





Lesson Plan

Income – Wages, Interest, etc.

Time Required: 30 minutes

Introduction	Objectives	Topics
<p>This is the first of several lessons covering the Income section of the taxpayer's return. This lesson focuses on the income that is reportable on Form 1040. A critical component of completing the taxpayer's return is distinguishing between taxable and nontaxable income.</p>	<p>Compute taxable and nontaxable income.</p> <p>Distinguish between earned and unearned income.</p> <p>Report income correctly on Form 1040 and Schedule 1</p>	  <p>Determining taxable and nontaxable income</p> <p>Reporting wages, salaries, tips, etc.</p> <p>Scholarship and Fellowship Income (Form W-2 and Form 1098-T)</p> <p>Interest income</p> <p>Dividends</p> <p>State and local refunds</p> <p>Alimony</p>

Key Terms

Allocated Tips: Tips an employer assigns to an employee. They are in addition to the tips the employee reported to the employer.

Capital Gain Distributions: Also called capital gain dividends. They come from mutual funds and real estate investment trusts (REITs).

Earned Income: Any income received for work, such as wages or business income.

Gross Income: All income received in the form of money, goods, property, and services that is not exempt from tax.

Ordinary Dividends: Corporate distributions paid out of the earnings and profits of the corporation.

Taxable Income: Adjusted Gross Income minus standard or itemized deductions.

Tax-exempt Income: Interest that is exempt from federal income tax such as bonds issued by state and political subdivisions (county or city), District of Columbia, and U.S. possessions and political subdivisions.

Unearned Income: Any income produced by investments, such as interest on savings, dividends on stocks, or rental income.

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	Review the online demo of TaxSlayer on Income.	TaxSlayer® Demo: From the Practice Lab, select: <ul style="list-style-type: none"> • TaxSlayer IRS training • Click the appropriate demo
Provide details and engage the students	<p>Discuss all tips and cautions in detail.</p> <p>Ask students to read and/or role-play examples and sample interviews.</p> <p>Review answers to each exercise; ask students how they arrived at their answers.</p>	<p>Internet: Link & Learn Taxes (L&LT) Income – Wages, Interest, etc.</p>

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	<p>Review lesson objectives.</p> <p>Discuss this lesson is one of the nine lessons that cover income.</p> <p>Review list of references.</p> <p>State the presentation time.</p>	<p>Visuals: Form 1040 chart in Publication 4491, Income – Wages, Interest, etc.</p> <p>Form 1040</p> <p>Form 13614-C, Page 2</p> <p>Pub 4012, Income tab</p>

Determining taxable and nontaxable income

Ask students to explain the differences between taxable and nontaxable income.

Ask students to provide examples of income that may need to be reported on the tax return, but is not included in income.

Ask students to explain earned income vs. unearned income.

Inform students that they probe taxpayer to determine all sources of income.

Visuals:

[Pub 4012](#), Income tab, Income Quick Reference Guide

Internet:

YouTube video: [Taxable and Nontaxable Income](#)

Reporting wages, salaries, tips, etc.

Instruct students to:

- Go over what information is reported on Form W-2
- Verify Form W-2 entries on form match TaxSayer entries
- Check tax year, name and SSN
- Recheck all data after data entry
- Check for missing Form W-2
- Use Form 4137 for unreported tips

Remind Unreported Tips topic is for Advanced certification

Remind students that household employees may not receive a Form W-2 if the amount is less than \$2,300.

Ask: What if the taxpayer has an ITIN, but a Form W-2 is showing a different SSN? **Answer:** Use the taxpayer's ITIN when starting the return. Enter the Social Security number as shown on the Form W-2 when prompted by the tax software.

Visuals:

[Pub 4012](#), Income tab, Form W-2 Instructions

[Pub 4012](#), Income tab, How/Where to Enter Income

Internet:

YouTube video: [Missing Form W-2](#)

