



Module 3

INCOME

*Special thanks to: Darren Liddell and Brad Martin
for their contributions to this module.*



Objectives

By the end of this module you will...

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

Overview

Topics in this Module

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
- Capital Gain or Loss
- Recap

Schedule 1

- Additional Income
- Taxable Refunds
- Alimony Received
- Other gains or losses
- Rental Income
- Farm Income
- Unemployment Compensation
- Other Income
- Recap

Other Income

- Business Income
- Other Income
- Impact on the tax return
- Recap

Section 1

1040 & Income

Form 1040 - Income

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

Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)		
	b	Household employee wages not reported on Form(s) W-2		
	c	Tip income not reported on line 1a (see instructions)		
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		
	e	Taxable dependent care benefits from Form 2441, line 26		
	f	Employer-provided adoption benefits from Form 8839, line 31		
	g	Wages from Form 8919, line 6		
	h	Other earned income (see instructions). Enter type and amount: _____		
	i	Nontaxable combat pay election (see instructions)	1i	_____
	z	Add lines 1a through 1h		
Attach Sch. B if required.	2a	Tax-exempt interest	2a	_____
	3a	Qualified dividends	3a	_____
	c	Check if your child's dividends are included in 1 <input type="checkbox"/> Line 3a		
	4a	IRA distributions	4a	_____
	c	Check if (see instructions) 1 <input type="checkbox"/> Rollover		
	5a	Pensions and annuities	5a	_____
	c	Check if (see instructions) 1 <input type="checkbox"/> Rollover		
	6a	Social security benefits	6a	_____
	c	If you elect to use the lump-sum election method, check here (see instructions) <input type="checkbox"/>		
	d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here <input type="checkbox"/>		
7a	Capital gain or (loss). Attach Schedule D if required			
b	Check if: <input type="checkbox"/> Schedule D not required <input type="checkbox"/> Includes child's capital gain or (loss) _____			
8	Additional income from Schedule 1, line 10			
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income			

What is Income?

Gross Income

- Gross income is all income received in the form of money, goods, property, and services that is not exempt from tax. It includes income from sources outside the U.S. or from the sale of a primary residence, even if part or all of that income can be excluded. Gross income may include part of Social Security benefits received and certain scholarship and fellowship grants.
- Income that is taxable must be reported on a taxpayer's return and is subject to tax.
- Income that is nontaxable may have to be shown on a taxpayer's return but is exempt from tax.

Income

- Earned income is any income received for work, such as wages or business/self-employment income
- Unearned income is 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.
- 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-3, Volunteer Resource Guide.

This list is a quick reference and volunteers should refer to Publication 525, Taxable and Nontaxable Income, for more information. Don't rely on this list alone. Some of the income items on this chart are Out of Scope. Review the Scope of Service chart to identify Out of Scope items. Refer taxpayers with Out of Scope income to a professional tax preparer. Confirm that all income received by the taxpayer has been discussed and shown on the return, if required. To determine taxability at the state level, check with your state's department of revenue.

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)		
<ul style="list-style-type: none"> • Wages, salaries, bonuses, commissions • Alimony (for divorce before 2019, see How/Where to Enter Income, later) • Annuities • Awards • Back pay • Breach of contract payment • Business income/Self-employment income • Cash income • Compensation for personal services • Canceled debts¹ • Director's fees • Disability benefits (employer-funded) • Discounts • Dividends • Employee awards • Employee bonuses • Estate and trust income 	<ul style="list-style-type: none"> • Farm income • Fees • Gains from sale of property or securities • Gambling winnings • Hobby income • Grants to businesses, even disaster related, unless exempted by law • Interest • Interest on life insurance dividends • IRA distributions • Jury duty fees • Military pay (not exempt from taxation) • Military pension • Nonemployee compensation • Notary fees • Partnership, Estate and S-Corporation income (Schedule K-1s, Taxpayer's share) • Pensions • Prizes • Punitive damage award 	<ul style="list-style-type: none"> • Railroad retirement—Tier I (portion may be taxable) • Railroad retirement—Tier II • Recovery of prior year deduction² (medical, property taxes, etc.) • Refunds of State and local income tax (if reportable)² • Rents (gross rent)³ • Rewards • Royalties • Severance pay • Self-employment (gross income) • Social Security benefits (including SSDI) – portion may be taxable – (See Tab D, Income, Form SSA-1099/RRB-1099 Tier 1 Distributions) • Supplemental unemployment benefits • Taxable scholarships and grants • Tips and gratuities • Tribal per capita payments • Unemployment compensation

Wages, Salaries, Tips, etc.

Form 1040 - Income

22222		a Employee's social security number		OMB No. 1545-0029			
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	
						C o d e	
						13 Statutory employee Retirement plan Third-party sick pay	
						C o d e	
						14 Other	
						C o d e	
f Employee's address and ZIP code						12b	
						C o d e	
						12c	
						C o d e	
						12d	
						C o d e	
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					

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 with unreported tips!**
- Allocated tips - are amounts your employer assigned to employees in addition to the tips reported (**Form W-2, Box 8**)
- Scholarship and fellowship grants reported on a W-2(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 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.
- **Key what you see.** The taxpayer's address, social security number and/or ITIN must match the W-2.
- Verify that the amounts in Boxes 3-6 match what's on paper W2. The software makes automatic calculations that may need to be adjusted.

Wages, Salaries, Tips, etc.

*Where to look on the IRS VITA Intake Sheet, Form 13614-C:
Page 2, Questions 1 – 3, in Part III, Income*

Income: Answer the following questions on the left side of this page. Check only the boxes that apply to you and/or your spouse.

