



Module 3: INCOME

By the end of this module you will...

- Understand income as it pertains to the tax return
- Understand the use of each form in the Form 1040
- Learn the corresponding forms to each line
- Be able to calculate Total Gross Income

In this module...

Form 1040 & Income

- What is income?
- Wages, Salaries, Tips, etc.
- Taxable Interest & Tax-exempt Interest
- Ordinary Dividends & Qualified Dividends
- IRAs, Pensions, and Annuities
- Social Security Benefits
- Re-Cap
- Knowledge Check

Schedule 1

- Additional Income
- Taxable Refunds
- Alimony Received
- Other gains or losses
- Rental Income
- Farm Income
- Unemployment Compensation
- Other Income
- Re-Cap
- Knowledge Check

Miscellaneous Income

- Business Income
- Miscellaneous Income
- Understanding Form 1099-MISC
- Where to Report 1099-MISC Income
- Impact on the tax return
- Re-Cap
- Knowledge Check

Form 1040 – Income

This module covers income reported on lines 1 through 7 on Form 1040

1	Wages, salaries, tips, etc. Attach Form(s) W-2			1		
2a	Tax-exempt interest	2a		b Taxable interest	2b	
3a	Qualified dividends	3a		b Ordinary dividends	3b	
4a	IRA distributions	4a		b Taxable amount	4b	
5a	Pensions and annuities	5a		b Taxable amount	5b	
6a	Social security benefits	6a		b Taxable amount	6b	
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>				7	
8	Other income from Schedule 1, line 9				8	
9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income				9	
10	Adjustments to income:					
a	From Schedule 1, line 22	10a				
b	Charitable contributions if you take the standard deduction. See instructions	10b				
c	Add lines 10a and 10b. These are your total adjustments to income				10c	
11	Subtract line 10c from line 9. This is your adjusted gross income				11	



What is income?

Income

- Earned income is any income received for work, such as wages or business/self-employment income
- Unearned income is any income produced by investments, such as interest on savings, dividends on stocks, rental income and unemployment income.
- Unless there is an exception in the tax law, all income is taxable.



What is considered taxable income?

This chart is from IRS Publication 4012, page D-1, Volunteer Resource Guide.

Table A – Examples of Taxable Income

(Examples of income to consider when determining whether a return must be filed or if a person meets the gross income test for qualifying relative)

Wages, salaries, bonuses, commissions	Military pension
Alimony (for divorce before 2019, see How/Where to Enter Income, later)	Nonemployee compensation
Annuities	Notary fees
Awards	Partnership, Estate and S-Corporation income (Schedule K-1s, Taxpayer's share)
Back pay	Pensions
Breach of contract payment	Prizes
Business income/Self-employment income	Punitive damage award
Cash income	Railroad retirement—Tier I (portion may be taxable)
Compensation for personal services	Railroad retirement—Tier II
Canceled debts ¹	Recovery of prior year deduction ² (medical, property taxes, etc.)
Director's fees	Refunds of State and local income tax (if reportable) ²
Disability benefits (employer-funded)	Rents (gross rent)
Discounts	Rewards
Dividends	Royalties
Employee awards	Severance pay
Employee bonuses	Self-employment (gross income)
Estate and trust income	Social security benefits - portion may be taxable - (See Tab D, Income, Railroad Retirement, Civil Service, and Social Security Benefits)
Farm income	Supplemental unemployment benefits
Fees	Taxable scholarships and grants
Gains from sale of property or securities	Tips and gratuities
Gambling winnings	Tribal per capita payments
Hobby income	Unemployment compensation
Interest	
Interest on life insurance dividends	
IRA distributions	
Jury duty fees	
Military pay (not exempt from taxation)	



Wages, Salaries, Tips, etc.

(Form 1040 - Line 1)

Wages, Salaries, Tips – Form W-2

Wages, salaries and tips are reported to the taxpayer on Form W-2

22222		a Employee's social security number		OMB No. 1545-0008				
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld			
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld			
			5 Medicare wages and tips		6 Medicare tax withheld			
			7 Social security tips		8 Allocated tips			
d Control number			9		10 Dependent care benefits			
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a
f Employee's address and ZIP code		13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		Third-party sick pay <input type="checkbox"/>		12b
								12c
								12d
15 State	Employer's state ID number		16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2** Wage and Tax Statement
 Copy 1—For State, City, or Local Tax Department

2021

Department of the Treasury—Internal Revenue Service

Wages, Salaries, Tips, etc.

Examples:

- Employer Compensation (**Form W-2, Box 1**)
- Tips (waiter/waitress, bellhop, or motel/hotel housekeeper, etc.) – **requires VITA Advanced Certification**
- Allocated tips - are amounts your employer assigned to employees in addition to the tips reported (**Form W-2, Box 8**)
- Taxable scholarship income (See Module 8, Tax Benefits for Education, for more information.)



