



AccountingAidSociety

Basic Income

Gross Income

Gross income is all the money, goods, property, or services a person receives that **isn't tax-exempt**.

It includes things like:

- Wages or payments from any job (even outside the U.S.)
- Money from selling a home (even if some of it isn't taxed)
- Part of Social Security benefits
- Certain scholarship or fellowship funds

If the income **is taxable**, it must be reported on the tax return and **tax is owed** on it.

If the income **is not taxable**, it might still need to be listed on the return, but **no tax is owed** on that part.

Example: Jessica works part-time at a coffee shop and also tutors kids after school. She earned **\$12,000** from the coffee shop and **\$4,000** from tutoring.



Both jobs count as gross income and must be reported on her tax return.

Note: After the One Big Beautiful Bill (OBBB) Act, some seniors may qualify for a deduction that reduces their taxable Social Security income.

Practice Scenario

Question:

John works full-time and earns \$3,000 every month. Before taxes or any deductions are taken out, what is his gross income?

- A. \$2,400
- B. \$3,000
- C. \$2,850
- D. \$1,500

Practice Scenario

Question:

John works full-time and earns \$3,000 every month. Before taxes or any deductions are taken out, what is his gross income?

A. \$2,400

B. \$3,000

C. \$2,850

D. \$1,500



Explanation: Gross income is the full amount earned before taxes and deductions.

Practice Scenario

Question:

Ali's job pays him a salary of \$50,000 a year. He receives about \$3,200 per month after taxes. What is his gross income?


- A.** \$3,200/month
- B.** \$38,400/year
- C.** \$50,000/year
- D.** \$2,000/month

Practice Scenario

Question:

Ali's job pays him a salary of \$50,000 a year. He receives about \$3,200 per month after taxes. What is his gross income?

- A. \$3,200/month
- B. \$38,400/year
- C. \$50,000/year
- D. \$2,000/month

 **Explanation:** Gross income is the full salary before taxes. Take-home pay is after taxes.

Types of Income

Earned income

Earned income is the money you receive for working, either for someone else or in your own business. It includes wages, salaries, tips, and self-employment income.

Example: Jacob works as a delivery driver and earns **\$22,000** a year. He also did some freelance photography on weekends and made **\$2,000**.

→ All of this is **earned income** because it came from **working or providing a service**.

Unearned income

Any income **not earned** from work, such as unemployment income or income produced by investments, such as interest on savings, dividends on stocks, or rental income

Example: Lina is retired. She gets **\$10,000** a year from **Social Security**, **\$4,000** in **interest** from her savings account, and **\$3,500** in **dividends** from her stocks.

→ These are all **unearned income** because Lina **did not actively work** to earn them.

Note under OB3:

New 2025 OB3 Deduction Update: Tips (up to \$25,000) and Overtime (up to \$12,500 single / \$25,000 MFJ) may be deducted as 'Adjustments to Income' on Schedule 1 for tax years 2025–2028.

Practice Scenario

Question:

Layla works at a bakery and earns \$16 an hour. She works 30 hours a week. What kind of income is this?

- A.** Unearned income
- B.** Earned income
- C.** Passive income
- D.** Rental income

Practice Scenario

Question:

Layla works at a bakery and earns \$16 an hour. She works 30 hours a week. What kind of income is this?

- A. Unearned income
- B. Earned income**
- C. Passive income
- D. Rental income

 *Explanation:* Income from a job you actively work at is earned income.

Practice Scenario

Question:

David receives \$200 monthly in child support and \$500 in unemployment benefits. Are these considered earned income?


- A.** Yes, both are earned income
- B.** Only child support is earned income
- C.** Only unemployment is earned income
- D.** No, these are not earned income

Practice Scenario

Question:

David receives \$200 monthly in child support and \$500 in unemployment benefits. Are these considered earned income?

- A. Yes, both are earned income
- B. Only child support is earned income
- C. Only unemployment is earned income
- D. No, these are not earned income

 *Explanation:* Neither child support nor unemployment benefits are considered earned income.


Basic Income

- Wages or Salary
- Scholarships
- Interest/Dividends from:
checking/savings accounts,
bonds, CDs, brokerage
- Refund of state/local income
taxes
- Alimony income or separate
maintenance payments
- Disability income
- Unemployment
Compensation
- Social Security or Railroad
Retirement Benefits
- Other Income:
 - Gambling
 - Royalties
 - Election Worker
 - UAW Legal Plan



Wages or Salary

Wages or Salary (Form W-2)

a Employee's social security number 128-00-XXXX		Safe, accurate, FAST! Use		 Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 25-7XXXXXX		1 Wages, tips, other compensation \$45,000.00		2 Federal income tax withheld \$3,000.00	
c Employer's name, address, and ZIP code CAVE STREET MARKET 200 ROCK ROAD YOUR CITY, YOUR STATE, ZIP		3 Social security wages \$45,000.00		4 Social security tax withheld \$2,790.00	
		5 Medicare wages and tips \$45,000.00		6 Medicare tax withheld \$652.50	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial CLAIRE PICKENS 5 PEBBLE LANE YOUR CITY, YOUR STATE, ZIP		Last name Suff.		11 Nonqualified plans 12a See instructions for box 12 DD \$2,300.00	
f Employee's address and ZIP code		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
15 State Employer's state ID number YS 25-7XXXXXX		16 State wages, tips, etc. \$45,000.00		17 State income tax	
				18 Local wages, tips, etc.	
				19 Local income tax	
				20 Locality name	

Form **W-2** Wage and Tax Statement

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

Wages or Salary (Form W-2)

- Employers must report wages and other employee compensation on Form W-2.
- Taxpayers must bring a W-2 for every job they worked in. All W-2s are reported to the IRS, so we must match their records.
 - The amount on Form 1040, line 1a should be the total of Box 1 of all W-2 forms.
 - Always enter all amounts shown on the W-2, including federal and state tax withholding and any entries in Box 12.
- Employers are not required to mail Forms W-2, but they must make them available to employees by January 31.

No Tax on Overtime

- For tax years 2025 through 2028, eligible taxpayers may deduct up to \$12,500 (\$25,000 in the case of a joint return) of qualified overtime compensation.
- They can deduct the extra pay they received for working overtime — specifically, the “extra half” paid on top of their regular hourly rate (**known as “time-and-a-half” pay**). This deduction applies if the amount is reported on a **Form W-2, Form 1099, or another official tax form they receive**.
- The deduction phases out for AGI over **\$150,000 for single filers and \$300,000 married filing jointly**.
- **Taxpayer eligibility:** Deduction is available for both itemizing and non-itemizing taxpayers.
 - Taxpayers must:
 - include their Social Security Number on the return and
 - file jointly if married, to claim the deduction.