Received money from any of the following in 2025:

(To be completed by certified volunteer) Income to be included

<input type="checkbox"/> (B) Wages as a part-time or full-time employee How many jobs <input type="text"/>	<input type="checkbox"/> (B) W-2s # <input type="text"/>
<input type="checkbox"/> (B/A) Tips	<input type="checkbox"/> (B/A) Tips (Basic when reported on W2)
<input type="checkbox"/> (B/A) Retirement account, pension or annuity proceeds	<input type="checkbox"/> (B/A) 1099-R (Basic when taxable amount is reported) # <input type="text"/>
	<input type="checkbox"/> (A) Qualified Charitable Distribution From 1099-R \$ <input type="text"/>
<input type="checkbox"/> (B) Disability benefits (such as payments from insurance and worker's compensation)	<input type="checkbox"/> (B) Disability benefits on 1099-R or W-2 # <input type="text"/>
<input type="checkbox"/> (B) Social Security or Railroad Retirement Benefits	<input type="checkbox"/> (B) SSA-1099, RRB-1099 # <input type="text"/>
<input type="checkbox"/> (B) Unemployment benefits	<input type="checkbox"/> (B) 1099-G # <input type="text"/>
<input type="checkbox"/> (B) Refund of state or local income tax	<input type="checkbox"/> (B) Refund \$ <input type="text"/>

Additional notes

Tip Income (advanced topic):

- If your client has unreported tip income, the return will need to include Form 4137.
- Complete the instructions and file the Form 4137 through the Schedule 2

SCHEDULE 2 (Form 1040) <small>Department of the Treasury Internal Revenue Service</small>	Additional Taxes Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.	<small>OMB No. 1545-0074</small> <div style="font-size: 2em; font-weight: bold;">2025</div> <small>Attachment Sequence No. 02</small>
Name(s) shown on Form 1040, 1040-SR, or 1040-NR		Your social security number

Part I Tax		
1 Additions to tax:		
a Excess advance premium tax credit repayment. Attach Form 8962	1a	
b Repayment of new clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part II. Attach Form 8936 and Schedule A (Form 8936)	1b	
c Repayment of previously owned clean vehicle credit(s) transferred to a registered dealer from Schedule A (Form 8936), Part IV. Attach Form 8936 and Schedule A (Form 8936)	1c	
d Recapture of net EPE from Form 4255, line 2a, column (I)	1d	
e Excessive payments (EPs) on gross EPE from Form 4255. Check applicable box and enter amount. See instructions. <div style="display: flex; justify-content: space-between;"> <div> (i) <input type="checkbox"/> Line 1a (iii) <input type="checkbox"/> Line 1d </div> <div> (ii) <input type="checkbox"/> Line 1c (iv) <input type="checkbox"/> Line 2a </div> </div>	1e	
f 20% EP from Form 4255. Check applicable box and enter amount. See instructions. <div style="display: flex; justify-content: space-between;"> <div> (i) <input type="checkbox"/> Line 1a (iii) <input type="checkbox"/> Line 1d </div> <div> (ii) <input type="checkbox"/> Line 1c (iv) <input type="checkbox"/> Line 2a </div> </div>	1f	

New Income Topics 2025

- The One Big Beautiful Bill added two new impacts to income,
 - No Tax on Tips
 - No Tax on Overtime
- The following three slides cover the basics of these new topics
- For a detailed discussion of these new updates see Module 10, What's New for 2025.
 - Brad Martin has also developed a Supplemental Lesson on New Tax Law Provisions for 2025 with detailed examples and additional guidance. <https://is.gd/vitaob3>

No Tax on Tips

NEW for tax years 2025 - 2028, taxpayers may be able to deduct up to \$25,000 in qualified tips from their income for federal tax purposes.

ELIGIBILITY:

- Tip earners must have a valid Social Security Number. In the case of a joint return, the tip earner must have a valid SSN to claim the deduction.
- Filing status cannot be Married Filing Separately.
- Tips must be received for work in occupations listed by the IRS as regularly and customarily receiving tips on or before December 31, 2024.
- Tips must be reported on a W-2, 1099-NEC, 1099-K, 1099-MISC, or other specified statement furnished to the individual, or reported by the taxpayer on Form 4137.

AMOUNT:

- The maximum allowed deduction is \$25,000 for the year, and in the case of joint filers, this is per return, not per person.

PHASE OUT:

- The deduction begins to phase out for individuals with a MAGI over \$150,000, and joint filers with a MAGI above \$300,000.

No Tax on Tips

QUALIFIED TIPS:

- Includes: Cash, card-based tips, and tips received under a tip sharing arrangement.
- This could also include something that can immediately be exchanged for a fixed value, such as casino chips.
- Does not include items such as event tickets or other goods that cannot immediately be exchanged for a specific cash amount, including most digital assets.
- Must be voluntary, not subject to negotiation, and determined solely by the customer. So for instance, automatic service charges such as those placed on a restaurant bill for a large party are not considered qualified tips because they were not set by the customer and are required to be paid.

No Tax on Tips (con't)

- Tips received in a specified service trade or business (SSTB) are not eligible for the deduction.
 - SSTB definition: “any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees.”

NOTES:

- Taxpayers will generally need something from their employer or payer to claim the deduction.
- In TY2025, Forms W-2, 1099-MISC, 1099-NEC, and 1099-K will not be updated to include a separate accounting of qualified tips for 2025.
- Rules are slightly different for employees versus self-employed individuals (non-employees).
- These tips would still be counted when calculating self-employment taxes for self-employed individuals, as well as Social Security and Medicare taxes for employees.

No Tax on Overtime

NEW deduction for tax years 2025 through 2028: Individuals who receive “qualified overtime compensation” may deduct the pay that exceeds their regular rate of pay that is required by the Fair Labor Standards Act and reported on a W-2, 1099, or other specified statement furnished to the individual.

ELIGIBILITY:

- The taxpayer’s filing status cannot be Married Filing Separately.
- Taxpayers must include a Social Security Number on the return that is valid for employment as of the time the tax return is filed.

AMOUNT:

- The maximum deduction is \$12,500 (\$25,000 for joint filers).

AVAILABILITY:

- This deduction is available to taxpayers who itemize or who take the standard deduction.

No Tax on Overtime (con't)

PHASE OUT:

- The deduction phases out for taxpayers with MAGI above \$150,000 (\$300,000 for joint filers) at a rate of \$100 per \$1,000 above the threshold amount.

