



NYS Training for Tax Preparers

What is Income?

[Get Started](#)



www.tax.ny.gov

www.irs.gov



What Is Income?

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Distinguish between taxable and nontaxable income
- Distinguish between earned and unearned income
- Determine taxable income
- Verify the accuracy of reported income amounts
- Report wages, interest, retirement, unemployment, and social security income correctly on [Form 1040](#)



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.

IRC § 61(a)



What Is Income?

Types of Income

Nontaxable Income / Exempt Income

Nontaxable (or "excludable") income refers to income such as gifts and inheritances. Taxpayers do not have to show nontaxable income on their returns.

Exempt income includes interest income produced from certain types of investments. In some instances, exempt income is shown on the return but not included in the computation of income tax (for example, tax-exempt interest income).



What Is Income?

Types of Income

Earned Income / Unearned Income

Earned income is any income received for work, such as wages or business/self employment income. *Unearned income* is any income produced by investments, such as interest on savings, dividends on stocks, or rental income.



What Is Income?

Types of Income

Taxable Income

Taxable income is any income that is subject to federal income tax, whether earned or unearned. All taxable income must be reported on a tax return unless the amount is so small that the individual is not required to file a return.

Earned and unearned taxable income is reported in the Income section of [Form 1040](#). See [Publication 525](#), *Taxable and Nontaxable Income* for examples of taxable income.



What Is Income?

Example

Donna received the following income: wages, interest, child support, alimony, inheritance, workers' compensation, and lottery winnings. Can you determine which sources of Donna's income are taxable and which are nontaxable?

Source	Taxable?
Wages	Taxable/Nontaxable
Interest	Taxable/Nontaxable
Child Support	Taxable/Nontaxable
Alimony	Taxable/Nontaxable
Inheritance	Taxable/Nontaxable
Worker's Compensation	Taxable/Nontaxable
Lottery Winnings	Taxable/Nontaxable



What Is Income?

Answer

The wages, interest, alimony, and lottery winnings are taxable income and will appear on Donna's tax return. Child support, inheritance, and workers' compensation are nontaxable income and will not appear on Donna's tax return.

Source	Taxable?
Wages	Taxable
Interest	Taxable
Child Support	Nontaxable
Alimony	Taxable
Inheritance	Nontaxable
Worker's Compensation	Nontaxable
Lottery Winnings	Taxable



What Is Income?

Knowledge Check

1. Under what circumstances must a person report taxable income?
 - always
 - always, unless the income is only from interest
 - always, unless the income is so small that a tax return is not required
 - always, unless the person is identified as a dependent on someone else's tax return



What Is Income?

Knowledge Check



1. Under what circumstances must a person report taxable income?

- always
- always, unless the income is only from interest
- always, unless the income is so small that a tax return is not required
- always, unless the person is identified as a dependent on someone else's tax return





What Is Income?

1	Wages, tips, other compensation	25312.50	2	Federal income tax withheld	2522.33
3	Social security wages	25312.50	4	Social security tax withheld	1569.38
5	Medicare wages and tips	25312.50	6	Medicare tax withheld	367.06
7	Social security tips		8	Allocated tips	
	Advance EIC payment		10	Dependent care benefits	
	Nonqualified plans		12a	See instructions for box 12	120
	Retirement		Code	D	
	Third-party sick pay		12b		
			Code		
			12c		
			Code		

Section 1

Wage Income



What Is Income?

Wage Income

Form W-2

[Form W-2](#), *Wage and Tax Statement*, reports the employee's earned income for the year and should be issued by the employer no later than January 31. The form is usually mailed, but in some cases an employee may need to pick up [Form W-2](#) from their employer (or obtain it electronically).

The image shows a Form W-2 Wage and Tax Statement. The form is titled "Form W-2 Wage and Tax Statement" and is labeled "Copy 1 - For State, City, or Local Tax Department". It includes the following fields:

- 1 Wages, tips, other compensation
- 2 Federal income tax withheld
- 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
- 9
- 10 Dependent care benefits
- 11 Nonqualified plans
- 12a
- 12b
- 12c
- 12d
- 13 Statutory employee Minimum wage Not fully insured
- 14 Other
- 15
- 16 State wages, tips, etc.
- 17 State income tax
- 18 Local wages, tips, etc.
- 19 Local income tax
- 20 Locality name
- 21
- 22
- 23
- 24
- 25 State Employer's state ID number
- 26 State wages, tips, etc.
- 27 State income tax
- 28 Local wages, tips, etc.
- 29 Local income tax
- 30 Locality name

OMB No. 1545-0046

Department of the Treasury - Internal Revenue Service



What Is Income?