No Tax on Overtime Example

Example:

Client: David (Single)

AGI: \$75,000

Overtime Earned: \$16,000

Since David's AGI is below the \$150,000 limit, he can deduct up to **\$12,500** of his overtime. The remaining \$3,500 is taxable (\$16,000 - \$12,500)

Form W-2: Box 12 Codes

There are numerous code letters that the employer can use to designate certain items, such as:

Form W-2 Reference Guide for Common Box 12 Codes

- A** Uncollected Social Security or RRTA tax on tips
- B** Uncollected Medicare tax on tips
- C** Taxable cost of group term life insurance over \$50,000 included in boxes 1, 3 (up to Social Security wage base) & 5.
- D** Elective deferrals to a section 401(k) cash or deferred arrangement
- E** Elective deferrals under a section 403(b) salary reduction agreement
- F** Elective deferrals under a section 408(k)(6) salary reduction SEP
- G** Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan
- H** Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan. Included in Box 1 as wages, but see Pub 525 Taxable and Nontaxable Income instructions on how to deduct on Form 1040.
- J** Nontaxable sick pay (If Box 1 is blank, do not include on return unless there is withholding. If there is withholding, enter under Payments & Estimates, Other [Federal or State] Withholding)
- P** Excludable moving expense reimbursements paid directly to employee

Form W-2: Box 12 Codes Continued

Additional code letters that the employer can use to designate certain items, such as:

- Q** Nontaxable combat pay (Military certification)
- R** Employee Contributions to MSA, Out of Scope
- T** Adoption benefits (Out of Scope)
- W** Employer contributions (including amounts the employee contributes through a cafeteria plan) to employee's health savings account
- Z** Income under a nonqualified deferred compensation plan that fails to satisfy section 409 (Out of Scope)
- AA** Designated Roth contributions under a section 401(k) plan
- BB** Designated Roth contributions under a section 403(b) plan
- DD** Cost of employer-sponsored health coverage (not taxable)
- EE** Designated Roth contributions under a governmental section 457(b) plan

Codes D through H, S, AA, BB, and EE also indicate elective (voluntary) contributions which qualify for retirement savings credit. See Tab G, Nonrefundable Credits. For less common Box 12 codes, see Form W-2.

Practice Scenario

Question:

Emily worked two jobs in 2025. One job paid her \$15,000 (Box 1 of the W-2), and the second job paid \$10,000. What amount should be entered on Form 1040, Line 1a?

- A.** \$10,000
- B.** \$15,000
- C.** \$25,000
- D.** \$5,000

Practice Scenario

Question:

Emily worked two jobs in 2025. One job paid her \$15,000 (Box 1 of the W-2), and the second job paid \$10,000. What amount should be entered on Form 1040, Line 1a?

- A. \$10,000
- B. \$15,000
- C. \$25,000
- D. \$5,000

👉 *Explanation:* Line 1a of Form 1040 should be the **total** of all W-2 Box 1 wages.

Practice Scenario

Question:

Jason W-2 shows **\$1,265** in Box 2 (Federal income tax withheld), but the volunteer forgot to enter it. What's the likely outcome?


- A.** The IRS will fix it automatically
- B.** The client might miss out on a federal refund
- C.** It doesn't matter if federal info is correct
- D.** He can claim the amount later next year

Practice Scenario

Question:

Jason W-2 shows **\$1,265** in Box 2 (Federal income tax withheld), but the volunteer forgot to enter it. What's the likely outcome?

- A. The IRS will fix it automatically
- B. The client might miss out on a federal refund**
- C. It doesn't matter if federal info is correct
- D. He can claim the amount later next year

 *Explanation:* If **Box 2 is left blank**, the tax software won't apply that withholding on the **federal return**, and the client may not get their **full refund**



Scholarship Income

Scholarship Income (Form 1098-T / Form W-2)

Note: Form 1098-T is **not** an income document, but scholarship amounts are reported on this form.

☐ CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Payments received for qualified tuition and related expenses		OMB No. 1545-1574 Form 1098-T	Tuition Statement
YUMA COLLEGE 1000 COLLEGE AVENUE YOUR CITY, YOUR STATE, ZIP		\$ 20,000.00	2		
FILER'S employer identification no. 37-700XXXX	STUDENT'S TIN 654-00-XXXX	3		Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.	
STUDENT'S name DAVID NEWBERRY		4 Adjustments made for a prior year	5 Scholarships or grants		
Street address (including apt. no.) 1234 ROCKMOUNT STREET		\$	\$ 25,000.00		
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		6 Adjustments to scholarships or grants for a prior year	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2022 <input type="checkbox"/>		
Service Provider/Acct. No. (see instr.)	8 Checked if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$		

Form **1098-T**

(keep for your records)

www.irs.gov/Form1098T

Department of the Treasury - Internal Revenue Service

Scholarship Income (Form 1098-T)

- Scholarships and fellowships may be **fully or partially taxable, or nontaxable**.
- **Taxable amounts include:**
 - Payment for services
 - Money used for personal living expenses, such as room and board. If the taxpayer received Form W-2 for the scholarship or fellowship it is considered earned income.
- **Nontaxable amounts include:**
 - Money used to pay for tuition, fees and course-related expenses
- Form 1098-T lists qualified tuition and related expenses paid to the school.
 - If scholarships or grants exceed the qualified educational costs, some of the grant or scholarship may be taxable to the student (not the taxpayer claiming the student as a dependent).

Scholarship Income Example

David is a college sophomore who received a **\$25,000 scholarship** in 2025. His **Form 1098-T** shows **\$20,000** in qualified tuition and fees.

- **\$20,000** of the scholarship is **nontaxable** (matched to tuition)
 - The extra **\$5,000** is **taxable** because it was used for personal expenses like room and board
- That **\$5,000** must be reported on David's tax return as **income**.

<input type="checkbox"/> CORRECTED		OMB No. 1545-1574		Tuition Statement
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number YUMA COLLEGE 1000 COLLEGE AVENUE YOUR CITY, YOUR STATE, ZIP		1 Payments received for qualified tuition and related expenses \$ 20,000.00	2	
FILER'S employer identification no. 37-700XXXX	STUDENT'S TIN 654-00-XXXX	3		
STUDENT'S name DAVID NEWBERRY		4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 25,000.00	Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
Street address (including apt. no.) 1234 ROCKMOUNT STREET		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2022 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		8 Checked if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)		10 Ins. contract reimb./refund \$		

Form 1098-T (keep for your records) www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

Practice Scenario

Question:

Tina is a full-time college student. She received a **\$12,500 scholarship** in 2024.

She used the scholarship funds for the following expenses:

- **\$6,000** for tuition
- **\$1,500** for required textbooks and course materials
- **\$3,500** for her dorm and school meal plan (room and board)
- **\$1,000** for a new laptop that was not required by the school
- **\$500** for transportation and personal expenses
- **\$500** for campus parking fees

How much of Tina's scholarship is taxable? Refer to IRS Pub 4012, Tab J

- A. \$3,500**
- B. \$4,000**
- C. \$5,500**
- D. \$6,000**

Practice Scenario

Question:

Tina is a full-time college student. She received a **\$12,500 scholarship** in 2024.

She used the scholarship funds for the following expenses:

- **\$6,000** for tuition
- **\$1,500** for required textbooks and course materials
- **\$3,500** for her dorm and school meal plan (room and board)
- **\$1,000** for a new laptop that was not required by the school
- **\$500** for transportation and personal expenses
- **\$500** for campus parking fees

How much of Tina's scholarship is taxable?

- A. \$3,500
- B. \$4,000
- C. **\$5,500**
- D. \$6,000



Interest Income

Interest Income (Form 1099-INT)

<input type="checkbox"/> CORRECTED (if checked)					
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. ADELPHI BANK AND TRUST 8020 YONKERS BLVD YOUR CITY, YOUR STATE, ZIP		Payer's RTN (optional)	OMB No. 1545-0112	Interest Income	
		1 Interest income	Form 1099-INT		
		\$ 130.00			
PAYER'S TIN 22-700XXXX		RECIPIENT'S TIN 328-00-XXXX		2 Early withdrawal penalty \$ 26.00	Copy 2
RECIPIENT'S name THOMAS POLK Street address (including apt. no.) 100 BROOKS DRIVE City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		3 Interest on U.S. Savings Bonds and Treas. obligations \$		To be filed with recipient's state income tax return, when required.	
4 Federal income tax withheld \$		5 Investment expenses \$			
6 Foreign tax paid \$		7 Foreign country or U.S. possession 			
8 Tax-exempt interest \$		9 Specified private activity bond interest \$			
10 Market discount \$		11 Bond premium \$			
12 Bond premium on Treasury obligations \$		13 Bond premium on tax-exempt bond \$			
14 Tax-exempt and tax credit bond CUSIP no. 		15 State 	16 State identification no. 		17 State tax withheld \$
Account number (see instructions) 		FATCA filing requirement <input type="checkbox"/>		\$	

Form **1099-INT** www.irs.gov/Form1099INT Department of the Treasury - Internal Revenue Service

Interest Income (Form 1099-INT)

Taxable interest income can come from things like:

- Checking and savings accounts
- CDs (certificates of deposit)
- U.S. government bonds
- Insurance proceeds
- Loans the taxpayer gave to someone else

All taxable interest must be reported on **Form 1040, Line 2b**.