NOTE:

- **For tax year 2025 only**, the IRS has announced they will not penalize employers for not providing that information or filing information returns with the IRS containing those figures, but is encouraging them to provide that information in some format so that taxpayers can claim the deduction.
- Taxpayers will need **something** from their employer to demonstrate their overtime payments.

Other Line 1 Items

- **Household Employee (line 1b):** baby-sitting, housekeeping, etc. – any wages of this type not reported on Form W-2
- **Tip Income Not Reported (line 1c):** *see previous slide for more information*
- **Medicaid Waiver (line 1d):** Certain Medicaid waiver payments a taxpayer received for providing care for an eligible individual living in the taxpayer's home are not taxable and are excluded from gross income. Payments not reported on a W-2 that the taxpayer chooses to include in earned income are entered on line 1d. *Note: The same amount is entered on Schedule 1, line 8s, which is a negative amount, thereby subtracting it in the calculation of total income.*
 - **NOTE:** New for 2025, Medicaid waiver payments are eligible to be treated as non-taxable income and are included on the W2 box 12 with code II

Other Line 1 Items (con't)

- **Taxable Dependent Care Benefits (line 1e):** The portion of dependent care benefits paid by the employer that exceeded actual qualified expenses paid. The employer portion used to pay childcare can not be used in the childcare credit calculation. The total benefit provided is reported on Form W-2 in box 10.
- **Employer Provided Adoption Benefits (line 1f):** Taxable income adjustment for benefits paid by employer. The taxpayer may be able to exclude up to \$16,810 from your income and be able to claim a credit of up to \$16,810.
 - Note: The taxpayer can't claim both a credit and exclusion for the same expenses. The total benefit provided is reported on form W2 in box 12 with code T.
- **Wages from Form 8919 (line 1g):** Wages received as an employee that the employer did not withhold your share of Social Security and Medicare taxes.

Other Line 1 Items (con't)

- **Other Earned Income (line 1h):** Retirement income improperly deferred, and disability retirement income received before reaching the employer's full retirement age (amount reported on Form 1099-R with code 3 in box 7), and corrective distributions from a retirement plan shown on Form 1099-R.
- **Nontaxable Combat Pay (line 1i):** Qualified combat pay can be excluded from taxable income and still be used in the earned income tax credit calculation.

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. <div style="height: 100px; background-color: #f0f0f0;"></div>		Payer's RTN (optional) <div style="height: 30px; background-color: #f0f0f0;"></div>	OMB No. 1545-0112 Form 1099-INT (Rev. January 2024) For calendar year _____		Interest Income Copy 1 For State Tax Department
		1 Interest income \$ _____	2 Early withdrawal penalty \$ _____		
PAYER'S TIN <div style="height: 30px; background-color: #f0f0f0;"></div>	RECIPIENT'S TIN <div style="height: 30px; background-color: #f0f0f0;"></div>	3 Interest on U.S. Savings Bonds and Treasury obligations \$ _____			
RECIPIENT'S name <div style="height: 30px; background-color: #f0f0f0;"></div> Street address (including apt. no.) <div style="height: 30px; background-color: #f0f0f0;"></div> City or town, state or province, country, and ZIP or foreign postal code <div style="height: 30px; background-color: #f0f0f0;"></div>		4 Federal income tax withheld \$ _____	5 Investment expenses \$ _____		
		6 Foreign tax paid \$ _____	7 Foreign country or U.S. territory <div style="height: 30px; background-color: #f0f0f0;"></div>		
		8 Tax-exempt interest \$ _____	9 Specified private activity bond interest \$ _____		
		10 Market discount \$ _____	11 Bond premium \$ _____		
FATCA filing requirement <input type="checkbox"/>		12 Bond premium on Treasury obligations \$ _____	13 Bond premium on tax-exempt bond \$ _____		
Account number (see instructions) <div style="height: 30px; background-color: #f0f0f0;"></div>		14 Tax-exempt and tax credit bond CUSIP no. <div style="height: 30px; background-color: #f0f0f0;"></div>	15 State <div style="height: 30px; background-color: #f0f0f0;"></div>	16 State identification no. <div style="height: 30px; background-color: #f0f0f0;"></div>	17 State tax withheld \$ _____ <hr/> \$ _____

Form **1099-INT** (Rev. 1-2024)
www.irs.gov/Form1099INT
Department of the Treasury - Internal Revenue Service

Interest (Dividend) Income on Broker Statement

These numbers and letters correspond to the Box numbers on the related form, in this instance the 1099-DIV.

Form 1099-DIV *		2017 Dividends and Distributions		Copy B for Recipient (OMB No. 1545-0110)	
1a	Total Ordinary Dividends	291.87	6	Foreign Tax Paid.....	0.00
1b	Qualified Dividends	291.87	7	Foreign Country or U.S. Possession.....	0.00
2a	Total Capital Gain Distributions (Includes 2b - 2d).....	0.00	8	Cash Liquidation Distributions.....	0.00
2b	Unrecap. Sec 1250 Gain.....	0.00	9	Non-Cash Liquidation Distributions.....	0.00
2c	Section 1202 Gain.....	0.00	10	Exempt Interest Dividends	0.00
2d	Collectibles (28%) Gain.....	0.00	11	Specified Private Activity Bond Interest Dividends.....	0.00
3	Nondividend Distributions	0.00	12	State.....	0.00
4	Federal Income Tax Withheld	0.00	13	State Identification No.	0.00
5	Investment Expenses	0.00	14	State Tax Withheld.....	0.00

Form 1099-INT *		2017 Interest Income		Copy B for Recipient (OMB No. 1545-0112)	
1	Interest Income	0.07	10	Market Discount	0.00
2	Early Withdrawal Penalty	0.00	11	Bond Premium	0.00
3	Interest on U.S. Savings Bonds and Treas. Obligations	0.00	12	Bond Premium on U.S. Treasury Obligations	0.00
4	Federal Income Tax Withheld	0.00	13	Bond Premium on Tax-Exempt Bond	0.00
5	Investment Expenses	0.00	14	Tax-Exempt Bond CUSIP no.	0.00
6	Foreign Tax Paid	0.00	15	State	0.00
7	Foreign Country or U.S. Possession	0.00	16	State Identification No	0.00
8	Tax-Exempt Interest	0.00	17	State Tax Withheld	0.00
9	Specified Private Activity Bond Interest	0.00			

Example: statement and their associated forms (Form 1099-DIV & Form 1099-INT)

Taxable Interest

- Reported to taxpayer on Form **1099-INT, Box 1**, on a consolidated statement from a Broker or a note from a payer to taxpayer.
- 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.
- If a taxpayer received less than \$10 in interest, the financial institution may not issue Form 1099-INT. Even if the taxpayer did not receive the form, they must still report all taxable income, including any interest paid by the IRS.