Wage Income

Missing Form W-2

A taxpayer who does not receive a [Form W-2](#) by January 31 should first contact the employer to find out if the form was mailed (or can be picked up in person). If the taxpayer does not receive the [Form W-2](#) after a reasonable amount of time, they should contact the [IRS](#) for assistance at 1-800-829-1040. Taxpayers should wait until February 15 before [contacting the IRS](#).

NOTE: All wage, salary, and tip income must be reported on the taxpayers return, even if they did not receive a [Form W-2](#).



What Is Income?

Example

During the tax year, Tina earned income from both a full-time and a part-time job. She received two Forms W-2, each listing different employers.

Her return will list her wages as the total of the amounts in box 1 of both Forms W2. If using tax preparation software, each [Form W-2](#) must be entered separately.



What Is Income?

Form 4852

A taxpayer who has requested [Form W-2](#) or [Form 1099-R](#) and has still not received it by the due date of the return should file:

- [Form 4852](#) , *Substitute for Form W-2, Wage and Tax Statement*, or
- [Form 1099-R](#), *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*

The taxpayer should attach [Form 4852](#) to the tax return and keep a copy for their records.

If the taxpayer eventually receives the employer's [Form W-2](#) and the numbers differ from those on [Form 4852](#) , the taxpayer will need to amend the return to report the correct amounts.

NOTE: If the earnings reported on [Form 4852](#) are not reflected on the yearly social security statement, the taxpayer should contact the Social Security Administration at the number shown on the statement.



What Is Income?

Household Employees

The term, "household employee" refers to a person who works in someone's home performing household duties such as caring for children, cleaning, or cooking.

Generally, an employer is not required to provide [Form W-2](#) to a household employee who earned less than \$1,900 in a year or less than \$1,000 in any calendar quarter. In this situation, neither the employer nor the employee will owe social security or Medicare tax on those wages. However, employers who withhold federal income taxes from their employee's wages must issue [Form W-2](#).

The income must be included on [Form 1040](#) regardless of whether [Form W-2](#) is issued.

For further information on household employees, see [Publication 926](#), *Household Employer's Tax Guide*.



What Is Income?

Section 2: Tip Income

Page 15 of 147

[Previous](#) [Next](#)



Section 2

Tip Income



What Is Income?

Tip Income

If taxpayers have the type of jobs that normally include income from tips (i.e. waiter, waitress, bellhop, motel/hotel housekeeper, etc.), be sure to ask about any tips they may have received.

All tip income is subject to federal income tax. Individuals who receive \$20 or more per month in tips from one job must report their tip income to their employer. Tips reported to employers are included in boxes 1, 5, and 7 on [Form W-2](#).

Self-employed taxpayers (for example, hair stylists and manicurists) should include their tips in gross receipts on [Schedule C](#), *Profit and Loss from Business*.



What Is Income?

Allocated Tips

To ensure that everyone reports their fair share of income from tips, some employers have tip allocation programs. These programs are approved by the [IRS](#).

If an employee reports tips to the employer that were less than the designated share based on the employer's formula, the employer must report the difference as "allocated tips" and include it on the employee's [Form W-2](#).

See [Form 8027](#), *Employer's Annual Information Return of Tip Income and Allocated Tips*.



What Is Income?

Section 2: Tip Income

Allocated Tips

Allocated tips are shown separately in [Form W-2](#), box 8 and not included as part of the taxpayer's wages. Social security and Medicare taxes are not withheld on allocated tips.

Allocated tips must be reported on Form 1040 unless the taxpayer can produce a written and reliable tip record which proves the allocated amount is inaccurate. If the amount of allocated tips shown on the taxpayer's Form W2 varies from the taxpayer's reliable written record of the tips they received, the taxpayer's figures are used instead of the amount shown on the Form W2.





What Is Income?

Unreported Tip Income

Taxpayers who did not report tips of \$20 or more in a month to their employer must report those tips to the IRS using Form 1040 (they cannot use [Form 1040EZ](#) or [1040A](#)). They must also report the social security and Medicare taxes on the unreported tips as additional tax on [Form 1040](#).

Use [Form 4137](#), *Social Security and Medicare Tax on Unreported Tip Income*, to compute and report the additional tax.



What Is Income?

Unreported Tip Income (cont.)

Individuals who receive less than \$20 per month in tips while working one job do not have to report their tip income to their employer. It is also not necessary to report non-cash tips (for example, tickets or passes) to their employer.