If the total interest is **over \$1,500**, the tax software will automatically add a **Schedule B** to the return.

If the interest is **under \$10**, the bank might not send a **Form 1099-INT**, but the taxpayer still has to report that income — even if they didn't get a form, or if the **IRS paid them interest** (like for a delayed refund).

Interest Income (Form 1099-INT)

- Examples of **tax-exempt interest** income include interest from bonds that are exempt from federal tax such as, state political subdivisions, District of Columbia and port authorities.
- Reported to taxpayer on Form 1099-INT, Box 8
- Reported to taxpayer on Form 1099-INT, Box 8
- Note: Boxes 10-13 are now in scope for the program, with exceptions.
 - As always, check Publication 4012 before entering to determine if the return is in scope.
- Read the taxpayer's Form(s) 1099-INT carefully; both taxable and tax-exempt interest may be listed.

Practice Scenario

Question:

Lina has the following interest income in 2024:

- **\$45** from her savings account at Bank of America
- **\$25** from a certificate of deposit (CD) at her credit union
- **\$9** in interest paid by the IRS for a delayed refund
- **\$30** of tax-exempt interest from a Michigan state bond (Box 8 on Form 1099-INT)

Question: What total amount of interest income does Amira report on Form 1040, Line 2b?

- A.** \$0
- B.** \$70
- C.** \$79
- D.** \$109

Practice Scenario

Question:

Lina has the following interest income in 2024:

- **\$45** from her savings account at Bank of America
- **\$25** from a certificate of deposit (CD) at her credit union
- **\$9** in interest paid by the IRS for a delayed refund
- **\$30** of tax-exempt interest from a Michigan state bond (Box 8 on Form 1099-INT)

Question: What total amount of interest income does Amira report on Form 1040, Line 2b?

- A. \$0
- B. \$70
- C. \$79**
- D. \$109

👉 *Explanation:*

- $\$45 + \$25 + \$9 = \textbf{\$79}$ of taxable interest
- The **\$30 from Michigan bonds** is **tax-exempt** and is **not included on Line 2b**, but still must be reported from **Box 8** of the 1099-INT



Dividend Income

Dividend Income (Form 1099-DIV)

<input type="checkbox"/> CORRECTED (if checked)						
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. BALDWIN BANK 123 BALDWIN AVENUE YOUR CITY, YOUR STATE, ZIP		1a Total ordinary dividends \$ \$2,200.00		OMB No. 1545-0110 Form 1099-DIV (Rev. January 2022) For calendar year	Dividends and Distributions Copy B For Recipient This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
		1b Qualified dividends \$ \$2,200.00				
		2a Total capital gain distr. \$		2b Unrecap. Sec. 1250 gain \$		
		2c Section 1202 gain \$		2d Collectibles (28%) gain \$		
2e Section 897 ordinary dividends \$		2f Section 897 capital gain \$				
3 Nondividend distributions \$		4 Federal income tax withheld \$ \$330.00				
5 Section 199A dividends \$		6 Investment expenses \$				
7 Foreign tax paid \$		8 Foreign country or U.S. possession				
9 Cash liquidation distributions \$		10 Noncash liquidation distributions \$				
11 FATCA filing requirement <input type="checkbox"/>		12 Exempt-interest dividends \$		13 Specified private activity bond interest dividends \$		
14 State \$		15 State identification no. -----	16 State tax withheld \$			
17 State tax withheld \$						
PAYER'S TIN 38-4XXXXXX		RECIPIENT'S TIN 127-00-XXXX				
RECIPIENT'S name JEFF PICKENS						
Street address (including apt. no.) 5 PEBBLE LANE						
City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP						
Account number (see instructions)						

Form **1099-DIV** (Rev. 1-2022) (keep for your records) www.irs.gov/Form1099DIV Department of the Treasury - Internal Revenue Service

Dividend Income (Form 1099-DIV)

Ordinary Dividends:

- **Ordinary dividends** are payments that companies or mutual funds make to shareholders from their profits.
- They are the **most common type of distribution** and are **not the same as capital gains**.
- Unless it's specifically labeled otherwise, you can **assume any dividend from a stock is an ordinary dividend**.
- They are reported to the taxpayer on **Form 1099-DIV, Box 1a**, and go on **Form 1040, Line 3b**.

Practice Scenario

Question:

Jasmine owns shares in Ford. In 2025, she received a **Form 1099-DIV** showing:

- **Box 1a (Ordinary dividends): \$185**
- **Box 1b (Qualified dividends): \$150**

What amount goes on **Form 1040, Line 3b**?

- A. \$150**
- B. \$185**
- C. \$0**
- D. \$335**

Practice Scenario

Question:

Jasmine owns shares in Ford. In 2025, she received a **Form 1099-DIV** showing:

- **Box 1a (Ordinary dividends): \$185**
- **Box 1b (Qualified dividends): \$150**

What amount goes on **Form 1040, Line 3b**?

- A. \$150
- B. \$185**
- C. \$0
- D. \$335

👉 **Explanation:** **Line 3b shows the total ordinary dividends from Box 1a.** Qualified dividends are part of those ordinary dividends, they help decide how much tax you pay but don't change the total amount you report on Line 3b.

Dividend Income (Form 1099-DIV)

Qualified Dividends:

- Qualified dividends are ordinary dividends that qualify for lower, long-term capital gains tax rates.
- Reported to taxpayer on Form 1099-DIV, Box 1b and are reported on Form 1040, Line 3a

Example: Emma received \$150 in dividends from a mutual fund in 2025.

Her **Form 1099-DIV** shows:

- **Box 1a (Total ordinary dividends):** \$150
- **Box 1b (Qualified dividends):** \$120

→ The **\$150** is reported on **Form 1040, Line 3b** (ordinary dividends)

→ The **\$120** is also reported on **Line 3a** (qualified portion)

Because the **\$120 is qualified**, it gets **taxed at a lower rate**.

Dividend Income (Form 1099-DIV)

Capital Gain Distributions:

- Capital gain distributions happen when a **mutual fund or REIT sells assets** for a profit.
- Investors receive a portion of those profits, even if they didn't sell anything themselves.
- **Reported on Form 1099-DIV, Box 2a**
- **Goes on Schedule D** (software should handle it automatically)
- **Taxed at the long-term capital gains rate** — even if the taxpayer only held the fund for a short time.

Practice Scenario

Question:

In 2025, Kevin owns shares in a mutual fund. The fund sold some assets and paid Kevin a **capital gain distribution** of **\$1,200** (reported in Box 2a of Form 1099-DIV). Kevin did not sell any shares himself.

Where should Kevin report this \$1,200 on his tax return?

- A. Form 1040, Line 3b (Ordinary Dividends)
- B. Schedule D (Capital Gains and Losses)
- C. Form 1040, Line 2b (Interest Income)
- D. He doesn't have to report it since he didn't sell shares

Practice Scenario

Question:

In 2025, Kevin owns shares in a mutual fund. The fund sold some assets and paid Kevin a **capital gain distribution** of **\$1,200** (reported in Box 2a of Form 1099-DIV). Kevin did not sell any shares himself.