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, with exceptions. Check Publication 4012 before entering to determine if return is in scope.

Taxable Interest & Tax-exempt Interest

Where to look on the IRS VITA Intake Sheet, Form 13614-C: Page 2, Question 8

Page 2

Income: Answer the following questions on the left side of this page. Check only the boxes that apply to you and/or your spouse.

Received money from any of the following in 2024:	(To be completed by certified volunteer) Income to be included	Notes/Comments
<input type="checkbox"/> (B) Wages as a part-time or full-time employee How many jobs _____	<input type="checkbox"/> (B) W-2s # _____	
<input type="checkbox"/> (B/A) Tips	<input type="checkbox"/> (B/A) Tips (Basic when reported on W2)	
<input type="checkbox"/> (B/A) Retirement account, pension or annuity proceeds	<input type="checkbox"/> (B/A) 1099-R (Basic when taxable amount is reported) # _____ <input type="checkbox"/> (A) Qualified Charitable Distribution From 1099-R \$ _____	
<input type="checkbox"/> (B) Disability benefits (such as payments from insurance and worker's compensation)	<input type="checkbox"/> (B) Disability benefits on 1099-R or W-2 # _____	
<input type="checkbox"/> (B) Social Security or Railroad Retirement Benefits	<input type="checkbox"/> (B) SSA-1099, RRB-1099 # _____	
<input type="checkbox"/> (B) Unemployment benefits	<input type="checkbox"/> (B) 1099-G # _____	
<input type="checkbox"/> (B) Refund of state or local income tax	<input type="checkbox"/> (B) Refund \$ _____ <input type="checkbox"/> (B) Itemized last year <input type="checkbox"/> Yes <input type="checkbox"/> No	
<input type="checkbox"/> (B) Interest or dividends (bank account, bonds, etc.)	<input type="checkbox"/> (B) 1099-INT # _____ <input type="checkbox"/> (B) 1099-DIV # _____	
<input type="checkbox"/> (A) Sale of stocks, bonds or real estate Did you report a loss on last year's return <input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> (A) 1099-B (include brokerage statement) # _____ <input type="checkbox"/> Capital loss carryover <input type="checkbox"/> Yes <input type="checkbox"/> No	
<input type="checkbox"/> (B) Alimony	<input type="checkbox"/> (B) Alimony \$ _____ Excluded from income <input type="checkbox"/> Yes <input type="checkbox"/> No	

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	
		1b Qualified dividends		(Rev. January 2024)	
		\$		For calendar year	
		2a Total capital gain distr.		2b Unrecap. Sec. 1250 gain	
		\$		\$	
PAYER'S TIN	RECIPIENT'S TIN	2c Section 1202 gain		2d Collectibles (28%) gain	
		\$		\$	
		2e Section 897 ordinary dividends		2f Section 897 capital gain	
		\$		\$	
RECIPIENT'S name		3 Nondividend distributions		4 Federal income tax withheld	
		\$		\$	
Street address (including apt. no.)		5 Section 199A dividends		6 Investment expenses	
		\$		\$	
City or town, state or province, country, and ZIP or foreign postal code		7 Foreign tax paid		8 Foreign country or U.S. possession	
		\$			
		9 Cash liquidation distributions		10 Noncash liquidation distributions	
		\$		\$	
		11 FATCA filing requirement		12 Exempt-interest dividends	
		<input type="checkbox"/>		\$	
Account number (see instructions)		13 Specified private activity bond interest dividends		\$	
				\$	
		14 State		15 State identification no.	
				16 State tax withheld	
				\$	
				\$	

Dividends and Distributions

**Copy 1
For State Tax
Department**

Form **1099-DIV** (Rev. 1-2024)

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
 - Also reported on a broker statement

Qualified Dividends

- Qualified Dividends are generally dividends from shares in domestic corporations and certain qualified foreign corporations which you have held for a specified minimum period of time, known as a holding period.
- Reported to taxpayer on Form **1099-DIV, Box 1b**
- Qualified Dividends are eligible for a lower tax rate than ordinary income
- Total Qualified Dividends are reported on Form 1040, Line 3a
 - Also reported on a broker statement

Capital Gain Distributions

- Capital Gain Distributions are the owner's portion of the capital gains that were realized when a mutual fund or real estate investment trusts (REIT) sold assets.
- 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 you automatically!**

Ordinary Dividends & Qualified Dividends

*Where to look on the IRS VITA Intake Sheet, Form 13614-C:
Page 2, Question 4, in Part III Income*

Page 2

Income: Answer the following questions on the left side of this page. Check only the boxes that apply to you and/or your spouse.

