a gift to you. A debt includes any indebtedness for which you’re liable or which attaches to property you hold.

If the debt is a nonbusiness debt, report the canceled amount on Schedule 1 (Form 1040), line 8c. If it’s a business debt, report the amount on Schedule C (Form 1040) (or on Schedule F (Form 1040), Profit or Loss From

Farming, if the debt is farm debt and you’re a farmer).

Form 1099-C. If a federal government agency, financial institution, or credit union cancels or forgives a debt you owe of $600 or more, you will receive a Form 1099-C, Cancellation of Debt. The amount of the canceled debt is shown in box 2.

Interest included in canceled debt. If any interest is forgiven and included in the amount of canceled debt in box 2, the amount of interest will also be shown in box 3. Whether or not you must include the interest portion of the canceled debt in your income depends on whether the interest would be deductible when you paid it. See *Deductible debt* under *Exceptions*, later.

If the interest wouldn’t be deductible (such as interest on a personal loan), include in your income the amount from box 2 of Form 1099-C. If the interest would be deductible (such as on a business loan), include in your income the net amount of the canceled debt (the amount shown in box 2 less the interest amount shown in box 3).

Discounted mortgage loan. If your financial institution offers a discount for the early payment of your mortgage loan, the amount of the discount is canceled debt. You must include the canceled amount in your income.

Mortgage relief upon sale or other disposition. If you’re personally liable for a mortgage (recourse debt), and you’re relieved of the mortgage when you dispose of the property, you may realize gain or loss up to the fair market value of the property. Also, to the extent the mortgage discharge exceeds the fair market value of the property, it’s income from discharge of indebtedness unless it qualifies for exclusion under *Excluded debt*, later. Report any income from discharge of indebtedness on nonbusiness debt that doesn’t qualify for exclusion as other income on Schedule 1 (Form 1040), line 8c.

If you aren’t personally liable for a mortgage (nonrecourse debt), and you’re relieved of the mortgage when you dispose of the property (such as through foreclosure), that relief is included in the amount you realize. You may have a taxable gain if the amount you realize exceeds your adjusted basis in the property. Report any gain on nonbusiness property as a capital gain.

See Pub. 4681 for more information.

Stockholder debt. If you’re a stockholder in a corporation and the corporation cancels or forgives your debt to it, the canceled debt is a constructive distribution that’s generally dividend income to you. For more information, see Pub. 542, Corporations.

If you’re a stockholder in a corporation and you cancel a debt owed to you by the corporation, you generally don’t realize income. This is because the canceled debt is considered as a contribution to the capital of the corporation equal to the amount of debt principal that you canceled.

Repayment of canceled debt. If you included a canceled amount in your income and later pay the debt, you may be able to file a claim for refund for the year the amount was included in income. You can file a claim on Form 1040-X, Amended U.S. Individual Income Tax Return, if the statute of limitations for filing a claim is still open. The statute of limitations generally doesn’t end until 3 years after the due date of your original return.

Exceptions

There are several exceptions to the inclusion of canceled debt in income. These are explained next.

Student loans. Generally, if you are responsible for making loan payments, and the loan is canceled or repaid by someone else, you must include the amount that was canceled or paid on your behalf in your gross income for tax purposes. However, in certain circumstances, you may be able to exclude amounts from gross income as a result of the cancellation or repayment of certain student loans. These exclusions are for:

- Student loan cancellation due to meeting certain work requirements;
- Cancellation of certain loans after December 31, 2020, and before January 1, 2026 (see *Special rule for student loan discharges for 2021 through 2025*); or
- Certain student loan repayment assistance programs.

Exclusion for student loan cancellation due to meeting certain work requirements. If your student loan is canceled in part or in whole in 2023 due to meeting certain work requirements, you may not have to include the canceled debt in your income. To qualify for this work-related exclusion, your loan must have been made by a qualified lender to assist you in attending an eligible educational organization described in section 170(b)(1)(A)(ii). In addition, the cancellation must be pursuant to a provision in the student loan that all or part of the debt will be canceled if you work:

- For a certain period of time,
- In certain professions, and
- For any of a broad class of employers.

The cancellation of your loan won't qualify for tax-free treatment if it was made by an educational organization or tax-exempt section 501(c)(3) organization and was canceled because of the services you performed for either organization. See Exception, later.