What to do:

- Enter the total of wages, salaries, tips, etc.
- If a joint return, also include the spouse's income.
- The amount on Form 1040, line 1 should be the total of Box 1 of all W-2 forms
- Always enter all income on the W-2, including federal and state withholding and any entries in box 12.

Wages, Salaries, Tips, etc.

- Where to look on the IRS VITA Intake Sheet, Form 131614-C:
 - Page 2, Questions 1 - 3

Check appropriate box for each question in each section

Yes	No	Unsure	Part III – Income – Last Year, Did You (or Your Spouse) Receive
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <input type="text"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income or separate maintenance payments?

Taxable Interest & Tax-exempt Interest

(Form 1040 - Line 2a & 2b)

Interest Income – Form 1099-INT

Interest income is reported to the taxpayer on Form 1099-INT

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		Payer's RTN (optional)		OMB No. 1545-0112 Form 1099-INT (Rev. January 2022)		Interest Income
		1 Interest income \$ _____		For calendar year 20 ____		
PAYER'S TIN RECIPIENT'S TIN		2 Early withdrawal penalty \$ _____		Copy 1 For State Tax Department		
		3 Interest on U.S. Savings Bonds and Treasury obligations \$ _____				
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$ _____		5 Investment expenses \$ _____		
		6 Foreign tax paid \$ _____		7 Foreign country or U.S. possession		
FATCA filing requirement <input type="checkbox"/>		8 Tax-exempt interest \$ _____		9 Specified private activity bond interest \$ _____		
		10 Market discount \$ _____		11 Bond premium \$ _____		
Account number (see instructions)		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 \$ _____ \$ _____		

Form **1099-INT** (Rev. 1-2022) www.irs.gov/Form1099INT Department of the Treasury - Internal Revenue Service

Taxable interest

- Reported to taxpayer on **Form 1099-INT, Box 1**
- Examples of taxable interest income include:
 - Checking and Savings accounts
 - CDs,
 - savings certificates,
 - interest on insurance dividends, or
 - US government bonds
- Total taxable interest income is reported on Form 1040, Line 2b
- If total taxable interest is over \$1,500, the tax software will add a [Schedule B](#) to taxpayer's tax return.



Tax-exempt interest

- Reported to taxpayer on **Form 1099-INT, Box 8**
- Examples of tax-exempt interest income include:
 - Bonds that are exempt such as:
 - State political subdivisions
 - District of Columbia
 - Port authorities
- Total tax-exempt interest income is reported on Form 1040, Line 2a
- **Note: Boxes 10-13 are now in scope for the program.**



Taxable Interest & Tax-exempt Interest

- Where to look on the IRS VITA Intake Sheet, Form 13614-C:
 - Page 2, Question 4

Check appropriate box for each question in each section

Yes	No	Unsure	Part III – Income – Last Year, Did You (or Your Spouse) Receive
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <input type="text"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income or separate maintenance payments?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)

Ordinary Dividends & Qualified Dividends

(Form 1040 - Line 3a & 3b)

Dividend Income – Form 1099-DIV

Dividend income is reported to the taxpayer on Form 1099-DIV

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1a Total ordinary dividends \$ _____	OMB No. 1545-0110 Form 1099-DIV (Rev. January 2022) For calendar year 20 ____		Dividends and Distributions Copy 1 For State Tax Department
		1b Qualified dividends \$ _____			
		2a Total capital gain distr. \$ _____			
PAYER'S TIN	RECIPIENT'S TIN	2c Section 1202 gain \$ _____	2d Collectibles (28%) gain \$ _____		
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		2e Section 897 ordinary dividends \$ _____	2f Section 897 capital gain \$ _____		
		3 Nondividend distributions \$ _____	4 Federal income tax withheld \$ _____		
Account number (see instructions)		5 Section 199A dividends \$ _____	6 Investment expenses \$ _____		
		7 Foreign tax paid \$ _____	8 Foreign country or U.S. possession		
11 FATCA filing requirement <input type="checkbox"/>		9 Cash liquidation distributions \$ _____	10 Noncash liquidation distributions \$ _____		
		12 Exempt-interest dividends \$ _____	13 Specified private activity bond interest dividends \$ _____		
14 State		15 State identification no.		16 State tax withheld \$ _____	
		_____		_____ \$ _____	

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

Ordinary Dividends

- Reported to taxpayer on **Form 1099-DIV, Box 1a**
- Corporate distributions paid out of the earnings and profits of the corporation
- Total Ordinary Dividends are reported on Form 1040, Line 3b