Received money from any of the following in 2024:	(To be completed by certified volunteer) Income to be included	Notes/Comments
<input type="checkbox"/> (B) Wages as a part-time or full-time employee How many jobs <input type="text"/>	<input type="checkbox"/> (B) W-2s # <input type="text"/>	
<input type="checkbox"/> (B/A) Tips	<input type="checkbox"/> (B/A) Tips (Basic when reported on W2)	
<input type="checkbox"/> (B/A) Retirement account, pension or annuity proceeds	<input type="checkbox"/> (B/A) 1099-R (Basic when taxable amount is reported) # <input type="text"/> <input type="checkbox"/> (A) Qualified Charitable Distribution From 1099-R \$ <input type="text"/>	
<input type="checkbox"/> (B) Disability benefits (such as payments from insurance and worker's compensation)	<input type="checkbox"/> (B) Disability benefits on 1099-R or W-2 # <input type="text"/>	
<input type="checkbox"/> (B) Social Security or Railroad Retirement Benefits	<input type="checkbox"/> (B) SSA-1099, RRB-1099 # <input type="text"/>	
<input type="checkbox"/> (B) Unemployment benefits	<input type="checkbox"/> (B) 1099-G # <input type="text"/>	
<input type="checkbox"/> (B) Refund of state or local income tax	<input type="checkbox"/> (B) Refund \$ <input type="text"/> <input type="checkbox"/> (B) Itemized last year <input type="checkbox"/> Yes <input type="checkbox"/> No	
<input type="checkbox"/> (B) Interest or dividends (bank account, bonds, etc.)	<input type="checkbox"/> (B) 1099-INT # <input type="text"/> <input type="checkbox"/> (B) 1099-DIV # <input type="text"/>	
<input type="checkbox"/> (A) Sale of stocks, bonds or real estate Did you report a loss on last year's return <input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> (A) 1099-B (include brokerage statement) # <input type="text"/> <input type="checkbox"/> Capital loss carryover <input type="checkbox"/> Yes <input type="checkbox"/> No	
<input type="checkbox"/> (B) Alimony	<input type="checkbox"/> (B) Alimony \$ <input type="text"/> Excluded from income <input type="checkbox"/> Yes <input type="checkbox"/> No	

IRAs, Pensions, and Annuities

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

IRAs, Annuities, and Pensions– Form 1099-R

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

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PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. <div style="height: 60px; background-color: #f0f0f0;"></div>			1 Gross distribution \$ _____		OMB No. 1545-0119 <div style="font-size: 2em; font-weight: bold;">2025</div> Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.				
			2a Taxable amount \$ _____								
			2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>								
PAYER'S TIN <div style="height: 20px; background-color: #f0f0f0;"></div>		RECIPIENT'S TIN <div style="height: 20px; background-color: #f0f0f0;"></div>		3 Capital gain (included in box 2a) \$ _____		4 Federal income tax withheld \$ _____		Copy 1 For State, City, or Local Tax Department			
RECIPIENT'S name <div style="height: 40px; background-color: #f0f0f0;"></div>				5 Employee contributions/ Designated Roth contributions or insurance premiums \$ _____		6 Net unrealized appreciation in employer's securities \$ _____					
				7 Distribution code(s) IRA/SEP/SIMPLE <input type="checkbox"/>		8 Other \$ _____ %					
Street address (including apt. no.) <div style="height: 30px; background-color: #f0f0f0;"></div>				9a Your percentage of total distribution %		9b Total employee contributions \$ _____					
										City or town, state or province, country, and ZIP or foreign postal code	
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) <div style="height: 20px; background-color: #f0f0f0;"></div>				13 Date of payment		17 Local tax withheld \$ _____		18 Name of locality		19 Local distribution \$ _____	
						16 State distribution \$ _____		18 Name of locality		19 Local distribution \$ _____	

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

Note: Taxpayers may also receive Form CSA-1099-R, CSF-1099-R or RRB-1099-R reporting retirement income.

IRAs, Annuities, and Pensions

- Distributions from an Individual Retirement Account, annuity, or pension, might be fully taxable or partially taxable. The distribution code from Line 7 defines the type of payment. Check page xvi and D-67 and D-68 of Publication 4012 for scope qualifications.
 - 2025 Update: A Code, “Y” as been added this year to specify Qualified charitable distribution (QCD)
- 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 5a

IRAs, Annuities, and Pensions (con't)

- 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 5b

*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-67 and D-68 for a full breakdown.*

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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 <div style="font-size: 2em; font-weight: bold;">2025</div> Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.			
			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 Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code				5 Employee contributions/ Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$			
				7 Distribution code(s) 3 IRA/SEP/SIMPLE <input type="checkbox"/>		8 Other \$ %			
10 Amount allocable to IRR within 5 years \$		11 1st year of desig. Roth contrib.		12 FATCA filing requirement <input type="checkbox"/>		9a Your percentage of total distribution %		9b Total employee contributions \$	
13 Date of payment		14 State tax withheld \$		15 State/Payer's state no.		16 State distribution \$			
Account number (see instructions)		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

Note: Qualified disability income reported on Form 1099-R with a Distribution Code 3 in Box 7, is reported as earned income wages on Form 1040 until the minimum retirement age is met.

IRAs, Annuities, and Pensions

*Where to look on the Intake Sheet:
Page 2, Retirement and Pension Income*

Income: Answer the following questions on the left side of this page. Check only the boxes that apply to you and/or your spouse.

Received money from any of the following in 2025:	(To be completed by certified volunteer) Income to be included
<input type="checkbox"/> (B) Wages as a part-time or full-time employee How many jobs <input type="text"/>	<input type="checkbox"/> (B) W-2s # <input type="text"/>
<input type="checkbox"/> (B/A) Tips	<input type="checkbox"/> (B/A) Tips (Basic when reported on W2)
<input type="checkbox"/> (B/A) Retirement account, pension or annuity proceeds	<input type="checkbox"/> (B/A) 1099-R (Basic when taxable amount is reported) # <input type="text"/> <input type="checkbox"/> (A) Qualified Charitable Distribution From 1099-R \$ <input type="text"/>
<input type="checkbox"/> (B) Disability benefits (such as payments from insurance and worker's compensation)	<input type="checkbox"/> (B) Disability benefits on 1099-R or W-2 # <input type="text"/>
<input type="checkbox"/> (B) Social Security or Railroad Retirement Benefits	<input type="checkbox"/> (B) SSA-1099, RRB-1099 # <input type="text"/>
<input type="checkbox"/> (B) Unemployment benefits	<input type="checkbox"/> (B) 1099-G # <input type="text"/>
<input type="checkbox"/> (B) Refund of state or local income tax	<input type="checkbox"/> (B) Refund \$ <input type="text"/> <input type="checkbox"/> (B) Itemized last year <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> (B) Interest or dividends (bank account, bonds, etc.)	<input type="checkbox"/> (B) 1099-INT # <input type="text"/> <input type="checkbox"/> (B) 1099-DIV # <input type="text"/>
<input type="checkbox"/> (A) Sale of stocks, bonds or real estate Did you report a loss on last year's return <input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> (A) 1099-B (include brokerage statement) # <input type="text"/> <input type="checkbox"/> Capital loss carryover <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> (B) Alimony	<input type="checkbox"/> (B) Alimony \$ <input type="text"/> Excluded from income <input type="checkbox"/> Yes <input type="checkbox"/> No