Tips of less than \$20 per month and the fair market value of noncash tips are exempt from Social Security and Medicare taxes. However, they are subject to federal income tax and must be included as income on the tax return.

For more information about tip income, see [Publication 531](#), *Reporting Tip Income*.



What Is Income?

Knowledge Check

2. Which of the following tip income is exempt from federal income tax?

- tips of less than \$20 per month
- tips not reported to the employer
- noncash tips
- none of the above



What Is Income?

Section 2: Tip Income

Page 21 of 147

[Previous](#) [Next](#)

Knowledge Check



2. Which of the following tip income is exempt from federal income tax?

- tips of less than \$20 per month
- tips not reported to the employer
- noncash tips
- none of the above





What Is Income?

Tip Income Reported on Form 1040

Case Study

Fred works as a repairman during the week and as a barber on alternate Saturdays. His tips are less than \$20 in any month and he does not report them to his employer. The amounts from box 1 on his [Forms W-2](#) show income of \$23,500 (repairman) and \$1,950 (barber). His unreported tip income was \$200.

Repairman W-2, box 1	\$23,500
Barber W-2, box 1	\$1,950
Barber Unreported Tips	\$200
Form 1040, line 7	\$25,650

Fred will report \$25,650 on Form 1040, line 7. This is the total of his [Forms W-2](#) income and his unreported tip income (\$23,500 + \$1,950 + \$200).



What Is Income?

Tip Income Reported on Form 1040

Case Study (cont.)

If Fred *did* report his tip income to his employer, the tips would be included in box 1 of the [Form W-2](#) that he received from the barbershop.

The amount in box 1 of that [Form W-2](#) would be \$2,150 (\$1,950 plus \$200). Fred would still enter \$25,650 on line 7 (\$23,500 plus \$2,150)

Repairman W-2, box 1	\$23,500
Barber W-2, box 1	\$1,950 <u>+200</u> \$2,150
Barber Unreported Tips	\$200
Form 1040, line 7	\$25,650



What Is Income?

Knowledge Check

3. Mandy worked two jobs. She was a quality inspector during the week and a bartender during the weekends. She reported all of her tip income (\$3,000) to her employer. Her forms [W-2](#) box 1, showed income of \$21,000 (quality inspectory) and \$8,250 (bartender). What amount will Mandy report on her [Form 1040](#), line 7?

- \$29,250
- \$3,000
- \$24,000
- \$11,250



What Is Income?

Knowledge Check



3. Mandy worked two jobs. She was a quality inspector during the week and a bartender during the weekends. She reported all of her tip income (\$3,000) to her employer. Her forms [W-2](#) box 1, showed income of \$21,000 (quality inspectory) and \$8,250 (bartender). What amount will Mandy report on her [Form 1040](#), line 7?



- \$29,250
- \$3,000
- \$24,000
- \$11,250



What Is Income?

Knowledge Check

4. Peter works as a food server in an expensive restaurant. He tells you that he did not report tip income of \$18,100 to his employer. Must Peter file Form 4137?

- Yes
- No



What Is Income?

Knowledge Check



4. Peter works as a food server in an expensive restaurant. He tells you that he did not report tip income of \$18,100 to his employer. Must Peter file Form 4137?



- Yes
- No



What Is Income?

Section 3: Scholarship and Fellowship Income

Page 26 of 147

[Previous](#) [Next](#)

Section 3

Scholarship and Fellowship Income





What Is Income?

Scholarship and Fellowship Income

Scholarships and fellowships may be fully taxable, partially taxable, or nontaxable. If the taxpayer received a Form W-2 for the scholarship or fellowship, include the amount on [Form 1040](#), just as you would for any other [Form W-2](#) income. This income is included in the total on [Form 1040](#), line 7.

[Form 1098-T](#) lists qualified tuition and related expenses billed by the school. Verify that these amounts have been paid. It also lists scholarship and fellowship grant money the student received. If scholarships or grants exceed the qualified educational costs, some of the grant or scholarship money may be taxable.

For more information, see the instructions for Form 1040 and [Publication 970](#), *Tax Benefits for Education*.



What Is Income?

Loan Repayment Assistance Programs (LRAPs)

Health care professionals might receive education loan repayments. These repayments are taxable, unless they are made by:

- the [National Health Service Corps Loan Repayment Program](#),
- a state education loan repayment program eligible for funds under the Public Health Service Act, or
- any other state loan repayment or loan forgiveness program that is intended to provide for the increased availability of health services in underserved or health professional shortage areas.