Qualified Dividends

- Reported to taxpayer on **Form 1099-DIV, Box 1b**
- Dividends are eligible for a lower tax rate than ordinary income
- Total Qualified Dividends are reported on Form 1040, Line 3a



Capital Gain Distributions

- Reported to taxpayer on **Form 1099-DIV, Box 2a**
- **Be sure to enter this amount onto a Schedule D – your software should do it for your automatically!**

Ordinary Dividends & Qualified Dividends

- Where to look on the IRS VITA Intake Sheet, Form 13614-C:
 - Page 2, Question 4

Check appropriate box for each question in each section

Yes	No	Unsure	Part III – Income – Last Year, Did You (or Your Spouse) Receive
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <input type="text"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income or separate maintenance payments?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)



IRAs, Pensions, and Annuities

(Form 1040 - Line 4a & 4b or 5a & 5b)

IRAs, Annuities, and Pensions– Form 1099-R

IRAs, annuities, and pensions are reported to the taxpayer on Form 1099-R

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution \$ _____		OMB No. 1545-0119 2021		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$ _____		Form 1099-R		
		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		
PAYER'S TIN	RECIPIENT'S TIN	3 Capital gain (included in box 2a) \$ _____		4 Federal income tax withheld \$ _____		Copy 1 For State, City, or Local Tax Department
RECIPIENT'S name		5 Employee contributions/ Designated Roth contributions or insurance premiums \$ _____		6 Net unrealized appreciation in employer's securities \$ _____		
Street address (including apt. no.)		7 Distribution code(s)		IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ _____ %	
City or town, state or province, country, and ZIP or foreign postal code		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"/>	14 State tax withheld \$ _____		15 State/Payer's state no.	16 State distribution \$ _____
Account number (see instructions)		13 Date of payment	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

IRAs, Annuities, and Pensions

- Distributions from an Individual Retirement Account, annuity, or pension, might be fully taxable or partially taxable
- Gross Distributions:
 - The total amount the taxpayer received in the tax year
 - Reported to taxpayer on **Form 1099-R, Box 1**
 - IRA distributions amount reported on Form 1040, Line 4a
 - Pensions and annuities amount reported on Form 1040, Line 4c
- Taxable Amount
 - The part of the distribution that is taxable
 - Reported to taxpayer on **Form 1099-R, Box 2a**
 - Also reported on **Form 1040, Line 4b**
 - IRA taxable amount reported on Form 1040, Line 4b
 - Pensions and annuities taxable amount reported on Form 1040, Line 5a



NOTE: If there is no entry in this Box 2a, the payer may not have all the facts needed to figure the taxable amount. In that case, the first box in box 2b: “**Taxable amount not determined**” should be checked.

****Preparing returns with the taxable amount not determined requires Advanced certification****

Key Item: Retirement

- Look at the Distribution Code in Box 7 to make sure the return is **in scope!**
 - You can check the code on the Publication 4012 on Page D-40 to D-41!

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Gross distribution		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		\$		2021		
		2a Taxable amount				
		\$		2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		
PAYER'S TIN	RECIPIENT'S TIN	3 Capital gain (included in box 2a)		4 Federal income tax withheld		Copy 1 For State, City, or Local Tax Department
		\$		\$		
RECIPIENT'S name		5 Employee contributions/ Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities		
Street address (including apt. no.)		\$		\$		
City or town, state or province, country, and ZIP or foreign postal code		7 Distribution code(s)		8 Other		
		<input type="checkbox"/> IRA/SEP/SIMPLE		\$ %		
		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"/>	14 State tax withheld	15 State/Payer's state no.	16 State distribution	
\$			\$		\$	
Account number (see instructions)		13 Date of payment	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

IRAs, Annuities, and Pensions

- Where to look on the Intake Sheet:

- Page 2, Question 11

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Grades or Quality: (Form W-2) If yes, how many jobs did you have last year? _____
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income or separate maintenance payments?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. (A) Retirement income or payments from Pensions, Annuities, and or IRA? (Form 1099-R)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment Compensation? (Form 1099G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, royalties, foreign income, etc.) Specify _____



Social Security Benefits

(Form 1040 - Line 6a & 6b)

Social Security Benefits – Form SSA-1099

Social Security Benefits are reported to the taxpayer on Form SSA-1099

FORM SSA-1099 – SOCIAL SECURITY BENEFIT STATEMENT

2020 • 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 2020	Box 4. Benefits Repaid to SSA in 2020	Box 5. Net Benefits for 2020 (Box 3 minus Box 4)
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 (1-2021)

DO NOT RETURN THIS FORM TO SSA OR IRS

Social Security benefits

- Reported to taxpayer on **Form SSA-1099, Box 5**
 - Box 5 is **pink**.
- Social Security benefits are reported on Form 1040, Line 6a
- Be sure to also enter any income tax withheld from Form SSA-1099, Box 6
- Up to 85 percent of the benefits may be taxable depending on:
 - Filing Status
 - Amount of Social Security benefits
 - Amount of total income

Social Security Benefits – What's Taxable?