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-1042S – SOCIAL SECURITY BENEFIT STATEMENT

2025 • THIS FORM IS FOR USE IN FILING A UNITED STATES FEDERAL INCOME TAX RETURN. • DO NOT RETURN IT TO SOCIAL SECURITY. • READ THE INFORMATION ON THE REVERSE.		
Box 1. Name		Box 2. Beneficiary's Social Security Number
Box 3. Benefits Paid in 2025	Box 4. Benefits Repaid to SSA in 2025	Box 5. Net Benefits for 2025 (Box 3 minus Box 4)
DESCRIPTION OF AMOUNT IN BOX 3		DESCRIPTION OF AMOUNT IN BOX 4
		Box 10. Address
Box 6. Rate of Tax		Box 11. Claim Number (Use this number if you need to contact SSA.)
Box 7. Amount of Tax Withheld		
Box 8. Amount of Tax Refunded		
Box 9. Net Tax Withheld During 2025 (Box 7 minus Box 8)		

Form SSA-1042S-SM (1-2025)

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, and any Medicare withheld premiums shown in the Description box.
- Add any information on Medicare for the Schedule A.
- 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 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.

Social Security Benefits - What's Taxable?

- The calculation is rather complex and is different depending on the filing status. To see how it works, go to the worksheet on page 32 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

Lump Sum Payments

- If Box 3 of SSA-1099 shows broken down amounts for prior years, the taxpayer received a lump-sum benefit payment
- There are two ways to figure out taxable portion of 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 Benefits

Where to look on the Intake Sheet: Page 2, Social Security Income



Income: Answer the following questions on the left side of this page. Check only the boxes that apply to you and/or your spouse.

Received money from any of the following in 2025:	(To be completed by certified volunteer) Income to be included
<input type="checkbox"/> (B) Wages as a part-time or full-time employee How many jobs <input type="text"/>	<input type="checkbox"/> (B) W-2s # <input type="text"/>
<input type="checkbox"/> (B/A) Tips	<input type="checkbox"/> (B/A) Tips (Basic when reported on W2)
<input type="checkbox"/> (B/A) Retirement account, pension or annuity proceeds	<input type="checkbox"/> (B/A) 1099-R (Basic when taxable amount is reported) # <input type="text"/> <input type="checkbox"/> (A) Qualified Charitable Distribution From 1099-R \$ <input type="text"/>
<input type="checkbox"/> (B) Disability benefits (such as payments from insurance and worker's compensation)	<input type="checkbox"/> (B) Disability benefits on 1099-R or W-2 # <input type="text"/>
<input type="checkbox"/> (B) Social Security or Railroad Retirement Benefits	<input type="checkbox"/> (B) SSA-1099, RRB-1099 # <input type="text"/>
<input type="checkbox"/> (B) Unemployment benefits	<input type="checkbox"/> (B) 1099-G # <input type="text"/>
<input type="checkbox"/> (B) Refund of state or local income tax	<input type="checkbox"/> (B) Refund \$ <input type="text"/> <input type="checkbox"/> (B) Itemized last year <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> (B) Interest or dividends (bank account, bonds, etc.)	<input type="checkbox"/> (B) 1099-INT # <input type="text"/> <input type="checkbox"/> (B) 1099-DIV # <input type="text"/>
<input type="checkbox"/> (A) Sale of stocks, bonds or real estate Did you report a loss on last year's return <input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> (A) 1099-B (include brokerage statement) # <input type="text"/> <input type="checkbox"/> Capital loss carryover <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/> (B) Alimony	<input type="checkbox"/> (B) Alimony \$ <input type="text"/> Excluded from income <input type="checkbox"/> Yes <input type="checkbox"/> No

Capital Gain or (Loss)

Form 1040 – Line 7

Capital Gains (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.
- 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 on Form 1040, line 7.
- Transactions involving digital assets (virtual currency) such as sale, exchange or transfer are out of scope.

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!
 - Check with the taxpayer if they have carryovers from last year – if they are not sure, you will need last year's tax return. Carryovers **must be reported** every year, or they are lost.
 - Print out the Capital Loss Carryover Worksheet in Schedule D for the taxpayer's records next year.

Recap

Recap

1040 and Income

- Form 1040 Income:
- Basic Level Certification
 - Line 1a – wages, salary, tips
 - Form W-2
 - Line 2 – taxable interest and tax exempt interest
 - Form 1099-INT
 - Line 3 – ordinary dividends and qualified dividends
 - Form 1099-DIV
 - Line 4 – IRAs, annuities, and pensions
 - Line 5 – Annuities and Pensions
 - Form 1099-R
 - Line 6 – Social Security benefits
 - Form SSA-1099
- Advanced Level Certification
 - Line 1c – tips
 - Form W-2
 - Line 7 – Capital Gain or (Loss)
 - TIP: record Capital Loss Carryover in a Flag in TaxSlayer for reference in future years.

Additional Resources

- [Publication 4012: Tab D](#)
- [Form 1040](#)
- [Schedule D](#)
- [Publication 4491](#)
- [Supplemental OB3 Lesson by Brad Martin](#)

Section 2

Schedule 1

Objectives

By the end of this section you will...

