# Lesson Plan

## Other Income

Time Required: 60 minutes

| Introduction | Objectives | Topics |
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| This lesson covers how to identify and report income sources that do not have their own line on Form 1040. It also addresses International certification topics such as the foreign earned income exclusion reported on Form 2555. | Determine:<br>• Other types of income and how to report them<br>• Determine the requirements for the cancellation of debt on nonbusiness credit card debt when preparing tax returns<br>• Determine when canceled credit card debt is included in gross income on Form 1040<br>• How to properly report income earned from worldwide sources<br>• Who is eligible for the foreign earned income exclusion<br>• How to calculate the excludible amount using Form 2555, Foreign Earned Income | <br>Other Income<br><br>Nonbusiness Credit Card Debt<br><br>Worldwide Income<br>Foreign Earned Income Exclusion<br>Period of Stay<br>Qualifying Income<br>Reporting Other Income |

## Key Terms

**Blocked income:** Blocked income is when a taxpayer cannot convert foreign currency to U.S. dollars due to local law or local government policy. Special tax rules allow taxpayers with blocked income to delay reporting part of their income.

**Bona Fide Residence Test:** To meet the bona fide residence test for the foreign earned income exclusion, taxpayers must show that they have set up permanent quarters in a foreign country for an entire, uninterrupted tax year.

**Coverdell ESA:** A Coverdell ESA is a trust or custodial account created or organized in the United States only for the purpose of paying the qualified education expenses of the designated beneficiary of the account.

**Foreign Earned Income Exclusion:** The foreign earned income exclusion allows eligible taxpayers to avoid paying federal income tax on their foreign earned income.

**Foreign Tax Credit:** U.S. tax credit used to offset any foreign income tax taxpayers have paid on qualified income that is also subject to U.S. federal income tax.

**Period of Stay:** Amount of time a taxpayer stays in a foreign country, which is one of the factors used to determine whether the taxpayer is eligible for the foreign earned income exclusion. To meet the period of stay requirement, the taxpayer must meet either the Bona Fide Residency test or the Physical Presence test.

**Physical Presence Test:** To meet the physical presence test for the foreign earned income exclusion, a taxpayer must be physically present in a foreign country 330 full days during a period of twelve consecutive months.

**Medicaid Waiver Payments:** Qualified payments by a state, political subdivision of a state, certified Medicaid provider under a Medicaid waiver program to an individual care provider for nonmedical support services provided under a plan of care to an individual (whether related or unrelated) living in the individual care provider's home.

**Regular Place of Abode:** One's home, habitation, domicile, or place of dwelling. For purposes of the foreign earned income tax exclusion, if a taxpayer works overseas for an indefinite period of time, and his or her regular place of abode is the U.S., the taxpayer cannot designate the foreign country as the tax home.

**Tax Home:** The country in which the taxpayer is permanently or indefinitely engaged to work as an employee or self-employed individual, regardless of where the taxpayer maintains his or her family home. For taxpayers who work abroad, but do not have a regular place of business because of the nature of the work, their tax home is the place where they regularly live.

**Worldwide Income:** U.S. citizens and U.S. resident aliens are required to report worldwide income on a U.S. tax return regardless of where they live and even if the income is taxed by the country in which it was earned. Filing requirements are the same as for U.S. citizens and U.S. resident aliens living in the United States and apply whether income is from within or outside the U.S.

# Teacher Tips

## Guidelines for Lesson

| Guideline | Instructor Notes | Presentation Aids |
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| Lesson background info | **Advise** students this lesson covers how to report "other income" that is not reported on a specific line of Form 1040. In addition, it covers the foreign income exclusion that is reported as a negative amount on Form 1040, Schedule 1.<br><br>**Review** the online demo of TaxSlayer on Other Income. | **TaxSlayer Demo:**<br>From the Practice Lab, select:<br>• TaxSlayer IRS training<br>• Click the appropriate demo |
| Provide details and engage the students | **Discuss** all tips and cautions in detail.<br><br>**Ask** students to read and/or role-play examples and sample interviews.<br><br>**Review** answers to each exercise; ask students how they arrived at their answers. | **Internet:**<br>Link & Learn Taxes (L&LT) Other Income |