- Based on the Modified AGI, which is the sum of the regular AGI (excluding Social Security benefits) plus tax-exempt income, excluded foreign income, and certain other deductions for AGI
- The calculation is rather complex and is different depending on the filing status. To see how it works, go to the worksheet on page 31 of the 1040 instructions.
- **Fortunately, the tax software will calculate the taxable amounts for you.**
- Taxable Social Security benefits will appear on Form 1040, Line 6b

Social Security Benefits

- Where to look on the Intake Sheet:
 - Page 2, Question 13

Check appropriate box for each question in each section

Yes	No	Unsure	Part III – Income – Last Year, Did You (or Your Spouse) Receive
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <input type="text"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income or separate maintenance payments?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. (A) Retirement income or payments from Pensions, Annuities, and or IRA? (Form 1099-R)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment Compensation? (Form 1099G)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, royalties, foreign income, etc.) Specify <input type="text"/>



Capital Gain or (Loss)

(Form 1040 – Line 7)

Capital gain or (loss)

Preparing a return with capital gains or (loss) requires Advanced level certification

- Forms of capital assets might include:
 - Sale of home
 - Mutual Funds
 - Stocks
 - Bonds
- If the taxpayer sold a capital asset, [Form 8949](#) and [Schedule D](#) must be completed and attached (note these are for 2020)
- Form 8949 contains capital gain and loss transactions
- The subtotals from Form 8949 are carried over to Schedule D, where the total gain or loss is calculated
- The total gain or loss from Schedule D is reported Schedule 1, Line 13 (Form 1040, Line 7)



Capital gain (or loss)

Long- and Short-Term Capital Gains –The Holding Period

- Long-term capital gain: an asset owned for more than one year before it is sold
- Short-term capital gain: an asset owned for one year or less before it is sold
 - Different holding periods will be taxed at different rates in the software!

Cost-Basis

- Taxpayers will have cost-basis totals either from their own brokerage firm or the Form 1099-B which will be used to complete the Form 8949.

Capital Loss Carryovers

- If there are capital losses more than gains, the amount of loss that can be claimed on line 21 of Schedule D is the lesser of \$3,000 (\$1,500 if Married Filing Separately)
 - If your loss is more than this limit, then you can carry forward to later years – use the worksheet in [Publication 550](#) for more information!

Re-Cap

- Form 1040 Income:

- Basic Level Certification
 - Line 1 – wages, salary, tips
 - Form W-2 (IRS VITA Intake Form 13614-C, page 2, Part III, lines 1 – 3)
 - Line 2 – taxable interest and tax exempt interest
 - Form 1099-INT (IRS VITA Intake Form 13614-C, page 2, Part III, line 4)
 - Line 3 – ordinary dividends and qualified dividends
 - Form 1099-DIV (IRS VITA Intake Form 13614-C, page 2, Part III, line 4)
 - Line 4 – IRAs, annuities, and pensions
 - Line 5 – Annuities and Pensions
 - Form 1099-R (IRS VITA Intake Form 13614-C, page 2, Part III, line 11)
 - Line 6 – Social Security benefits
 - Form SSA-1099 (IRS VITA Intake Form 13614-C, page 2, Part III, line 13)

- Advanced Level Certification
 - Line 1 – tips
 - Form W-2 (IRS VITA Intake Form 13614-C, page 2, Part III, lines 1 – 3)
 - Line 7 – Capital Gain or (Loss)



Knowledge Check

Additional Resources:

- Publication 4012: Tab D

Up Next...

Module 3B: Additional Income



Module 3B: ADDITIONAL INCOME (SCHEDULE 1)

By the end of this module you will...

- Understand the different sources of income that are reported on Schedule 1
- Understand the types of additional income that are out of scope for VITA



Additional Income

(Form 1040 – Line 8)

Additional Income

- If a taxpayer has additional income, a [Schedule 1](#) must be completed.
- Don't worry, the tax software you are using will automatically add Schedule 1 if you indicate there is additional income
- The additional income reported on Schedule 1 includes:
 - Taxable refunds, credits, or offsets of state and local income taxes
 - Alimony (received for divorce and legal separation before 2019)
 - Business income or (loss) (Schedule C)
 - Other gains or (losses)
 - Rental real estate, royalties, partnerships, S corporations, trusts, etc. (Schedule E)
 - Farm income
 - Unemployment compensation
 - Other income
- Some of these income items are out of scope, so please reference Publication 4012 p.6-7.
- The total of all additional income reported on Schedule 1, is transferred to Line 8 on [Form 1040](#)

