



Other Income

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

2021
Attachment
Sequence No. **01**

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 () |

DRAFT AS OF JULY 21, 2021 DO NOT FILE



About Other Income

- Additional resources listed in L< “References” tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise

Objectives – Other Income

Determine:

- Other types of income and how to report them
- Determine the requirements for the cancellation of debt on nonbusiness credit card debt when preparing tax returns
- Determine when canceled credit card debt is included in gross income on Form 1040, Schedule 1
- How to properly report income earned from worldwide sources
- Who is eligible for the foreign earned income exclusion
- How to calculate the excludible amount using Form 2555, Foreign Earned Income
- Time Required: 30 minutes

Topics



- Other Income



- Nonbusiness Credit Card Debt



- Worldwide Income
- Foreign Earned Income Exclusion
- Period of Stay
- Qualifying Income
- Reporting Other Income

Key Terms

Definitions are always available in the L< online Glossary.

- Blocked Income
- Bona Fide Residence Test
- Coverdell ESA
- Foreign Earned Income Exclusion
- Foreign Tax Credit
- Period of Stay
- Physical Presence Test
- Medicaid Waiver Payments
- Regular Place of Abode
- Tax Home
- Worldwide Income

Other Income

What are some examples?

- Prizes and awards
- Gambling winnings (including lotteries and raffles)
- Cash for Keys
- Jury duty pay
- Alaska Permanent Fund dividends
- Nonbusiness credit card debt

Cancellation

Tip The Economic Impact Payment is not taxable and not includible in gross income. A Payment also will not affect income for purposes of determining eligibility for federal government assistance or benefit programs.

| Income Quick Reference Guide | |
|---|---|
| <p>This list is a quick reference and volunteers should refer to Publication 17 for more information. Don't rely on this list alone. Some of the income items on this chart are out of scope for VITA/TCE. 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.</p> | |
| <p>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)</p> | |
| <ul style="list-style-type: none"> Wages, salaries, bonuses, commissions Alimony Annuities Awards Back pay Breach of contract payment Business income/Self-employment income Cash income Compensation for personal services Debts forgiven¹ Director's fees Disability benefits (employer-funded) Discounts Dividends Employee awards Employee bonuses Estate and trust income Farm income Fees Gains from sale of property or securities Gambling winnings Hobby income Interest Interest on life insurance dividends IRA distributions Jury duty fees Military pay (not exempt from taxation) | <ul style="list-style-type: none"> Military pension Nonemployee compensation Notary fees Partnership, Estate and S-Corporation income (Schedule K-1s, Taxpayer's share) Pensions Prizes Punitive damage award 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)³ Rents (gross rent) Rewards Royalties Severance pay Self-employment (gross income) Social security benefits - portion may be taxable - (See Income tab, Railroad Retirement, Civil Service, and Social Security Benefits) Supplemental unemployment benefits Taxable scholarships and grants Tips and gratuities Tribal per capita payments Unemployment compensation |

Other Income

See Publication 4491 for details on these types of other income:

- Health Savings Account distributions
- Qualified Medicaid Waiver Payments
- Distributions from ABLE accounts
- Coverdell ESA and a 529 plan

Other examples of other income are:

- Gambling Winnings, Cash for Keys, Penal Income,

Cancellation of Debt – Nonbusiness Credit Card Debt



- If a taxpayer receives Form 1099-C for canceled credit card debt and was **solvent**, all the canceled debt will be included on Form 1040, Other Income line.
- Generally, taxpayers must include all canceled amounts (even if less than \$600) on the Other Income line of Form 1040
- Review the [Insolvency Determination Worksheet](#)

Insolvency Determination Worksheet

Determining insolvency is out of scope for the volunteer. This sample worksheet is for reference only.

| Assets (FMV) | | Liabilities | |
|-----------------------------|-----------|--|-----------|
| Homes | \$ | Mortgages | \$ |
| Cars | | Home equity loans | |
| Recreational vehicles, etc. | | Vehicle loans | |
| Bank accounts | | Personal signature loans | |
| IRAs, 401Ks, etc. | | Credit card debts | |
| Jewelry | | Past-due mortgage interest, real estate taxes, utilities, and child care costs | |
| Furniture | | Student loans | |
| Clothes | | Other liabilities | |
| Misc. | | Total Liabilities: | \$ |
| Other assets | | | |
| Total Assets: | \$ | | |

Total Assets minus Total Liabilities = \$
(Negative amount equals insolvency)
 (Positive amount equals solvency)

Worldwide Income



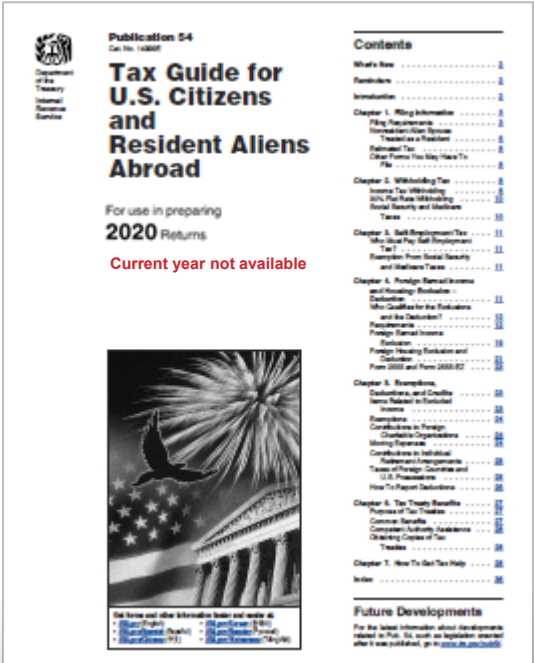
- For U.S. citizens and resident aliens, income earned outside the U.S. is subject to the same taxes and filing requirements as U.S. income.
- Amounts reported on a U.S. return must be converted to U.S. dollars. What exchange rate do you use?
 - Use the rate in effect when the income was received.
- The average annual exchange rate can be used if:
 - Foreign income was received evenly throughout the year, and
 - The foreign exchange rate was relatively stable during the year
- Monthly exchange rates can be used for foreign income earned evenly for one or more months, but not the whole year.