Where should Kevin report this \$1,200 on his tax return?

- A. Form 1040, Line 3b (Ordinary Dividends)
- B. Schedule D (Capital Gains and Losses)**
- C. Form 1040, Line 2b (Interest Income)
- D. He doesn't have to report it since he didn't sell shares

👉 *Explanation:* Capital gain distributions from mutual funds are reported on Schedule D, even if the investor did not sell any shares. The tax software typically adds Schedule D automatically when Box 2a is entered.



Refund of State / Local Income Taxes

Refund of State/Local Income Taxes (Form 1099-G)

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED					
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. 		1 Unemployment compensation \$		OMB No. 1545-0120 Form 1099-G (Rev. January 2022) For calendar year	
		<div style="border: 2px solid green; padding: 2px;"> 2 State or local income tax refunds, credits, or offsets \$ </div>			
PAYER'S TIN	RECIPIENT'S TIN	3 Box 2 amount is for tax year		4 Federal income tax withheld \$	
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		5 RTAA payments \$		6 Taxable grants \$	
		7 Agriculture payments \$		8 Check if box 2 is trade or business income <input type="checkbox"/>	
		9 Market gain \$			
Account number (see instructions)		10a State	10b State identification no.	11 State income tax withheld \$	
				\$	

**Certain
Government
Payments**

**Copy 1
For State Tax
Department**

Form **1099-G** (Rev. 1-2022)
www.irs.gov/Form1099G
Department of the Treasury - Internal Revenue Service

Refund of State/Local Income Taxes (Form 1099-G)

- Taxpayers who receive a refund of state or local income taxes may receive Form 1099-G reporting their refund amount(s).
- Only taxpayers who itemize and received a federal income tax benefit for deducting their state or local income taxes have to include their state/local tax refunds in income.
 - This also applies to taxpayers who received a Michigan homestead property tax credit and who itemized and received a federal income tax benefit for deducting their property taxes.
- If the taxpayer did not itemize deductions on the prior year return, or did not receive a state income tax refund, there is no need to report any of the state income tax refund as income on the federal return.

Refund of State/Local Income Taxes (Form 1099-G)

Example: Did Itemize

In **2024**, **Brian itemized his deductions** and claimed **\$3,000 in state income taxes** on his federal return. In **2025**, he received a **\$700 state tax refund**, reported on **Form 1099-G**.

➡ Since Brian **itemized** and got a **tax benefit** from deducting state taxes, the **\$700 refund is taxable** and must be reported on his **2025 federal return**.

✅ Alternate Scenario: Didn't Itemize

Lisa took the standard deduction in 2024, and also received a **\$400 state refund in 2025**.

➡ Lisa **does not need to report** the refund, because she **did not itemize** and didn't get a tax benefit.

Practice Scenario

Question:

In 2025, Lisa received a **Form 1099-G** showing a **\$600 state income tax refund** from 2024. Last year, she took the **standard deduction** on her federal tax return.

Does Lisa need to report the \$600 as income on her 2025 federal return?

- A. Yes, all refunds must be reported
- B. No, because she didn't itemize her deductions
- C. Yes, because she received Form 1099-G
- D. No, because it was under \$1,000

Practice Scenario

Question:

In 2025, Lisa received a **Form 1099-G** showing a **\$600 state income tax refund** from 2024. Last year, she took the **standard deduction** on her federal tax return.

Does Lisa need to report the \$600 as income on her 2025 federal return?

- A. Yes, all refunds must be reported
- B. No, because she didn't itemize her deductions
- C. Yes, because she received Form 1099-G
- D. No, because it was under \$1,000

👉 *Explanation:* Only taxpayers who **itemize** and received a **federal tax benefit** for deducting state or local taxes need to report state tax refunds as income. Since Amira used the **standard deduction**, her refund is **not taxable** and does **not go on the federal return**.



Alimony Income

Alimony Income or Separate Maintenance Payments

- Alimony is a **payment to or for a spouse or former spouse** under a separation or divorce instrument.
 - It may include payments on behalf of the spouse or former spouse, such as medical bills, housing costs, and other expenses.
 - It does not include child support or voluntary payments outside the instrument.
- Alimony income is **not reported on a government tax form**.
 - Ask if the taxpayer received alimony under a divorce or separation instrument. If so, explain that you need the exact amount, since it may also be reported as a deduction by the payor, and the two amounts must agree.
- If the taxpayer is unsure whether a payment is alimony or child support, ask if the payments will stop once the child is grown.

Practice Scenario

Question:

Which of the following statements is **TRUE** regarding alimony for tax purposes?

- A. Alimony payments are always tax-free to the recipient regardless of the divorce date.
- B. Alimony includes child support and voluntary payments made after the divorce.
- C. Alimony is a payment made under a divorce or separation instrument and may include things like medical bills or housing costs paid on behalf of a former spouse.
- D. Alimony income is reported on a government-issued tax form, such as Form 1099.

Practice Scenario

Question:

Which of the following statements is **TRUE** regarding alimony for tax purposes?

- A. Alimony payments are always tax-free to the recipient regardless of the divorce date.
- B. Alimony includes child support and voluntary payments made after the divorce.
- C. Alimony is a payment made under a divorce or separation instrument and may include things like medical bills or housing costs paid on behalf of a former spouse.
- D. Alimony income is reported on a government-issued tax form, such as Form 1099.

Explanation:

- **A is incorrect:** Alimony is **taxable to the recipient** for divorces finalized **before 2019**.
- **B is incorrect:** **Child support** and **voluntary payments** are **not alimony**.
- **C is correct:** Alimony can include payments for medical, housing, or other expenses **if required by the divorce instrument**.
- **D is incorrect:** Alimony **is not reported** on a government tax form.

Alimony Income or Separate Maintenance Payments

- If the agreement was executed before 1985, refer the taxpayer to a professional tax preparer. Alimony income from divorces before 1985 is **out of scope**.
- **Post-1984 and Pre-2019 Divorces:**
 - The person receiving alimony must include it as income.
 - The person paying alimony can subtract it as an adjustment to income.
 - Both items are reported on Form 1040, Schedule 1.
 - The date of divorce or separation agreement must also be provided.
- Alimony (court-ordered provision for a spouse after separation or divorce) is no longer reportable/deductible for divorce decrees that are **executed or revised after December 31, 2018**.

Alimony Income or Separate Maintenance Payments

Example: Alimony and Divorce Dates

Lina and John divorced in 2010.

- Lina **receives** alimony payments.
- John **pays** alimony payments.

Because their divorce happened **after 1984 but before 2019**:

- Lina **must report the alimony she receives as income** on her tax return.
- John **can deduct the alimony he pays** on his tax return as an adjustment to income.

Both report this on **Form 1040, Schedule 1** and must provide the date of their divorce.

Alimony Income or Separate Maintenance Payments

What if the divorce was before 1985?

If Lina and John divorced **before 1985**, the rules are different and **tax help from a professional is needed** because this situation is out of scope for VITA.

What if the divorce happened after 2018?

If they divorced **after December 31, 2018**, alimony is no longer taxable for the person receiving it and not deductible for the person paying it.

Practice Scenario

Question:

In 2025, Sami received \$6,000 in alimony payments based on a **2010 divorce agreement**. His ex-spouse, Nadia, is claiming a deduction for the same amount.

How should this be handled on their tax returns?

- A.** Sami does not need to report anything, and Nadia can deduct it.
- B.** Sami must include the \$6,000 as income on Schedule 1, and Nadia can deduct it on her Schedule 1.
- C.** Neither needs to report it.
- D.** This is out of scope, refer to a professional.

Practice Scenario

Question:

In 2025, Sami received \$6,000 in alimony payments based on a **2010 divorce agreement**. His ex-spouse, Nadia, is claiming a deduction for the same amount.