Form 1040

Attach Sch. B if required.	1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	
	2a	Tax-exempt interest	2a		2b	
	3a	Qualified dividends	3a		3b	
	4a	IRA distributions	4a		4b	
	5a	Pensions and annuities	5a		5b	
	6a	Social security benefits	6a		6b	
Standard Deduction for— <ul style="list-style-type: none"> • Single or Married filing separately, \$12,550 • Married filing jointly or Qualifying widower, \$25,100 • Head of household, \$18,800 • If you checked any box under Standard Deduction, see instructions. 	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>			7	
	8	Other income from Schedule 1, line 10			8	
	9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income				9
	10	Adjustments to income from Schedule 1, line 26				10
	11	Subtract line 10 from line 9. This is your adjusted gross income				11
	12a	Standard deduction or itemized deductions (from Schedule A)	12a			
	b	Charitable contributions if you take the standard deduction (see instructions)	12b			
	c	Add lines 12a and 12b				12c
	13	Qualified business income deduction from Form 8995 or Form 8995-A				13
	14	Add lines 12c and 13				14
	15	Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-			15	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11320B

Form **1040** (2021)

Schedule 1

SCHEDULE 1
(Form 1040)

Additional Income and Adjustments to Income

OMB No. 1545-0074

2021
Attachment
Sequence No. 01

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040, 1040-SR, or 1040-NR.
▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR **Your social security number**

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions) ▶		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling income	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Taxable Health Savings Account distribution	8e	
f	Alaska Permanent Fund dividends	8f	
g	Jury duty pay	8g	
h	Prizes and awards	8h	
i	Activity not engaged in for profit income	8i	
j	Stock options	8j	
k	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8k	
l	Olympic and Paralympic medals and USOC prize money (see instructions)	8l	
m	Section 951(a) inclusion (see instructions)	8m	
n	Section 951A(a) inclusion (see instructions)	8n	
o	Section 461(l) excess business loss adjustment	8o	
p	Taxable distributions from an ABL account (see instructions)	8p	
z	Other income. List type and amount ▶	8z	
9	Total other income. Add lines 8a through 8z	9	
10	Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2021

Part II Adjustments to Income

11	Educator expenses	11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	
13	Health savings account deduction. Attach Form 8889	13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903	14	
15	Deductible part of self-employment tax. Attach Schedule SE	15	
16	Self-employed SEP, SIMPLE, and qualified plans	16	
17	Self-employed health insurance deduction	17	
18	Penalty on early withdrawal of savings	18	
19a	Alimony paid	19a	
b	Recipient's SSN ▶		
c	Date of original divorce or separation agreement (see instructions) ▶		
20	IRA deduction	20	
21	Student loan interest deduction	21	
22	Reserved for future use	22	
23	Archer MSA deduction	23	
24	Other adjustments:		
a	Jury duty pay (see instructions)	24a	
b	Deductible expenses related to income reported on line 8k from the rental of personal property engaged in for profit	24b	
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8l	24c	
d	Reforestation amortization and expenses	24d	
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e	
f	Contributions to section 501(c)(18)(D) pension plans	24f	
g	Contributions by certain chaplains to section 403(b) plans	24g	
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h	
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i	
j	Housing deduction from Form 2555	24j	
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k	
z	Other adjustments. List type and amount ▶	24z	
25	Total other adjustments. Add lines 24a through 24z	25	
26	Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 10, or Form 1040-NR, line 10a	26	



Taxable Refunds, Credits, Offsets of State and Local Income Taxes

(Schedule 1 - Line 1)

Taxable refunds, credits, or offsets of state and local income taxes

- For taxpayers who received a state or local income tax refund
- Taxpayers who itemized deductions in the previous year and received a tax benefit from deducting state or local income taxes may have to report part or all of their refund as income.
- Generally taxpayers receive [Form 1099-G](#) that reports their state and local tax refund

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0120		2021 Form 1099-G	Certain Government Payments	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Unemployment compensation \$				Copy 1 For State Tax Department
		2 State or local income tax refunds, credits, or offsets \$	3 Box 2 amount is for tax year			
PAYER'S TIN	RECIPIENT'S TIN	4 Federal income tax withheld \$				
RECIPIENT'S name		5 RTAA payments \$	6 Taxable grants \$			
Street address (including apt. no.)		7 Agriculture payments \$	8 Check if box 2 is trade or business income <input type="checkbox"/>			
City or town, state or province, country, and ZIP or foreign postal code		9 Market gain \$				
Account number (see instructions)		10a State	10b State identification no.	11 State income tax withheld \$		
				\$		

Form 1099-G

www.irs.gov/Form1099G

Department of the Treasury - Internal Revenue Service

Taxable Refunds

- In some cases, state income tax refunds are taxable income on the federal return.
- The refund becomes taxable if it produced a tax benefit in the previous year. The software will guide you through this process.
- When considering state tax refunds when a taxpayer itemized their deductions, the difference between the itemized deductions and the standard deduction must be considered to determine the benefit and therefore the portion of the refund that is taxable.