## Topic-specific Tips

| Topic Name | Instructor Notes | Presentation Aids |
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| Introduction | **Review** lesson objectives.<br><br>**Discuss** this lesson is one of the nine lessons that cover income.<br><br>**Review** list of references.<br><br>**State** the presentation time. | **Visuals:**<br>Form 1040, Other Income line<br><br>Form 13614-C, Page 2<br><br>Form 2555<br><br>Pub 4012, Income tab |
| Other Income | **Review** L&LT topic Other Income.<br><br>**Direct** students to Pub 4012, Table A – Examples of Taxable Income.<br><br>**Prompt** students to cite examples of "other income."<br><br>**Direct** students to the TaxSlayer Other Income screen<br><br>**Remind** students that Jury Duty and Gambling Winnings are items frequently seen at volunteer sites.<br><br>**Show** YouTube video on Miscellaneous Income<br><br>**Show** Forms 1099-MISC and 1099-Q.<br><br>**Show** Certain Medicaid Waiver Payments link on irs.gov.<br><br>**Ask** students what are qualified Medicaid Waiver Payments? | **Visuals:**<br>Form 1040<br><br>Form 1099-MISC, boxes 3 and 7<br><br>Form 1099-Q, box 1<br><br>Pub 4012, Income tab, Table A – Examples of Taxable Income<br>**Internet:**<br>Tax Topics: Gambling Winnings and Losses<br><br>YouTube video: Miscellaneous Income<br><br>Tax Topics: Certain Medicaid Waiver Payments<br><br>**TaxSlayer Demo:**<br>TaxSlayer Screen - Other Income |
| Nonbusiness Credit Card Debt Cancellation | **Review** L&LT topic.<br><br>**Direct** students to Pub 4012, Tab D, Publication 4731 Nonbusiness Credit Card Debt Cancellation provides step-by-step guidance to determine if the cancellation of credit card debt is within scope.<br><br>**Point out** to students the cancellation of nonbusiness indebtedness or cancellation of debt (the amount in Form 1099-C is less than $600 provided in other | **Visuals:**<br>Form 1040<br><br>Form 1099-MISC, boxes 3<br><br>Form 1099-C<br><br>Pub 4012, Income tab:<br>• Nonbusiness Credit Card Debt Cancellation<br>• Insolvency Determination Worksheet |

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| | documentation) must be reported as ordinary income on Form 1040.<br><br>**Remind** students to use the insolvency determination worksheet to determine if the taxpayer was insolvent immediately before the cancellation of debt.<br><br>**Direct** students to the TaxSlayer Other Income screen | **TaxSlayer Demo:**<br>TaxSlayer Screen for entering cancellation of credit card debt |
| Worldwide Income | **Review** L&LT topic on Worldwide Income.<br><br>**Point out** that amounts on a U.S. return must be converted to U.S. dollars.<br><br>**Ask** students: What exchange rate do you use on the income?<br>**Answer**: Use the rate in effect when the income was received.<br><br>**Show** the formula for foreign currency conversion. | **Visuals:**<br>Form 1040<br><br>Pub 4012, Income tab<br><br>**Internet:**<br>FAQ: Exchange Rates |
| Foreign Earned Income Exclusion | **Review** L&LT topic Foreign Earned Income Exclusion.<br><br>**Point out** that volunteers should help taxpayers determine if taking the exclusion will benefit them.<br><br>**Point out** when considering foreign earned income exclusion, U.S. territories such as Puerto Rico and the Virgin Islands are not considered foreign countries.<br><br>**Point out** that the tax home is generally the country in which taxpayers maintain their place of business.<br><br>**Direct students** to Pub 54 for detailed information on determining the taxpayer's abode and tax home.<br><br>**Point out** for 2026, the maximum exclusion is $132,900 | **Visual:**<br>Form 1040 Instructions, Foreign Earned Income Tax Worksheet<br><br>Form 1040, Other Income<br><br>Form 2555<br><br>Pub 54, Chapter 4, Foreign earned income exclusion<br><br>Pub 4012, Income tab:<br>Foreign Earned Income Exclusion<br><br>**Internet:**<br>FAQs: Foreign Earned Income Exclusion<br><br>FAQs: U.S. Citizens Overseas<br><br>FAQ: Does a U.S. citizen who moved to Canada …pay both U.S. and Canadian taxes?<br><br>Tax Trail: Foreign Earned Income Exclusion |