How should this be handled on their tax returns?

A. Sami does not need to report anything, and Nadia can deduct it.

B. Sami must include the \$6,000 as income on Schedule 1, and Nadia can deduct it on her Schedule 1.

C. Neither needs to report it.

D. This is out of scope — refer to a professional.

👉 *Explanation:* For divorce agreements executed **after 1984 and before 2019**, alimony is **included as income** for the recipient and **deductible** for the payer. Both amounts are entered on **Form 1040, Schedule 1**. The divorce **execution date must be recorded** in the return.



Disability Income

Disability Income (Form W-2 or Form 1099-R)

<input type="checkbox"/> CORRECTED (if checked)		1 Gross distribution \$ 42,000.00		2a Taxable amount \$ 42,000.00		2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$ 1,000.00		5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$		7 Distribution code(s) 3		8 Other \$ %		9a Your percentage of total distribution % 9b Total employee contributions \$		10 Amount allocable to IRR within 5 years \$		11 1st year of desig. Roth contrib.		12 FATCA filing requirement <input type="checkbox"/>		13 Date of payment		14 State tax withheld \$		15 State/Payer's state no.		16 State distribution \$		17 Local tax withheld \$		18 Name of locality		19 Local distribution \$																															
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. WINSTON CORPORATION 1800 SPRING STREET YOUR CITY, YOUR STATE, ZIP						OMB No. 1545-0119 Form 1099-R						Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.																																																											
PAYER'S TIN 56-7XXXXXX						RECIPIENT'S TIN 131-00-XXXX						Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the IRS.																																																											
RECIPIENT'S name MORGAN CALHOUN Street address (including apt. no.) 320 MAIN STREET City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP						IRA/ SEP/ SIMPLE <input type="checkbox"/>						10 Amount allocable to IRR within 5 years \$						11 1st year of desig. Roth contrib.						12 FATCA filing requirement <input type="checkbox"/>						13 Date of payment						14 State tax withheld \$						15 State/Payer's state no.						16 State distribution \$						17 Local tax withheld \$						18 Name of locality						19 Local distribution \$					

Form **1099-R** www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

Disability Income (Form W-2 or Form 1099-R)

- Employers may report disability income on one of the following forms:
 - Form W-2, if the taxpayer has not reached the minimum retirement age set by the employer
 - Form 1099-R, if the taxpayer has reached the minimum retirement age
 - Some employers report qualified disability income on Form 1099-R with Distribution Code 3 in Box 7 regardless of the taxpayer's age.

Example: Disability Income Reporting

Mark is 45 years old and stopped working due to a disability. In 2025, he received **disability payments** from his former employer's plan.

His employer sent him a **Form 1099-R** with:

- **Box 7: Code 3 (Disability)**
- **Box 1: \$18,000**

→ Even though Mark is **under retirement age**, the employer used **Form 1099-R** with **Code 3** to report **qualified disability income**.

This income is treated like **wages**, not retirement income, and is **not subject to early withdrawal penalties**.

Disability Income (Form W-2 or Form 1099-R)

- Generally, taxpayers who retire on disability must include all of their disability payments in income.
- Disability payments are taxed as wages until the taxpayer reaches the minimum retirement age – this age is set by the employer.
 - After the taxpayer reaches the minimum retirement age, disability payments are treated as pension income to determine taxability.
 - Minimum retirement age is generally the earliest age at which taxpayers may receive a pension, whether or not they are disabled.

Practice Scenario

Question:

Michael is **45 years old** and permanently disabled. In 2025, he received a **Form 1099-R** showing \$20,000 in Box 1, with **Code 3** in Box 7. The income came from his employer's long-term disability plan, and Michael has **not yet reached the company's minimum retirement age of 60**.

How should this income be treated on his 2025 tax return?

- A.** As retirement income
- B.** As earned income — it may qualify him for Earned Income Credit (EIC)
- C.** As tax-exempt income
- D.** It should not be reported because it's a disability payment

Practice Scenario

Question:

Michael is **45 years old** and permanently disabled. In 2025, he received a **Form 1099-R** showing \$20,000 in Box 1, with **Code 3** in Box 7. The income came from his employer's long-term disability plan, and Michael has **not yet reached the company's minimum retirement age of 60**.

How should this income be treated on his 2025 tax return?

A. As retirement income

B. As earned income — it may qualify him for Earned Income Credit (EIC)

C. As tax-exempt income

D. It should not be reported because it's a disability payment

👉 *Explanation:* Although the income was reported on a **1099-R**, the presence of **Code 3** in Box 7 tells us it's **disability income, not retirement**. Because Michael is **under retirement age**, the IRS treats this income as **earned income**, which means it may help him qualify for **EIC** and other credits.

Practice Scenario

Question:

Susan receives disability benefits from her job's long-term disability plan. She is **65 years old**. Retirement age for her company is 60. In 2025, she received a **Form 1099-R** showing \$18,000 with **Code 3** in Box 7.

How is this income treated?

- A. It's treated as earned income
- B. It's treated as retirement income
- C. It's tax-exempt
- D. It must be reported on Schedule C

Practice Scenario

Question:

Susan receives disability benefits from her job's long-term disability plan. She is **65 years old**. Retirement age for her company is 60. In 2025, she received a **Form 1099-R** showing \$18,000 with **Code 3** in Box 7.

How is this income treated?

- A. It's treated as earned income
- B. It's treated as retirement income
- C. It's tax-exempt
- D. It must be reported on Schedule C



Unemployment Compensation

Unemployment Compensation (Form 1099-G)

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. STATE UNEMPLOYMENT COMMISSION 1000 GOVERNMENT PLAZA YOUR CITY, YOUR STATE ZIP		1 Unemployment compensation \$ 6,000.00	OMB No. 1545-0120 Form 1099-G	Certain Government Payments Copy B For Recipient This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		2 State or local income tax refunds, credits, or offsets \$		
PAYER'S TIN 35-700XXXX	RECIPIENT'S TIN 620-00-XXXX	3 Box 2 amount is for tax year	4 Federal income tax withheld \$ 600.00	
RECIPIENT'S name AIOKI ELLIS Street address (including apt. no.) 842 SUSSEX STREET City or town, state or province, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE ZIP		5 RTAA payments \$	6 Taxable grants \$	
		7 Agriculture payments \$	8 If checked, box 2 is trade or business income <input type="checkbox"/>	
		9 Market gain \$		
		10a State	10b State identification no.	11 State income tax withheld \$
Account number (see instructions)				\$

Form **1099-G** (keep for your records) www.irs.gov/Form1099G Department of the Treasury - Internal Revenue Service

Unemployment Compensation (Form 1099-G)

- Unemployment compensation generally includes any amount received under an unemployment compensation law of the United States or of a state in the U.S.
 - Money paid to unemployed workers who lost their jobs due to layoffs or retrenchment (the reduction of costs or spending in response to economic difficulty).
- Unemployment compensation is taxable.
 - The total for all unemployment compensation received in Form(s) 1099-G, Box 1 or Box 5 RTAA, should be entered on Form 1040, Schedule 1.
 - The amount of withholding from Form 1099-G, Box 4 should be entered on the Federal income tax withheld from Forms W-2 and 1099 line of Form 1040.

Practice Scenario

Question:

Emily lost her job in early 2025 due to layoffs and received **\$9,200** in unemployment compensation. She received a **Form 1099-G** with the following details:

- **Box 1 (Unemployment Compensation):** \$9,200
- **Box 4 (Federal Income Tax Withheld):** \$920

Where should these amounts be entered on her federal tax return?