Taxable Refunds

- When a taxpayer received a state income tax refund and took state income tax as an itemized deduction in the prior year, the preparer needs a copy of the prior year return to determine how much is taxable.
- 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.



Alimony Received

(Schedule 1 – Line 2a)

Line 2a – Alimony received

- Under the new tax law...
 - Alimony (court-ordered provision for a spouse after separation or divorce) is no longer reportable/deductible for divorce decrees that are initiated or revised after December 31, 2018
 - If the divorce decree was initiated **before December 31, 2018**, the receiving spouse reports the amount received on line 2a of Schedule 1 and the paying spouse is allowed to deduct the amount paid on line 19a of Schedule 1
 - **Note: you'll need to input the date of the divorce decree on the 1040.**

Other gains or (losses)

(Schedule 1 - Line 4)

Line 4 – Other gains or (losses)

Preparing a return requiring Form 4797 is out of scope for VITA

- If a taxpayer sold or exchanged assets used in a trade or business, [Form 4797](#) needs to be completed
- The amount gained or lost from the sale or exchange, is reported on Form 4797 and reported on line 4 schedule 1



Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, Etc.

(Schedule 1 - Line 5)

Rental real estate, royalties, partnerships, S corporations, trusts, etc.

*Preparing a return with these types of income is OUT OF SCOPE for VITA**

- If a taxpayer receives money from renting out property, receiving royalties, income from partnerships, S corporations, or trust, it is required to be reported as income
- This income is reported on line 5 Schedule 1.

** rental income is **in scope** for VITA volunteers with a military certification, but only for military families or individuals renting their primary residence due to a permanent change of duty station **

Rental real estate, royalties, partnerships, S corporations, trusts, etc.

*Generally preparing a return with these types of income is **OUT OF SCOPE** for **VITA****

- Note: some of these estate, trusts, partnerships, and S-Corporation returns are **in scope** in certain situations – you’ll need to check the Scope of Service Chart in the [Publication 4012!](#)
- These items can be found on Schedule K-1:
 - Estates and Trusts: Form 1041
 - Partnership: Form 1065
 - S-Corp: Form 1120-S
- All of these types of returns will require the advanced level certification!



Farm Income or (Loss)

(Schedule 1 – Line 6)

Line 6 – Farm income or (loss)

Preparing a return with Farm income is OUT OF SCOPE for VITA

- Farm income is strictly for income produced from a farm
- This amount is reported on line 6 of schedule 1



Unemployment Compensation

(Schedule 1 - Line 7)

Unemployment compensation

- 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.)
- Taxpayers should receive a [Form 1099-G](#)
- Box 1 shows the total unemployment compensation paid to the taxpayer
- Enter any state or federal income tax withholding

VOID 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 <div style="font-size: 2em; font-weight: bold; text-align: center;">2021</div> Form 1099-G	Certain Government Payments
PAYER'S TIN RECIPIENT'S TIN		2 State or local income tax refunds, credits, or offsets \$ _____	3 Box 2 amount is for tax year _____	
RECIPIENT'S name		5 RTAA payments \$ _____	4 Federal income tax withheld \$ _____	
Street address (including apt. no.)		7 Agriculture payments \$ _____	6 Taxable grants \$ _____	
City or town, state or province, country, and ZIP or foreign postal code		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 \$ _____ \$ _____	

Form **1099-G** www.irs.gov/Form1099G Department of the Treasury - Internal Revenue Service



Other Income

(Schedule 1 – Line 8)

Other Income

- Income the taxpayer received in the year that does not have a place elsewhere on their tax return
- Individuals who have received a 1099-MISC with **income in Box 3** should report this as **Other Income on Line 8** of Form 1040, Schedule 1.

7	Unemployment compensation										7	
8	Other income:											

- Line 8 may also include income that is not included in 1099-MISC, such as:
 - Nonbusiness debt cancellation from Form 1099-C. ***This requires an Advance Certification***
 - Coverdell Education Savings Account or 529 distributions from Form 1099-Q
 - Gambling winnings from Form W-2G

See the next module for more information about other income and Form 1099-MISC.