What Is Income?

Ministers or Other Members of the Clergy

The ministry profession presents unique issues, such as:

- the parsonage/housing allowance,
- whether earnings are covered under FICA or SECA (self employment tax), and
- the rules for being exempt.

[Publication 517](#), *Social Security and Other Information for Members of the Clergy and Religious Workers*, covers this topic.



What Is Income?

Knowledge Check

5. A taxpayer who does not receive a Form W-2 for a taxable scholarship income does not have to report the income.

- True
- False



What Is Income?

Knowledge Check



5. A taxpayer who does not receive a Form W-2 for a taxable scholarship income does not have to report the income.

-  True
 False



What Is Income?

Knowledge Check

6. Cassandra has received a Form W-2 for her part-time job and another Form W-2 for a college scholarship she won last year. What is the correct treatment of these income amounts?

- both Forms W-2 should be included in income on Cassandra's tax return
- Cassandra only needs to report the wages from her part-time job as income
- Cassandra must file a paper return and write 'SCH' with the scholarship amount to the left of line 7
- report only her part-time income and write 'SCH' with the scholarship amount to the left of line 7



What Is Income?

Knowledge Check



6. Cassandra has received a Form W-2 for her part-time job and another Form W-2 for a college scholarship she won last year. What is the correct treatment of these income amounts?

- both Forms W-2 should be included in income on Cassandra's tax return
- Cassandra only needs to report the wages from her part-time job as income
- Cassandra must file a paper return and write 'SCH' with the scholarship amount to the left of line 7
- report only her part-time income and write 'SCH' with the scholarship amount to the left of line 7



What Is Income?

Section 4: Interest Income

Page 32 of 147

[Previous](#) [Next](#)

Section 4

Interest Income





What Is Income?

Form 1099-INT

Interest income is reported to the taxpayer on [Form 1099-INT](#), *Interest Income*. Financial Institutions and brokerages forward copies of [Form 1099-INT](#) to the IRS.

Sometimes taxpayers will know a reportable income amount, even if they have not received Form 1099. In such cases, report the income on the appropriate line of the return. Advise taxpayers who cannot accurately determine a reportable income amount to contact the payer of the income to get the missing information.

NOTE: Do not confuse Form 1099 with [Form 1098](#). Generally, [Form 1098](#) reports expenses taxpayers have paid, not income they have received.

The image shows a sample of Form 1099-INT, Interest Income. The form is titled "Form 1099-INT Interest Income" and includes a "CORRECTED (if checked)" box. It contains fields for the payer's name, address, and phone number, as well as the recipient's name, address, and phone number. The form is divided into several sections for reporting interest income, including:

- 1 Interest income
- 2 Early withdrawal penalty
- 3 Interest on U.S. Savings Bonds and Treas. obligations
- 4 Federal income tax withheld
- 5 Foreign tax paid
- 6 Tax exempt interest
- 7 Foreign credits or U.S. possession
- 8 Capital gains distributions
- 9 Tax-exempt bond (CUSIP no.-book instructions)

There is also a section for "Investment expenses" and a "Copy B For Recipient" section with instructions. The form is issued by the Department of the Treasury - Internal Revenue Service.



What Is Income?

Taxable Interest

Common sources of taxable interest income are:

- checking and savings accounts
- certificates of deposit (CDs)
- savings certificates
- U.S. government bonds
- interest on insurance proceeds
- loans that the taxpayer makes to others

Some savings and loans, credit unions, and banks call their distributions "dividends." These distributions are really interest and are reported correctly as interest on [Form 1099-INT](#).

Ask the taxpayer to supply all [Forms 1099-INT](#) from institutions that pay interest.



What Is Income?

Taxable Interest (cont.)

Original Issue Discount (OID) is a form of interest. A debt instrument generally has OID when issued for an amount that is less than its stated redemption price at maturity. The issuer of the debt instrument will report the amount of OID on [Form 1099-OID](#), *Original Issue Discount*, or a similar statement.

If a taxpayer received less than \$10 in interest, the financial institution might not issue [Form 1099-INT](#). Even if the taxpayer did not receive Form 1099-INT, they must still report all of their taxable interest income.

Some interest is not taxable; examples include state and local bonds*, qualified Series EE and Series I savings bonds used to pay higher education expenses, and interest earned on a traditional IRA.

* Interest income from state and local bonds and obligations from states other than New York State or its local governments may be exempt for federal but taxable to New York State



What Is Income?