- A. \$9,200 on Form 1040, Line 1; \$920 on Schedule A
- B. \$9,200 on Schedule 1; \$920 added to total federal tax withholding on Form 1040
- C. \$9,200 is not taxable; \$920 is a credit
- D. \$9,200 is entered only if it exceeds \$10,000; \$920 is ignored

Practice Scenario

Question:

Emily lost her job in early 2025 due to layoffs and received **\$9,200** in unemployment compensation. She received a **Form 1099-G** with the following details:

- **Box 1 (Unemployment Compensation):** \$9,200
- **Box 4 (Federal Income Tax Withheld):** \$920

Where should these amounts be entered on her federal tax return?

- A. \$9,200 on Form 1040, Line 1; \$920 on Schedule A
- B. \$9,200 on Schedule 1; \$920 added to total federal tax withholding on Form 1040**
- C. \$9,200 is not taxable; \$920 is a credit
- D. \$9,200 is entered only if it exceeds \$10,000; \$920 is ignored

Explanation:

- **Unemployment compensation** is **taxable** and reported on **Form 1040, Schedule 1, Line 7** (software handles this).
- **Box 4** shows any **federal tax withheld**, which should be added to **total federal income tax withheld** on **Form 1040, Line 25b**



Social Security / Railroad Retirement Benefits

Social Security (Form SSA-1099)

- Taxpayers receive Form SSA-1099 reporting Social Security benefits.
- Box 5 shows the amount of net benefits.
 - Box 5 is pink.
- Be sure to also enter any income tax withheld shown in Box 6 of Form SSA-1099 and any Medicare withheld premiums shown in the Description box.
- Social Security benefits are reported on Form 1040, line 6a.

FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT		
2022 • PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. • SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name		Box 2. Beneficiary's Social Security Number
Box 3. Benefits Paid in 2022	Box 4. Benefits Repaid to SSA in 2022	Box 5. Net Benefits for 2022 (This box is pink)
DESCRIPTION OF AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4
		Box 6. Voluntary Federal Income Tax Withheld
		Box 7. Address
		Box 8. Claim Number (Use this number if you need to contact SSA.)
Form SSA-1099-SM (1-2023)		DO NOT RETURN THIS FORM TO SSA OR IRS

Social Security Benefits (Form SSA-1099)

- Social Security benefits are payments made under **Title II of the Social Security Act**.
 - They include Old-Age, Survivor, and Disability Insurance (OASDI) benefits.
- Social Security benefits include **monthly retirement, survivor, and disability benefits**.
 - They do not include Supplemental Security Income (SSI).
- Some portion of the Social Security benefits received may be taxable.
 - Generally, if Social Security benefits are the only source of income, then the benefits are not taxable.
 - However, if the taxpayers are **Married Filing Separately and lived with their spouse at any time during the tax year, 85% of the benefits will be taxable**.

Social Security (Form SSA-1099)

- The taxable amount, if any, of a taxpayer's Social Security benefits depends upon filing status and other reportable income.
 - Generally, if Social Security (or Social Security equivalent) benefits were the taxpayer's only source of income, the benefits are not taxable.
- A portion of the benefits is **taxable if total income (including tax-exempt interest), plus one-half of the benefits received, is more than certain base income amounts**, which vary based upon the taxpayer's filing status.
- The taxable portion of Social Security benefits is never more than 85% of the net benefits the taxpayer received. In many cases, the taxable portion is less than 50%.
- Enter the amounts from each Form SSA-1099 and the software will compute the portion that is taxable, if any

Note under OBBB: Seniors (65+) may deduct **up to \$6,000** of Social Security income (2025–2028)

When is Social Security Taxable?

Social Security is taxable depending on your filing status and other reportable income.

Benefits will be taxable if your combined income is over the threshold for your applicable filing status.

- Combined Income Includes:
 - Adjusted Gross Income (AGI)
 - + Nontaxable interest (e.g., muni bonds)
 - + $\frac{1}{2}$ of Social Security benefits

Filing Status	Up to 50% Taxable If Combined Income Over	Up to 85% Taxable If Combined Income Over
Single / HOH / QW	\$25,000	\$34,000
Married Filing Jointly	\$32,000	\$44,000
Married Filing Separately	If spouses lived apart: \$25,000	If spouses lived apart: \$34,000

If both spouses lived together and are filing MFS, up to 85% is taxable regardless of income. 77

Social Security - Taxable Portion

Fifty percent of a taxpayer's benefits may be taxable if they are:

- Filing single, head of household or qualifying widow with \$25,000 to \$34,000 income.
- Married filing separately and lived apart from their spouse for all of 2023 with \$25,000 to \$34,000 income.
- Married filing jointly with \$32,000 to \$44,000 income.

✓ **Example 1: 50% of Social Security is Taxable**

Sarah and John are married and file a joint return.

- They get **\$24,000 in Social Security**.
- They also make **\$25,000 from other sources** (like retirement or a part-time job).
- Half of their Social Security is **\$12,000**.
- Their total income is:
 $\$25,000 + \$12,000 = \$37,000$

Since they file **Married Filing Jointly** and their income is **between \$32,000 and \$44,000**,

👉 **50% of their Social Security may be taxed.**

Note: *The tax system automatically calculates how much of your Social Security benefits are taxable based on your filing status and income. You don't need to do this calculation yourself when you file your taxes.*

Social Security - Taxable Portion

Up to 85% of a taxpayer's benefits may be taxable if they are:

- Filing single, head of household or qualifying widow or widower with more than \$34,000 income.
- Married filing jointly with more than \$44,000 income.
- Married filing separately and lived apart from their spouse for all of the tax year with more than \$34,000 income.
- Married filing separately and lived with their spouse at any time during the tax year

Example:

Sarah and John are married and file a **joint return**.

They receive **\$30,000 in Social Security benefits**.

They also earn **\$40,000** from other sources (like a pension or job).

Half of their Social Security is \$15,000.

Their **total income for this purpose** is:

👉 \$40,000 (other income) + \$15,000 (½ of Social Security) = **\$55,000**

Because they file **Married Filing Jointly** and their combined income is **more than \$44,000**,

👉 **Up to 85% of their Social Security benefits (\$25,500)** may be taxable.

Note: The OBBB deduction applies **after** calculating the taxable portion. It may reduce taxable income for seniors, but it does not change the 50% or 85% inclusion formula

Practice Scenario

Question:

John received **\$18,000 in Social Security retirement benefits** in 2025. He had **no other income**. He is single and did **not** live with anyone.

Does John need to include any of his Social Security benefits as taxable income?

- A. Yes, 85% of his benefits are taxable
- B. No, none of his benefits are taxable
- C. Yes, 50% of his benefits are taxable
- D. Only if he is under age 65


Practice Scenario

Question:

John received **\$18,000 in Social Security retirement benefits** in 2025. He had **no other income**. He is single and did **not** live with anyone.

Does John need to include any of his Social Security benefits as taxable income?

- A. Yes, 85% of his benefits are taxable
- B. No, none of his benefits are taxable**
- C. Yes, 50% of his benefits are taxable
- D. Only if he is under age 65

 *Explanation:* If **Social Security is the only income**, it is **not taxable** and doesn't need to be reported as income. John had no other income, so none of his benefits are taxed.

Practice Scenario

Question:

In 2025, Steve is **Single** and received:

- **\$18,000** in Social Security retirement benefits (from SSA-1099)
- **\$20,000** from a pension
- **\$500** in tax-exempt interest from a municipal bond

Will any portion of Steve's Social Security benefits be taxable?

- A. No, because Social Security is under \$25,000
- B. Yes, because his other income and tax-exempt interest make his total income too high
- C. No, because his income is tax-exempt
- D. Yes, 100% of his benefits will be taxed

Practice Scenario

Question:

In 2025, Steve is **Single** and received:

- **\$18,000** in Social Security retirement benefits (from SSA-1099)
- **\$20,000** from a pension
- **\$500** in tax-exempt interest from a municipal bond

Will any portion of Steve's Social Security benefits be taxable?