- Understand the different income sources 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)
 - Gambling
 - Cancellation of Debt
 - Jury Duty pay
 - Unemployment compensation
 - Other income
- Some of these income items are out of scope, so please reference Publication 4012 p.vi.
- The total of all additional income reported on Schedule 1, is transferred to Line 8 on Form 1040

Form 1040, line 8

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 31	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions). Enter type and amount: _____	1h	
i	Nontaxable combat pay election (see instructions)	1i	
z	Add lines 1a through 1h	1z	
2a	Tax-exempt interest	2a	
3a	Qualified dividends	3a	
c	Check if your child's dividends are included in 1 <input type="checkbox"/> Line 3a 2 <input type="checkbox"/> Line 3b		
4a	IRA distributions	4a	
c	Check if (see instructions) 1 <input type="checkbox"/> Rollover 2 <input type="checkbox"/> QCD 3 <input type="checkbox"/>		
5a	Pensions and annuities	5a	
c	Check if (see instructions) 1 <input type="checkbox"/> Rollover 2 <input type="checkbox"/> PSO 3 <input type="checkbox"/>		
6a	Social security benefits	6a	
c	If you elect to use the lump-sum election method, check here (see instructions) <input type="checkbox"/>		
d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here <input type="checkbox"/>		
7a	Capital gain or (loss). Attach Schedule D if required	7a	
b	Check if: <input type="checkbox"/> Schedule D not required <input type="checkbox"/> Includes child's capital gain or (loss)		
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income	9	
10	Adjustments to income from Schedule 1, line 26	10	
11a	Subtract line 10 from line 9. This is your adjusted gross income	11a	

Schedule 1

SCHEDULE 1
(Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

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

OMB No. 1545-0074

2025

Attachment
Sequence No. 01

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

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). Check if any from Form(s): ☐ 4797 ☐ 4684

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. If you repaid a 2025 overpayment (see instructions), check here ☐ and enter amount repaid:

7

8

Other income:

a

Net operating loss

8a

b

Gambling

8b

c

Cancellation of debt

8c

d

Foreign earned income exclusion from Form 2555

8d

e

Income from Form 8853

8e

f

Income from Form 8889

8f

g

Alaska Permanent Fund dividends

8g

h

Jury duty pay

8h

i

Prizes and awards

8i

j

Activity not engaged in for profit income

8j

k

Stock options

8k

l

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

8l

m

Olympic and Paralympic medals and USOC prize money (see instructions)

8m

n

Section 951(a) inclusion (see instructions)

8n

o

Section 951A(a) inclusion (see instructions)

8o

p

Section 461(l) excess business loss adjustment

8p

q

Taxable distributions from an ABLA account (see instructions)

8q

r

Scholarship and fellowship grants not reported on Form W-2

8r

s

Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d

8s

t

Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan

8t

u

Wages earned while incarcerated

8u

v

Digital assets received as ordinary income not reported elsewhere. See instructions

8v

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. This is your additional income. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8

10



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

- 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.
- Generally taxpayers receive Form 1099-G that reports their state and local tax refund

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.

Alimony Received

Schedule 1 – Line 2a

Line 2a - Alimony Received

- 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
 - Only the maintenance/alimony as ordered by the court is reportable – child support is not reportable!
- If the divorce decree was executed **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, Schedule 1.**

Business Income

Schedule 1 – Line 3

Business Income

Preparing a return with business income requires Advanced 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
 - This also includes cash from side jobs

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 on Schedule 1, line 4

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

Schedule 1 - Line 5

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

Generally, 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.
- Royalty Income without expenses is reported on Schedule E and is in scope if there are no other associated expenses.

** 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. (con't)

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
- 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.

Farm Income or Loss

Schedule 1 – Line 6

Line 6 – Farm income or (loss)

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

- Farm income is strictly for income produced from a farm
- Farm income is reported on Schedule F or Form 4835
- Schedule F transfers to Line 6 Schedule 1,
- Form 4835 transfers to Schedule E which then transfers to line 5 Schedule 1

Unemployment Compensation

Schedule 1 - Line 7

Unemployment Compensation

- In tax years 2020, 2021, & 2022, there are special rules food ACA when any unemployment compensation is received. Those exceptions have mostly expired and unemployment is considered income for ACA plans since then.
- Contact your state unemployment office if what is on the form is incorrect. The client is still responsible to report the correct amounts.

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. <div style="background-color: #e0e0ff; height: 40px; width: 100%;"></div>		1 Unemployment compensation \$ <div style="background-color: #e0e0ff; width: 100px; height: 20px;"></div>	OMB No. 1545-0120 Form 1099-G (Rev. March 2024) For calendar year <div style="background-color: #e0e0ff; width: 40px; height: 20px;"></div>	Certain Government Payments Copy 1 For State Tax Department
<div style="display: flex;"> <div style="width: 25%;">PAYER'S TIN</div> <div style="width: 25%;">RECIPIENT'S TIN</div> </div>		2 State or local income tax refunds, credits, or offsets \$ <div style="background-color: #e0e0ff; width: 100px; height: 20px;"></div>	3 Box 2 amount is for tax year \$ <div style="background-color: #e0e0ff; width: 100px; height: 20px;"></div>	
RECIPIENT'S name <div style="background-color: #e0e0ff; height: 20px; width: 100%;"></div>		4 Federal income tax withheld \$ <div style="background-color: #e0e0ff; width: 100px; height: 20px;"></div>	5 RTAA payments \$ <div style="background-color: #e0e0ff; width: 100px; height: 20px;"></div>	
Street address (including apt. no.) <div style="background-color: #e0e0ff; height: 20px; width: 100%;"></div>		6 Taxable grants \$ <div style="background-color: #e0e0ff; width: 100px; height: 20px;"></div>		
City or town, state or province, country, and ZIP or foreign postal code <div style="background-color: #e0e0ff; height: 20px; width: 100%;"></div>		7 Agriculture payments \$ <div style="background-color: #e0e0ff; width: 100px; height: 20px;"></div>		
Account number (see instructions) <div style="background-color: #e0e0ff; height: 20px; width: 100%;"></div>		8 Check if box 2 is trade or business income <input type="checkbox"/>	9 Market gain \$ <div style="background-color: #e0e0ff; width: 100px; height: 20px;"></div>	10a State <div style="background-color: #e0e0ff; height: 20px; width: 100%;"></div>
City or town, state or province, country, and ZIP or foreign postal code <div style="background-color: #e0e0ff; height: 20px; width: 100%;"></div>		10b State identification no. <div style="background-color: #e0e0ff; height: 20px; width: 100%;"></div>	11 State income tax withheld \$ <div style="background-color: #e0e0ff; width: 100px; height: 20px;"></div>	

Form **1099-G** (Rev. 3-2024) www.irs.gov/Form1099G Department of the Treasury - Internal Revenue Service

Other Income

Schedule 1 – Line 8a-z

A Note on Other Income

There are many items on the 2025 Schedule 1, line 8 so keep in mind these items as you prepare returns!