Re-Cap

In addition to income reported directly on Form 1040, several types of income are reported on the following lines on Schedule 1: Part 1: Additional Income

- **Basic Level Certification**

- Line 1 - Taxable refunds, credits, or offsets of state and local income taxes
- Line 2a – Alimony Line 6 - Additional income
- Line 7 – Unemployment compensation
- Line 8 – other income (gambling, prizes and awards, etc.)

- **Advanced Level Certification**

- Line 3 - Business income or (loss)

- **Out of Scope for VITA**

- Line 4 – Other gain or (loss) Form 4797
- Line 5 - Rental real estate, royalties, partnerships, S corporations, trusts, etc.*
- Line 6 – Farm income

Knowledge Check

Additional Resources:

- [Publication 4012](#)
 - Scope of Service Chart
- [Schedule 1](#)

Up Next...

Module 3C: Miscellaneous Income



Module 3C: MISCELLANEOUS INCOME

By the end of this module you will...

- Understand what Miscellaneous Income is
- Understand Form 1099-MISC
- Understand where to report Miscellaneous Income
- Understand how Miscellaneous Income affects the tax return

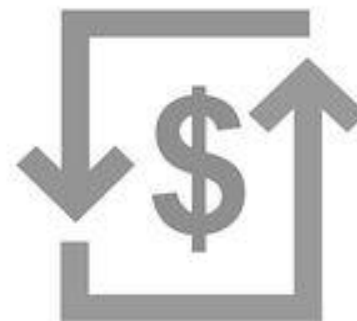
Business Income

(Schedule 1 – Line 3)

Business income

Preparing a return with business income requires Advanced level certification

- If the taxpayer operated a business or practiced a profession as a sole proprietor, income and expenses should be reported on [Schedule C](#)
- Business income may be reported on the following forms:
 - [Form 1099-NEC](#), nonemployee compensation
 - [Forms 1099-K](#), Merchant Card and Third Party Payments
 - [Form W-2](#), Wage and Tax statement with statutory employee (checked in box 13)
 - Taxpayer's books and records





Miscellaneous Income

What is considered Miscellaneous Income?

- While most people are aware they must include wages, salaries, interest, dividends, tips and commissions as income on their tax returns, many don't realize that they must also report most other income, such as:
 - cash earned from side jobs,
 - barter exchanges of goods or services,
 - awards, prizes, contest winnings and
 - gambling proceeds.
- A 1099-MISC will be issued if the taxpayer has \$600 or more of taxable Miscellaneous Income per payer. This 1099-MISC will also be sent to the IRS.
- Some examples include:
 - Self-employment income
 - Prizes and awards
 - Hobby income
 - Rental income



Understanding Form 1099-MISC

Miscellaneous Income: Form 1099-MISC

Miscellaneous Income is reported to the taxpayer on Form 1099-MISC

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	OMB No. 1545-0115	Miscellaneous Information
		\$ _____	Form 1099-MISC (Rev. January 2022)	
		2 Royalties	For calendar year 20 ____	
		\$ _____		
		3 Other income	4 Federal income tax withheld	
PAYER'S TIN RECIPIENT'S TIN		\$ _____	\$ _____	Copy 1 For State Tax Department
		5 Fishing boat proceeds	6 Medical and health care payments	
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		\$ _____	\$ _____	
		7 Payer made direct sales totaling \$5,000 or more of consumer products to 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 Fish purchased for resale	12 Section 409A deferrals	
		\$ _____	\$ _____	
		13 FATCA filing requirement <input type="checkbox"/>	14 Excess golden parachute payments	
Account number (see instructions)		\$ _____	\$ _____	
		15 Nonqualified deferred compensation	16 State tax withheld	
		\$ _____	17 State/Payer's state no.	18 State income
		\$ _____	\$ _____	\$ _____

Form **1099-MISC** (Rev. 1-2022)

www.irs.gov/Form1099MISC

Department of the Treasury - Internal Revenue Service

Understanding Form 1099-MISC

- **Box 1:** Includes any rental income the taxpayer may have received
 - **Rents are reported on Schedule E, which VITA only prepares at the Military Certification Level**
- **Box 2:** Includes any royalty income the taxpayer may have received
 - Example: John receives royalties from a song he wrote that is used in several commercials, so is receiving royalty income
 - **Preparing returns with Royalty income requires an Advanced Certification**
- **Box 3:** All other income, which includes income not listed elsewhere on a 1099-MISC
 - Example: Amber received a \$3,000 cash prize from her local grocery store from a contest she entered. Amber chose to use this prize to get ahead on her bills. This will be reported as other income.

A hand is shown holding a Form 1099-MISC document. The document is a standard IRS form with various boxes for reporting different types of income. The text on the form is small and difficult to read, but the overall structure is visible.

