



Other Income

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		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.		2024 Attachment Sequence No. 01	
Name(s) shown on Form 1040, 1040-SR, or 1040-NR				Your social security number	
For 2024, 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). 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	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			



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

Income Quick Reference Guide

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.

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	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 1 (portion may be taxable)
Compensation for personal services	Railroad retirement—Tier 2
Debts forgiven ¹	Recovery of prior year deduction ² (medical, property taxes, etc.)
Director's fees	Refunds of State and local income tax (if reportable) ³
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 Income tab, 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)	



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

Additional 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 in [Pub 4491](#)

Insolvency Determination Worksheet			
Assets (FMV)		Liabilities	
Homes	\$120,000.00	Mortgages	\$180,000.00
Cars	\$15,000.00	Home equity loans	\$50,000.00
Recreational vehicles, etc.		Vehicle loans	\$18,000.00
Bank accounts	\$1,000.00	Personal signature loans	
IRAs, 401Ks, etc.	\$60,000.00	Credit card debts	\$3,000.00
Jewelry		Past-due mortgage interest, real estate taxes, utilities, and child care costs	
Furniture	\$2,000.00		
Clothes	\$1,550.00		
Misc.		Student loans	
Other assets		Other liabilities	
Total Assets:	\$199,550.00	Total Liabilities	\$251,000.00
Total Assets minus Total Liabilities = (\$51,450.00) Liabilities are more than assets (Negative amount equals insolvency) Positive amount equals solvency			

Worldwide Income



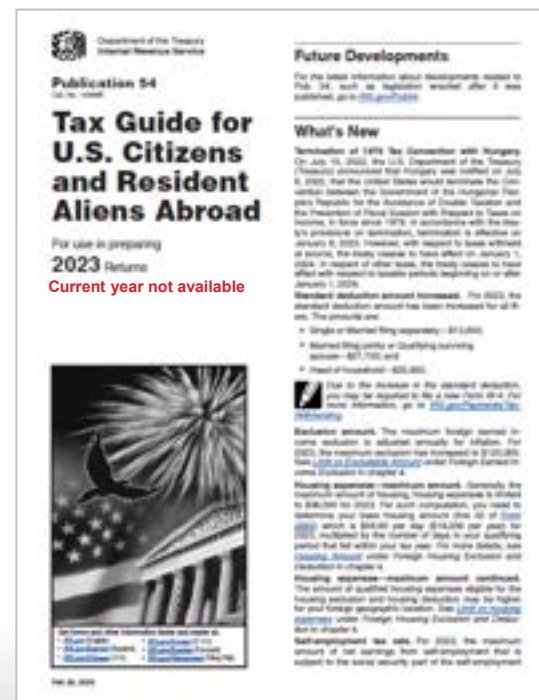
- For U.S. citizens and resident aliens, income earned outside the U.S. is subject to the same taxes and filing requirements as U.S. income.
- Amounts reported on a U.S. return must be converted to U.S. dollars. What exchange rate do you use?
 - Use the rate in effect when the income was received.
- 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

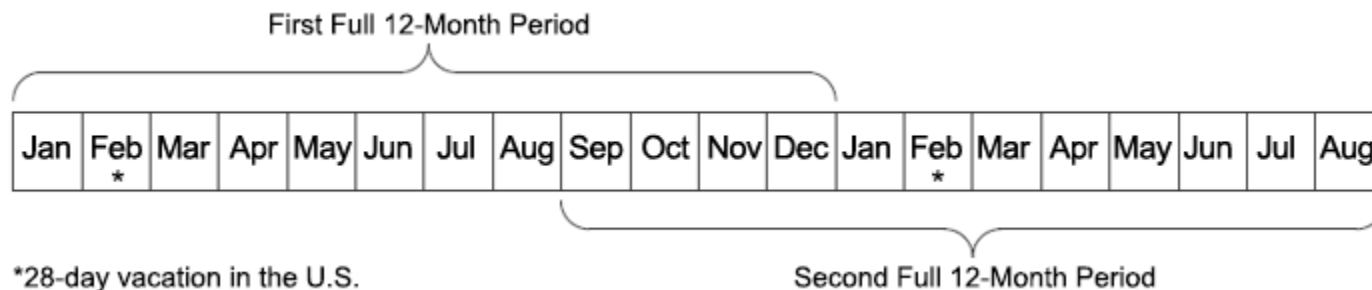


- To be eligible, the taxpayer must:
 - Demonstrate that his or her **tax home** is in a foreign country
 - Meet a period of stay requirement – either the bona fide residence test or the physical presence test
 - Have income that qualifies as foreign earned income
- Married couples – requirements must 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)

The screenshot shows the 'Foreign Country or U.S. possession' section of Form 1116. It includes a dropdown menu for selecting the country, followed by three input fields for 'Qualified Dividends/Capital Gains Taxed at 0% from Country', 'Qualified Dividends/Capital Gains Taxed at 15% from Country', and 'Qualified Dividends/Capital Gains Taxed at 20% from Country'. Below these is a section for 'Gross income from sources within the country of the specified type (Do not include income excluded by Form 2555)' with a sub-label 'Foreign-Earned Income' and an input field. At the bottom is a line for 'Expenses Directly Allocable to Income'. Two arrows point from text boxes to the form: one to the country dropdown and another to the 'Foreign-Earned Income' input field.

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.