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

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

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

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). Check if any from Form(s): <input type="checkbox"/> 4797 <input type="checkbox"/> 4684	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. If you repaid a 2025 overpayment (see instructions), check here <input type="checkbox"/> and enter amount repaid:	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	
i	Prizes and awards	8i	
j	Activity not engaged in for profit income	8j	

Key Lines on Schedule 1, Line 8

- **Gambling Income (line 8b):** Gambling winnings include lotteries and raffles. These winnings are reported to the taxpayer via the Form W-2G.
- **Cancellation of Debt (line 8c):** this is only in scope for nonbusiness credit card debt cancellation, discharge of qualified principal residence indebtedness, and discharge of certain student loan debt in 2021 through 2025.
 - **Check your Publication 4012 for more information – all the above topics require Advanced level certification!**
- **Jury Duty Pay (line 8h):** this is the jury duty pay that the taxpayer gave to their employer if the employer covered the taxpayer's salary during their jury duty service.

Other Income

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

7a	Capital gain or (loss). Attach Schedule D if required	7a	
b	Check if: <input type="checkbox"/> Schedule D not required <input type="checkbox"/> Includes child's capital gain or (loss) _____		
8	Additional income from Schedule 1, line 10	8	

- 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 Advanced 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.

Recap

Recap

Schedule 1

In addition to income reported directly on Form 1040, several types of income are reported on the following lines on Schedule 1, lines 1-7

- Basic Level Certification
 - Line 1 - Taxable refunds, credits, or offsets of state and local income taxes
 - Line 2a - Alimony
 - Line 7 - Unemployment compensation
- 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

Additional Resources

- Publication 4012
 - Scope of Service Chart
- Schedule 1
- Publication 4491

Section 3

Other Income

Schedule 1, Line 8

Objectives

By the end of this section you will...

- Understand what Other Income is
- Understand Form 1099-MISC, 1099-NEC, 1099-K
- Understand where to report Other Income
- Understand how Other Income affects the tax return

Other Income

What is considered Other 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 Form 1099-MISC will be issued if the taxpayer has \$600 or more from the pay. This 1099-MISC will also be sent to the IRS.
 - Income not reported on 1099-MISC because it is less than \$600 still needs to be reported on the tax return, even though there is no form for it.
- Some examples include:
 - Prizes and awards
 - Hobby income
 - Rental income

Miscellaneous Income: Form 1099-MISC

Miscellaneous Income may be reported to the taxpayer on Form 1099-MISC

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED				Miscellaneous Information Copy 1 For State Tax Department	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. <div></div>		1 Rents \$ <div></div>	OMB No. 1545-0115 Form 1099-MISC (Rev. April 2025) For calendar year <div></div>		
		2 Royalties \$ <div></div>			
		3 Other income \$ <div></div>	4 Federal income tax withheld \$ <div></div>		
PAYER'S TIN <div></div>	RECIPIENT'S TIN <div></div>	5 Fishing boat proceeds \$ <div></div>	6 Medical and health care payments \$ <div></div>		
RECIPIENT'S name <div></div> Street address (including apt. no.) <div></div> City or town, state or province, country, and ZIP or foreign postal code <div></div>		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 \$ <div></div>		
		9 Crop insurance proceeds \$ <div></div>	10 Gross proceeds paid to an attorney \$ <div></div>		
		11 Fish purchased for resale \$ <div></div>	12 Section 409A deferrals \$ <div></div>		
<div></div>		13 FATCA filing requirement <input type="checkbox"/>	14 <div></div>	15 Nonqualified deferred compensation \$ <div></div>	
Account number (see instructions) <div></div>		16 State tax withheld \$ <div></div>	17 State/Payer's state no. <div></div>	18 State income \$ <div></div>	
		\$ <div></div>		\$ <div></div>	

Form **1099-MISC** (Rev. 4-2025)

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.

Understanding Form 1099-MISC (con't)

- **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 6: Medical and Health Care Payments**
 - These are payments of \$600 or more made in the course of business or trade to physician, supplier, or any provider of medical or health care services. These services include charges for injections, drugs, dentures, etc.
- Both these topics require Advanced level certification!

Understanding Form 1099-MISC (con't)

- **Boxes 5 and 7 through 15 (various unusual kinds of income):** *Out of scope for VITA*
- **Box 16:** Includes any **state tax withheld** – this is reported on the **Schedule A** if the taxpayer is **itemizing deductions**.
- **Box 17:** The **state abbreviation** followed by the **State Tax Identification Number** of the payer
- **Box 18:** Includes the amount of the **state payment**

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 and 1099-NEC):

- 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 tax) and must file Schedule SE, Self-Employment.
- 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.

Recap

Recap

Other Income

Other Income is income generally reported on Form 1099-MISC.

- Income reported in box 3, 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.
- Scholarship Income is covered in Module 8!
- Visit this resource to learn more about OB3, view more detailed explanations and examples:
<https://is.gd/vitaob3>

Big thank you to Brad Martin of United Way of Southwest Alabama for creating this resource.

Additional Resources

- [Form 1099-MISC](#)
- [Form 1099-NEC](#)
- [Form 4137](#)
- [Publication 4012](#)
- [Publication 4491](#)

Thank you for completing the training!

End of Module