Scholarship and Fellowship Income (Form W-2 and Form 1098-T)	<p>Inform students that taxable scholarship income may be reported on Form W-2. If the amount is taxable but the taxpayer did not receive a Form W-2, it should still be reported on the return.</p> <p>Direct students to Pub 4012:</p> <ul style="list-style-type: none"> • Tax Treatment of Scholarship and Fellowship Payments • Worksheet 1-1 	<p>Visual:</p> <p>Pub 4012, Education Benefits tab, Tax Treatment of Scholarship and Fellowship Payments</p>
Interest Income	<p>Review unearned income.</p> <p>Discuss taxable and tax-exempt interest entry instructions in TaxSlayer.</p>	<p>Visuals:</p> <p>Form 1040</p> <p>Form 1099-INT</p> <p>Pub 4012, Income tab, Interest Income</p> <p>TaxSlayer Demo:</p> <p>Show TaxSlayer Interest Statement</p>
Dividends	<p>Review</p> <ul style="list-style-type: none"> • Ordinary dividends • Section 199A dividends • Qualified dividends • Capital gain distributions • Nondividend distributions 	<p>Visuals:</p> <p>Form 1040</p> <p>Brokerage statement from L&LT</p> <p>Pub 4012, Income tab, Dividend Income (Form 1099-DIV)</p> <p>TaxSlayer Demo:</p> <p>Show TaxSlayer Dividend Statement</p> <p>Internet:</p> <p>FAQ: 1099-DIV Dividend Income</p>
State and local refunds	<p>Remind students that taxpayers who itemized deductions last year and received a state or local tax refund this year may need to report that refund on this year's Form 1040. Refunds received this year for any other year should be referred to a professional tax preparer.</p>	<p>Visuals:</p> <p>Form 1040</p> <p>Pub 4012, Income Tab, State and Local Refund Worksheet</p> <p>TaxSlayer Demo:</p> <p>Show links in TaxSlayer to State Tax Refund Worksheet</p>

Alimony	<p>Remind Post-1984 to pre-2019 divorces, alimony and separation maintenance payments are deductible by the payor spouse and alimony and separation maintenance payments are included in income by the recipient of the payments.</p> <p>Remind Child support is not alimony</p> <p>Demonstrate where to get alimony information</p> <p>Demonstrate how to report alimony</p> <p>Discuss post-2018 divorces. The Tax Cuts and Jobs Act provides that alimony and separation maintenance payments are not deductible by the payor spouse and repeals the code provisions that specify that alimony and separation maintenance payments are included in income by the recipient of the payments.</p>	<p>Visuals:</p> <p>Form 13614-C, Page 2</p> <p>Form 1040, for Alimony received</p> <p>TaxSlayer Demo:</p> <p>Show links in TaxSlayer to lines for Alimony received</p>
Summary	<p>Review the lesson summary with the class.</p>	<p>Visuals:</p> <p>L&LT Income, Skills Workout exercises</p> <p>L&LT Income: Click Certification Warm Up icon to review the Exercises</p>

References

L<	Income from Form 1040, Wages, Interest, etc.
Form 1040	Form 1040 , Wages, Interest, etc.
Form 13614-C	Form 13614-C , Intake/ Interview & Quality Review Sheet, Page 2
Pub 4012	Pub 4012 , Volunteer Resource Guide, Income tab Income Quick Reference Guide Tax Treatment of Scholarship and Fellowship Payments Form W-2 Instructions How/Where to Enter Income Interest Income State and Local Refund Worksheet Dividend Income (Form 1099-DIV) Additional Interest
Pub 17	Pub 17 , Part Two, Income

Optional

Form 1040 Instructions	Form 1040 Instructions , Wages, Interest, etc.
Pub 531	Pub 531, Reporting Tip Income
Pub 970	Pub 970, Tax Benefits for Education

Recommended Classroom Activities



**Skills
Workout**



**Certification
Warm Up**



**Media: Videos
& Audio**



**TaxSlayer
Tutorial**



Job Aids



**Practice
Lab**



Skills Workout: Link & Learn Taxes, Income – Wages, Interest, etc.

Click Skills Workout to access Link & Learn Taxes Income – Wages, Interest, etc.



Certification Warm Up – Exercises

Click Certification Warm Up to access the exercises in Link & Learn Taxes Income – Wages, Interest, etc.



Media: Video & Audio for Lesson

- YouTube video on missing Form W-2
<https://www.youtube.com/watch?v=AY9ezFFpBEM>



TaxSlayer Tips and Resources for Lesson

TaxSlayer Training Video [Entering Basic Income, Part 1](#)

Practice Lab Tutorial

From the [Practice Lab](#):

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

ITA and FAQs for Lesson

FAQs

1099-DIV Dividend Income

<https://www.irs.gov/faqs/interest-dividends-other-types-of-income/1099-div-dividend-income>



Practice Lab

Practice Lab

<https://vita.taxslayerpro.com/IRSTraining/en/Account/Access>