Educational organization described in section 170(b)(1)(A)(ii). This is an educational organization that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

Qualified lenders. These include the following.

1. The United States, or an instrumentality or agency thereof.
2. A state or territory of the United States; or the District of Columbia; or any political subdivision thereof.
3. A public benefit corporation that is tax-exempt under section 501(c)(3); and that has assumed control of a state, county, or municipal hospital; and whose employees are considered public employees under state law.

4. An educational organization described in section 170(b)(1)(A)(ii), if the loan is made:

    a. As part of an agreement with an entity described in (1), (2), or (3) under which the funds to make the loan were provided to the educational organization; or

    b. Under a program of the educational organization that is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs where services provided by the students (or former students) are for or under the direction of a governmental unit or a tax-exempt section 501(c)(3) organization.

Special rule for student loan discharges for 2021 through 2025. The American Rescue Plan Act of 2021 modified the treatment of student loan forgiveness for discharges in 2021 through 2025. Generally, if you are responsible for making loan payments, and the loan is canceled or repaid by someone else, you must include the amount that was canceled or paid on your behalf in your gross income for tax purposes. However, in certain circumstances, you may be able to exclude this amount from gross income if the loan was one of the following.

- A loan for postsecondary educational expenses.
- A private education loan.
- A loan from an educational organization described in section 170(b)(1)(A)(ii).
- A loan from an organization exempt from tax under section 501(a) to refinance a student loan.

See Pub. 4681 and Pub. 970 for more information.

Loan for postsecondary educational expenses. This is any loan provided expressly for postsecondary education, regardless of whether provided through the educational organization or directly to the borrower, if such loan was made, insured, or guaranteed by one of the following.

- The United States, or an instrumentality or agency thereof.
- A state or territory of the United States; or the District of Columbia; or any political subdivision thereof.
- An eligible educational organization.

Eligible educational organization. An eligible educational organization is generally any accredited public, nonprofit, or proprietary (privately owned profit-making) college, university, vocational school, or other postsecondary educational organization. Also, the organization must be eligible to participate in a student aid program administered by the U.S. Department of Education.

An eligible educational organization also includes certain educational organizations located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.

TIP *The educational organization should be able to tell you if it is an eligible educational organization.*

Private education loan. A private education loan is a loan provided by a private educational lender that:

- Is not made, insured, or guaranteed under Title IV of the Higher Education Act of 1965; and
- Is issued expressly for postsecondary educational expenses to a borrower, regardless of whether the loan is provided through the educational organization that

the student attends or directly to the borrower from the private educational lender. A private education loan does not include an extension of credit under an open end consumer credit plan, a reverse mortgage transaction, a residential mortgage transaction, or any other loan that is secured by real property or a dwelling.

Private educational lender. A private educational lender is one of the following.

- A financial institution that solicits, makes, or extends private education loans.
- A federal credit union that solicits, makes or extends private education loans.
- Any other person engaged in the business of soliciting, making, or extending private education loans.

CAUTION

The cancellation of your loan won't qualify for tax-free treatment if it is canceled because of services you performed for the private educational lender that made the loan or other organization that provided the funds.

Loan from an educational organization described in section 170(b)(1)(A)(ii). This is any loan made by the organization if the loan is made:

- As part of an agreement with an entity described earlier under which the funds to make the loan were provided to the educational organization; or
- Under a program of the educational organization that is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs where the services provided by the students (or former students) are for or under the direction of a governmental unit

or tax-exempt section 501(c)(3) organization.

Educational organization described in section 170(b)(1)(A)(ii). This is an educational organization that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

The cancellation of your loan won't qualify for tax-free treatment if it was made by an educational organization, a tax-exempt section 501(c)(3) organization, or a private education lender (as defined in section 140(a)(7) of the Truth in Lending Act) and was canceled because of the services you performed for either such organization or private education lender. See Exception, later.

Section 501(c)(3) organization. This is any corporation, community chest, fund, or foundation organized and operated exclusively for one or more of the following purposes.

- Charitable.
- Religious.
- Educational.
- Scientific.
- Literary.
- Testing for public safety.
- Fostering national or international amateur sports competition (but only if none of its activities involve providing athletic facilities or equipment).
- The prevention of cruelty to children or animals.

Exception. In most cases, the cancellation of a student loan made by an educational organization because of services you performed for that organization or another organization that provided the funds for the loan must be included in gross income on your tax return.