$$\frac{\text{Amount of foreign currency}}{\text{Exchange rate of foreign currency to one U.S. dollar}} = \text{Amount in U.S. dollars}$$



Foreign Earned Income Exclusion

- Allows qualified taxpayers to voluntarily exclude foreign earnings from taxable income – amount is indexed to inflation, updated yearly
 - Does not apply to members of Armed Forces or U.S. government employees
 - Taxpayers cannot claim the earned income credit or foreign tax credit if using this exclusion
 - The term “foreign country” does not include U.S. territories or possessions – see Chapter 4 of [Pub 54](#) for details
 - Claimed using [Form 2555](#)



Foreign Earned Income Exclusion

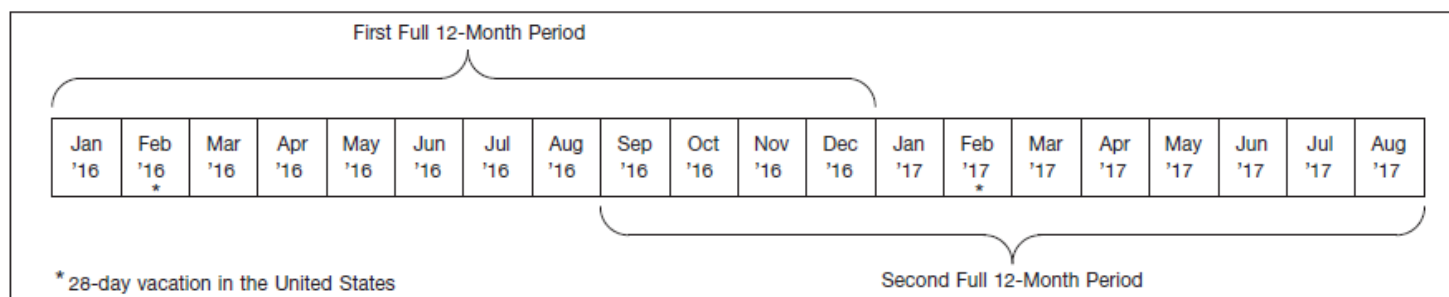


- To be eligible, the taxpayer must:
 - Demonstrate that his or her **tax home** is in a foreign country
 - Meet a period of stay requirement – either the bona fide residence test or the physical presence test
 - Have income that qualifies as foreign earned income
- Married couples – requirements must be met separately for each person
- Taxpayers whose “regular place of abode” is in the U.S. cannot be considered to have a foreign tax home and would not qualify for the exclusion – see [Pub 54](#) for details

Period of Stay



- What is required to meet the period of stay requirement?
 - Bona fide residence test – taxpayer must have set up permanent quarters in a foreign country for an entire, uninterrupted tax year.
 - Physical presence test – taxpayers must be physically present in a foreign country 330 full days in 12 consecutive months



Qualifying Income



- Must be earned income for services (other than military or U.S. government) performed in a foreign country
 - Salaries
 - Wages
 - Commissions
 - Professional fees
 - Self-employment income
- What types of income would *not* qualify?
 - Dividends, interest, capital gains, alimony, social security benefits, pensions, annuities

Reporting Other Income



- Reporting on Form 2555 using TaxSlayer
 - Link to Form 2555
 - The exclusion amount is calculated by TaxSlayer and entered as a negative number on Form 1040, Other Income line.

Form 1116 – Foreign Tax Credit (continued)

Foreign Country or U.S. possession
- Please Select -

Qualified Dividends/Capital Gains Taxed at 0% from Country
\$

Qualified Dividends/Capital Gains Taxed at 15% from Country
\$

Qualified Dividends/Capital Gains Taxed at 20% from Country
\$

Gross income from sources within the country of the specified type (Do not include income excluded by Form 2555,
Foreign Earned Income)
\$

Expenses Directly Allocable to Income

Select the country that imposed the tax.

Enter the gross income (not the tax) of this category type where indicated. Enter income from this category type only, not total income. Do not enter any income excluded by Form 2555.

Out of Scope for this Lesson:

- Distributions from an ABLE account in which the funds were not fully used for qualified disability expenses
- Distributions from Educational Savings Accounts in which the:
 - Funds were not used for qualified education expenses, or
 - Distribution was more than the amount of the qualified expenses
- Taxpayers who are insolvent and had debt canceled

Summary

- Other Income includes any taxable income for which there is not a specific line identified on Form 1040. This income is reported on Form 1040, Schedule 1.
- U.S. citizens and resident aliens are taxed on worldwide income, and must file a U.S. tax return even if all the income is from foreign sources, and even if they paid (or will pay) taxes to another country.
- Amounts received in foreign currency must be converted to U.S. dollars for reporting on the return. Use the exchange rate prevailing when the taxpayer receives the pay.
- If the taxpayer is eligible to exclude some or all of foreign earned income, complete Forms 2555. The excludible amount will be entered as a negative number on Schedule 1.