Understanding Form 1099-MISC

- **Box 4:** Includes any **income tax withholding**
 - **Example:** Brian received a payment in which the payer withheld federal income tax. Brian would receive this 1099-MISC regardless of how much the payment was
- **Box 5 (fishing boat proceeds) and Box 6 (medical and health care payments) are out of scope for VITA**
- **Form 1099-NEC (was Box 7):** Includes **nonemployee compensation**
 - **Example:** Randy does contract work by fixing an air conditioner for a local business and is not classified as an employee of that business. Randy's compensation is considered nonemployee compensation
 - *This income is considered self-employment income in almost all cases. All returns with self-employment income require an Advanced Certification*



A hand is shown holding a Form 1099-MISC document. The form is a standard IRS document with multiple boxes for reporting various types of income and tax withholdings. The text on the form is small and difficult to read, but the layout is typical of a 1099-MISC form.

Understanding Form 1099-MISC



- **Boxes 7 through 14 (various unusual kinds of income):** Out of scope for VITA
- **Box 16:** Includes any **state tax withheld**
- **Box 17:** The **state abbreviation** followed by the **State Tax Identification Number** of the payer
- **Box 18:** Includes the amount of the **state payment**
- **Boxes 16, 17, and 18** contain information that does not need to be filed with the IRS, but this information does need to be filed on the taxpayer's state income tax return if required by their state



Where to Report 1099-MISC Income

Where to report income from 1099-MISC

- Income in box 7 of Form 1099-MISC is reported as self-employment income on Schedule C, and Schedule SE

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Business (Sole Proprietorship)

▶ Go to www.irs.gov/ScheduleC for instructions and the latest information.

▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships must generally file Form 1065.

OMB No. 1545-0074

2021
Attachment
Sequence No. **09**

[Schedule C](#)

SCHEDULE SE (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

▶ Go to www.irs.gov/ScheduleSE for instructions and the latest information.

▶ Attach to Form 1040, 1040-SR, or 1040-NR.

OMB No. 1545-0074

2021
Attachment
Sequence No. **17**

[Schedule SE](#)

- Earned income that is not reported on a W-2 is considered to be self-employment income
- Any tax returns that include self-employment income require an Advanced Certification**



Impact on the tax return

Impact on the tax return

Business Income

When a taxpayer has business income (generally income reported in Form 1099-K):

- The return requires that the preparer and reviewer be certified at the Advanced level.
- Requires preparation of Schedule C.
- The taxpayer can claim a wide variety of business expenses.
- Increases taxable income and, therefore, income tax.
- If net income is more than \$400, the taxpayer must pay self-employment tax (social security and Medicare).
- The taxpayer must file a Schedule 1 with the return.

Other Income

When a taxpayer has other income (generally reported in box 3 of Form 1099-MISC or Form W-2G):

- Increases taxable income and, therefore, income tax.
- If there is gambling income and the taxpayer is going to itemize deductions to claim gambling expenses, the return must be prepared by a volunteer with at least Advanced level certification.
- The taxpayer must file a Schedule 1 with the return.

Re-Cap

Miscellaneous Income is income reported on Form 1099-MISC.

- Income reported on Form 1099-NEC, nonemployee compensation, is considered business income.
 - Preparation of the return requires Advanced certification.
 - The taxpayer needs to file a Schedule 1, as well as a Schedule C with the return.
 - The taxpayer can claim business expenses from this income.
 - In addition to income tax, the taxpayer will need to pay self-employment tax.
- Income reported in box 3 is considered Other Income.
 - This income is reported on line 8 of Schedule 1.
 - The taxpayer cannot claim expenses related to this income.
 - This issue is Basic certification level.

Additional Notes

- Tip Income: (this is an Advanced topic)
 - If your client has tip income, they will need to file through the [Form 4137](#).
 - Complete the instructions and file the Form 4137 through the [Schedule 2](#)

SCHEDULE 2 (Form 1040)		Additional Taxes		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2021 Attachment Sequence No. 02
Name(s) shown on Form 1040, 1040-SR, or 1040-NR			Your social security number	
Part I Tax				
1	Alternative minimum tax. Attach Form 6251	1		
2	Excess advance premium tax credit repayment. Attach Form 8962	2		
3	Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17	3		
Part II Other Taxes				
4	Self-employment tax. Attach Schedule SE	4		
5	Social security and Medicare tax on unreported tip income. Attach Form 4137	5		
6	Uncollected social security and Medicare tax on wages. Attach Form 8919	6		
7	Total additional social security and Medicare tax. Add lines 5 and 6	7		

Knowledge Check

Additional Resources:

[Form 1099-MISC](#)

[Form 1099-NEC](#)

[Form 4137](#)

[Publication 4012](#)

Up Next...

Module 4: Adjustments to Income