A. No, because Social Security is under \$25,000

B. Yes, because his other income and tax-exempt interest make his total income too high

C. No, because his income is tax-exempt

D. Yes, 100% of his benefits will be taxed

Practice Scenario

Question:

In 2025, Maria is **Single** and received \$20,000 in Social Security benefits. Her total income, including half of her Social Security and other taxable income, is **\$30,000**.

How much of Maria's Social Security benefits may be taxable?

- A. None of her benefits
- B. Up to 50% of her benefits
- C. Up to 85% of her benefits
- D. 100% of her benefits

Practice Scenario

Question:

In 2025, Maria is **Single** and received \$20,000 in Social Security benefits. Her total income, including half of her Social Security and other taxable income, is **\$30,000**.

How much of Maria's Social Security benefits may be taxable?

- A. None of her benefits
- B. Up to 50% of her benefits
- C. Up to 85% of her benefits
- D. 100% of her benefits

👉 *Explanation:* Since Maria files **Single** and her income falls between **\$25,000 and \$34,000**, up to **50%** of her Social Security benefits may be taxable

Social Security - Lump-Sum Payments

- Lump-Sum Payments means the taxpayer was paid in the current year as back pay for previous years.
- If Box 3 on the SSA-1099 shows broken down amounts for prior years, the taxpayer received a Lump Sum Payment.
- Two ways to figure out taxable portion of the Social Security Benefits when Lump-Sum payments are involved:
 - **First option:** report the whole payment in the year it was received. Complete the Social Security Benefits Worksheet as usual by including the entire lump-sum payment as normal.
 - **Second option:** treat the payment as received in the earlier year(s) by figuring whether any part of these benefits is taxable based on the earlier year's income. Will need the tax return for the year(s) the lump sum payment is received for.
 - Use the method that results in the lower taxable benefits.

Social Security - Lump-Sum Payments

Scenario: Lump-Sum Social Security Payment

Anna got \$8,000 from Social Security in 2025. But \$3,000 of that money is back pay for 2023 and 2024 money she missed before.

What can Anna do for her taxes?

- **Option 1:** Report the full \$8,000 as income for 2025.
- **Option 2:** Treat \$3,000 as if she got it in 2023 and 2024. She will check if any of that \$3,000 was taxable based on her income in those years.

What's best?

Anna will pick the option that means she pays the least tax.

Practice Scenario

Question:

In 2025, Mark received a **\$15,000 lump-sum Social Security payment** reported on his SSA-1099. Box 3 shows this amount includes \$10,000 for **prior years** and \$5,000 for the **current year**.

How can Mark figure out the taxable portion of this lump-sum payment?

- A.** Report the entire \$15,000 as income for 2025 and complete the worksheet normally.
- B.** Allocate the \$10,000 to the prior years and use those years' income to determine taxability.
- C.** Use whichever method results in less taxable income.
- D.** All of the above

Practice Scenario

Question:

In 2025, Mark received a **\$15,000 lump-sum Social Security payment** reported on his SSA-1099. Box 3 shows this amount includes \$10,000 for **prior years** and \$5,000 for the **current year**.

How can Mark figure out the taxable portion of this lump-sum payment?

- A. Report the entire \$15,000 as income for 2025 and complete the worksheet normally.
- B. Allocate the \$10,000 to the prior years and use those years' income to determine taxability.
- C. Use whichever method results in less taxable income.
- D. All of the above**

👉 *Explanation:* Mark can either:

- Report the entire lump sum in 2025 and complete the Social Security Benefits Worksheet normally, **or**
- Allocate the prior years' payments to those years and determine taxability based on the income for those years (which requires prior-year returns).

He should **choose the method that results in the lower taxable Social Security benefits**.

Railroad Retirement Benefits (Form RRB 1099-R)

- Railroad Retirement Benefits (RRBs) are benefits paid to railroad employees working in jobs that are covered by the Railroad Retirement Act (RRA).
- The RRA benefits have two components:
 - **Tier 1 (Social Security equivalent benefits) and**
 - Reported on Form RRB-1099 and are treated the same as Social Security benefits on the tax return
 - Portion may be taxable.
 - **Tier 2 (treated as a qualified employee plan).**
 - The tier 2 benefits are reported on Form RRB 1099-R.
 - Partially or Fully taxable

Practice Scenario

Question:

James worked for the railroad and receives two types of benefits in 2025:

- **Tier 1** benefits reported on **Form RRB-1099** totaling \$12,000
- **Tier 2** benefits reported on **Form RRB-1099-R** totaling \$8,000

How should James report these amounts on his federal tax return?

- A.** Report both Tier 1 and Tier 2 on Form 1040, Line 1 (wages)
- B.** Report Tier 1 like Social Security benefits; report Tier 2 like retirement income on Form 1099-R
- C.** Neither Tier 1 or Tier 2 are taxable
- D.** Report Tier 1 on Schedule D and Tier 2 on Schedule 1

Practice Scenario

Question:

James worked for the railroad and receives two types of benefits in 2025:

- **Tier 1** benefits reported on **Form RRB-1099** totaling \$12,000
- **Tier 2** benefits reported on **Form RRB-1099-R** totaling \$8,000

How should James report these amounts on his federal tax return?

- A. Report both Tier 1 and Tier 2 on Form 1040, Line 1 (wages)
- B. Report Tier 1 like Social Security benefits; report Tier 2 like retirement income on Form 1099-R**
- C. Neither Tier 1 or Tier 2 are taxable
- D. Report Tier 1 on Schedule D and Tier 2 on Schedule 1

👉 *Explanation:*

- **Tier 1** benefits are treated as **Social Security benefits** and reported accordingly (may be partially taxable).
- **Tier 2** benefits are treated like a **qualified employee retirement plan**, reported on **Form RRB-1099-R** and taxed as retirement income.



Other Income

Other Income

- Income that **does not have its own line on Form 1040** is generally reported on the **Form 1040, Schedule 1, Additional Income and Adjustments to Income**.
- Even if the taxpayer does not receive an income document from the payer, the taxpayer is required to report the income if it is taxable.
- Examples of other income are:
 - Gambling income
 - Royalty Income
 - Election Worker Income
 - UAW Legal Services
 - Strike Pay

Gambling Income (Form W2-G)

<input type="checkbox"/> CORRECTED (if checked)			
PAYER'S name, street address, city or town, province or state, country, and ZIP or foreign postal code MOUNTAINTOP CASINO 777 CREST ROAD YOUR CITY, YOUR STATE, ZIP		1 Reportable winnings \$ \$10,000.00	2 Date won 3/16/2022
		3 Type of wager Slots	4 Federal income tax withheld \$ \$2,400.00
		5 Transaction	6 Race
		7 Winnings from identical wagers \$	8 Cashier TM
PAYER'S federal identification number 38-6XXXXXX	PAYER'S telephone number <div style="border: 1px solid black; height: 40px; width: 100%;"></div>		
WINNER'S name MONICA MONTGOMERY		9 Winner's taxpayer identification no. 141-00-XXXX	10 Window
WINNER'S name MONICA MONTGOMERY		11 First identification YS987654	12 Second identification YS 31600XXX
Street address (including apt. no.) 178 PACKER DRIVE		13 State/Payer's state identification no.	14 State winnings \$
City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, YOUR STATE, ZIP		15 State income tax withheld \$	16 Local winnings \$
<div style="border: 1px solid black; height: 40px; width: 100%;"></div>		17 Local income tax withheld \$	18 Name of locality
Under penalties of perjury, I declare that, to the best of my knowledge and belief, the name, address, and taxpayer identification number that I have furnished correctly identify me as the recipient of this payment and any payments from identical wagers, and that no other person is entitled to any part of these payments.			
Signature ►		Date ►	

OMB No. 1545-0238
Form W-2G
Certain
Gambling
Winnings
 (Rev. January 2021)
 For calendar year

This information
 is being furnished
 to the Internal
 Revenue Service.