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| Period of Stay | **Review** L&LT topic Period of Stay.<br><br>**Ask:** What is required to meet the period of stay requirement? See topic for answer. | **Visual:**<br>Pub 54, Chapter 4, Foreign earned income exclusion |
| Qualifying Income | **Review** L&LT topic on Qualifying Income.<br><br>**Ask:** What does and does not qualify as foreign earned income for the exclusion? | **Visuals:**<br>Pub 4012, Income tab, Table A – Examples of Taxable Income |
| Reporting Other Income | **Review** L&LT topic Reporting Other Income.<br><br>**Direct** students to TaxSlayer Entering Foreign Earned Income Exclusion information<br><br>**Point out** the exclusion amount will be calculated by TaxSlayer and entered as a negative number on Form 1040. | **Visuals:**<br>Form 1040<br><br>Form 2555<br><br>Pub 54, Chapter 4, Foreign earned income exclusion, sample Form 1040 and Form 2555 for James and Judith Adams<br><br>**TaxSlayer Demo:**<br>Entering Foreign Earned Income Exclusion information |
| Skills Workout | **Review** the Skills Workout exercises with the class. | **Visuals:**<br>L&LT Other Income: Click Certification Warm Up icon to review the Exercises |

## References

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| Form 1040 | Form 1040, Other Income |
| Form 13614-C | Form 13614-C, Intake/Interview & Quality Review Sheet, Page 2 |
| Pub 4012 | Pub 4012, Volunteer Resource Guide, Income tab<br>Table A – Examples of Taxable Income<br>Nonbusiness Credit Card Debt Cancellation<br>Insolvency Determination Worksheet<br>Foreign Earned Income Exclusion |
| Form 1040 Instructions | Form 1040 Instructions |
| Form 2555 | Form 2555, Foreign Earned Income |

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| Pub 17 | Pub 17, Chapter 12, Other Income |
| Pub 54 | Pub 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad |

| Optional | |
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| Form W-2G | Form W-2G, Certain Gambling Winnings |
| Form 1099-MISC | Form 1099-MISC, Miscellaneous Income |
| Form 1099-Q | Form 1099-Q, Payments From Qualified Education Programs |
| Pub 525 | Pub 525, Taxable and Nontaxable Income |
| Pub 970 | Pub 970, Tax Benefits for Education |

## Recommended Classroom Activities




### Skills Workout: Link & Learn Taxes Other Income

Click Skills Workout to access Link & Learn Taxes Other Income.

### Certification Warm Up – Summary and Exercises

Click Certification Warm Up to access the exercises in Link & Learn Taxes Other Income.

### Media: Video & Audio for Lesson

YouTube video on Miscellaneous income
https://www.youtube.com/watch?v=ZEybWZmC-0w&lr=1

## TaxSlayer Tips and Resources for Lesson

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| Practice Lab Tutorial | From the Practice Lab:<br>1. Enter the universal password (if you do not have the password, you can request it from your site coordinator or SPEC relationship manager).<br>2. Sign in to Practice Lab or create an account.<br>3. Select the appropriate tutorial. |

## Job Aids

### ITA and FAQs for Lesson

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| FAQs | Exchange Rates<br>https://www.irs.gov/Individuals/International-Taxpayers/Foreign-Currency-and-Currency-Exchange-Rates<br>Foreign Earned Income Exclusion<br>https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-about-international-individual-tax-matters |
| Tax Trails | Tax Topics: Gambling Winnings and Losses<br>https://www.irs.gov/taxtopics/tc419.html<br>Tax Topics: How do I claim my gambling winnings and/or losses?<br>https://www.irs.gov/uac/how-do-i-claim-my-gambling-winnings-and-or-losses?_ga=1.250112899.408666424.1472243921<br>Tax Topics: Certain Medicaid Waiver Payments<br>https://www.irs.gov/Individuals/Certain-Medicaid-Waiver-Payments-May-Be-Excludable-From-Income<br>Foreign Earned Income Exclusion<br>https://www.irs.gov/Individuals/International-Taxpayers/Foreign-Earned-Income-Exclusion |