Copy B
Report this income
on your federal tax
return. If this form
shows federal
income tax
withheld in box 4,
attach this copy
to your return.

Form **W-2G** (Rev. 1-2022)

www.irs.gov/FormW2G

Department of the Treasury - Internal Revenue Service

Gambling Income (Form W2-G)

- The taxpayer may receive one or more *Forms W-2G, Certain Gambling Winnings*, reporting gambling winnings.
- Total gambling winnings must be reported as other income, fully taxable.
 - Gambling winnings not reported on Form W-2G also need to be reported on Form 1040 as income.
- If the taxpayer also had gambling losses or expenses, the losses or expenses can only be deducted on Schedule A if the taxpayer itemizes.
 - For tax years through 2025, expenses to gamble may be added to losses if itemizing (limited to overall winnings, starting in 2026 it reduces to 90% of winnings)
- Gambling winnings include lotteries and raffles.

Practice Scenario

Question:

In 2025, Sarah won \$5,000 from a lottery and received a **Form W-2G** reporting this amount. She also had \$3,000 in gambling losses.

How should Sarah report these amounts on her tax return?

- A.** Report \$5,000 as income on Form 1040; losses cannot be deducted
- B.** Report \$5,000 as income on Form 1040; deduct \$3,000 losses on Schedule A (if she itemizes)
- C.** Report only the net amount of \$2,000 on Form 1040
- D.** Neither winnings or losses need to be reported

Practice Scenario

Question:

In 2025, Sarah won \$5,000 from a lottery and received a **Form W-2G** reporting this amount. She also had \$3,000 in gambling losses.

How should Sarah report these amounts on her tax return?

A. Report \$5,000 as income on Form 1040; losses cannot be deducted

B. Report \$5,000 as income on Form 1040; deduct \$3,000 losses on Schedule A (if she itemizes)

C. Report only the net amount of \$2,000 on Form 1040

D. Neither winnings or losses need to be reported

👉 *Explanation:*

- All **gambling winnings**, including those reported on **Form W-2G**, must be included as **fully taxable income**.
- **Gambling losses** can only be deducted as an itemized deduction on **Schedule A** and only up to the amount of winnings.

Royalty Income

- Royalty income is in scope for VITA only when the source document of the royalty income is reported on:
 - Schedule K-1 or Form 1099-MISC, Box 2, Royalties, with no associated expenses.
- Form 1099-MISC, Box 2 royalties from the taxpayer's own personal services are generally reported on Form 1040, Schedule C.
 - Examples include authors and composers.

Election Worker Income

- Individuals who receive payment for services performed as an election worker should report those payments as wages on the federal tax return.
- According to the IRS, government entities must file a Form W-2 for election workers who receive payments of any amount, even if no FICA and income tax were withheld.
 - However, we are seeing that City of Detroit and some other government entities are reporting these payments on Form 1099-NEC, Nonemployee Compensation.
- Income received as an election worker is not self-employment income and should not be subject to self-employment tax.
- A workaround is required in TaxSlayer to achieve the proper reporting on the tax return for payments received for services performed as an election worker.
 - Instructions on how to handle this income are available on our resources page.

Practice Scenario

Question:

In 2025, **Jason** worked as an **election worker for the City of Detroit** and was paid **\$800**. Instead of receiving a W-2, he was issued a:

Form 1099-NEC

Box 1 (Nonemployee Compensation): \$800

No federal or state withholding.

Question:

How should Jason's income be reported on his federal tax return?

- A.** As self-employment income on Schedule C
- B.** As other income on Schedule 1
- C.** Use the election worker workaround from the resource page to report it as wages (not subject to SE tax)
- D.** It does not need to be reported because it's under \$1,000

Practice Scenario

Question:

In 2025, **Jason** worked as an **election worker for the City of Detroit** and was paid **\$800**. Instead of receiving a W-2, he was issued a:

Form 1099-NEC

Box 1 (Nonemployee Compensation): \$800

No federal or state withholding

Question:

How should Jason's income be reported on his federal tax return?

A. As self-employment income on Schedule C

B. As other income on Schedule 1

C. Use the election worker workaround from the resource page to report it as wages (not subject to SE tax)

D. It does not need to be reported because it's under \$1,000

UAW Legal Services (Form 1099-MISC)

- If a client comes in with a Form 1099-MISC that is received from the **UAW-FCA-FORD-GENERAL MOTORS LEGAL SERVICES PLAN TRUST**, this income would be reported as OTHER INCOME and not reported as miscellaneous income.

<input type="checkbox"/> CORRECTED (if checked)				
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. UAW-FCA-FORD-GENERAL MOTORS LEGAL SERVICES PLAN TRUST 1400 WOODBRIDGE ST., 4TH FLOOR DETROIT, MI 48207 (800) 482-7700		1 Rents \$	2 Royalties \$	OMB No. 1545-0115 2020 Form 1099-MISC Miscellaneous Income Copy 2 To be filed with recipient's state income tax return, when required.
PAYER'S TIN 81-4920943		3 Other income \$ 23.58	4 Federal income tax withheld \$	
RECIPIENT'S TIN		5 Fishing boat proceeds \$	6 Medical and health care payments \$	
RECIPIENT'S name		7 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest \$	
		9 Crop insurance proceeds \$	10 Gross proceeds paid to an attorney \$	
		11	12 Section 409A deferrals \$	
		13 Excess golden parachute payments \$	14 Nonqualified deferred compensation \$	
Account number (see instructions)		15 State tax withheld \$	16 State/Payer's state no	17 State income \$
FATCA filing requirement <input type="checkbox"/>				

Form 1099-MISC www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service



Other Income
Form belongs to Taxpayer
Description of other income * UAW LEGAL SERVICES
Amount of other income * \$ 23
<input type="checkbox"/> Earned Income

Strike Pay

- Strike Pay is a payment made by a trade union to workers who are on strike to help in meeting their basic needs while on strike, often out of a special reserve known as a strike fund.
- **There are three major strikes at the present time in Michigan:**
 - Auto Workers (represented by the United Automobile Workers union (UAW))
 - Blue Cross Blue Shield of Michigan workers (represented by the UAW)
 - Detroit Casino Workers (represented by five unions, including the UAW)

Practice Scenario

Question:

In 2025, Lisa is a member of the United Auto Workers (UAW) and is currently on strike. She receives **strike pay** from her union's strike fund to help cover living expenses while she is not working.

How should Lisa report this strike pay on her tax return?

- A. Strike pay is not taxable and does not need to be reported
- B. Strike pay is taxable income and should be reported as wages
- C. Strike pay is reported as a tax-exempt union benefit
- D. Strike pay is reported as unemployment compensation

Practice Scenario

Question:

In 2025, Lisa is a member of the United Auto Workers (UAW) and is currently on strike. She receives **strike pay** from her union's strike fund to help cover living expenses while she is not working.

How should Lisa report this strike pay on her tax return?

- A. Strike pay is not taxable and does not need to be reported
- B. Strike pay is taxable income and should be reported as wages**
- C. Strike pay is reported as a tax-exempt union benefit
- D. Strike pay is reported as unemployment compensation

👉 *Explanation:* Strike pay received from a union is generally **taxable income**, like wages, and must be reported on the tax return. It helps the worker meet basic needs during a strike but is still subject to income tax.

End of Basic Income

Take a few moments with your table and discuss any questions you may have regarding this topic.