Interest Income from U.S. Savings Bonds

Series EE and Series I

The most common type of U.S. savings bonds are Series EE bonds. They are issued at a discount and the interest is the difference between the purchase price and the amount received when the bonds are redeemed (cashed in).

Series I bonds (first offered in 1998) are issued at face value with a maturity period of 30 years. As with Series EE bonds, the interest is paid when the bonds are redeemed.

Taxpayers can report interest income from a Series EE or Series I savings bond either:

- when the bond matures or is redeemed (whichever occurs first), or
- each year as its value increases.

However, taxpayers must generally use the same method for all the Series EE and Series I bonds they own.



What Is Income?

Interest Income from U.S. Savings Bonds

Series EE and Series I (cont.)

If the taxpayers cashed in Series EE or Series I bonds, they should have [Form 1099-INT](#) from the bank. Most taxpayers report the total interest when they cash the bonds, though some taxpayers may report savings bond interest as it accrues.

A [Net Investment Income Tax](#) applies to individuals, estates and trusts that have certain investment income above certain threshold amounts. Additional information can be found on www.irs.gov.



What Is Income?

Example

Barbara owns a \$500 U.S. Series EE savings bond. She paid \$250 for it. When the bond matures, Barbara will receive \$500. At the end of the first year, the bond is worth \$265. Barbara can report interest income in one of two ways.

1. She can report \$250 of interest income only once when the bond matures.
 - this is the difference between the \$500 value at maturity and the \$250 she paid for the bond.
2. She can report \$15 of interest income at the end of the first year.
 - this is the increase in value at the end of the year (\$265 minus \$250); Barbara would report interest income each year until maturity
 - this method is uncommon



What Is Income?

Knowledge Check

7. Four years ago, Barbara bought a U.S. Series EE savings bond and decided to report interest it earns each year until maturity. This tax year, Barbara bought another Series EE savings bond. Can she wait until the second bond matures to report all the interest it earns?

- Yes
- No



What Is Income?

Knowledge Check



7. Four years ago, Barbara bought a U.S. Series EE savings bond and decided to report interest it earns each year until maturity. This tax year, Barbara bought another Series EE savings bond. Can she wait until the second bond matures to report all the interest it earns?



Yes

No



What Is Income?

U.S. Savings Bonds with Co-owners

If a U.S. savings bond is issued in the names of co-owners, such as the taxpayer and a child, or the taxpayer and spouse, then the bond's interest is generally taxable to the co-owner who purchased the bond.

IF....	THEN tax on the bond's interest must be paid by...
Pat uses his funds to buy a bond in his name and the name of Tracy as co-owner	Pat
Pat buys a bond in the name of Tracy, who is the sole owner of the bond	Tracy
Pat and Tracy buy a bond as co-owners. Pat contributes 75% of the purchase price; Tracy 25%	Both: Pat pays taxes on 75% of the interest; Tracy, 25%
Spouses Pat and Tracy, who live in a community property state, buy a bond that is community property	Both spouses: If Pat and Tracy file separate returns, they generally pay one-half each



What Is Income?

Series HH Bonds and Other U.S. Obligations

Series HH U.S. savings bonds are issued at face value and pay interest twice a year. Taxpayers must report the interest in the year it is paid. Interest on other U.S. obligations, such as U.S. Treasury notes and bonds, is fully taxable when received.

Examples

1. Bob holds a promissory note for a cash loan that he made to his brother-in-law, Stan. Stan pays Bob principal and interest each month. Even though Bob does not receive a Form [1099-INT](#), he reports that interest on Schedule B of his tax return.
2. Hazel has four savings accounts in four different banks. The total amount of interest earned from the accounts is \$3,000. Hazel will receive four Forms 1099-INT. She will list each payer and amount on Schedule B and file it with her tax return.



What Is Income?

IRA Interest

Interest on a **traditional IRA** is tax-deferred and should not be included as taxable income until the taxpayer makes withdrawals from the IRA. The taxpayer will then be issued [Form 1099-R](#) to report a distribution.

Generally, interest on a **Roth IRA** is not taxable when it is earned or when the taxpayer takes a distribution. However, if the criteria for the distribution are not followed, the interest is taxable.

See [Publication 17](#) and [Publication 590](#) for more information on IRAs.

Example

Mike holds a traditional IRA to which he makes contributions each year. Throughout the year, he gets statements listing the interest earned. He is not required to report any of the interest income on his traditional IRA on his tax return.



What Is Income?

Tax Exempt Interest

The taxpayer's [Form\(s\) 1099-INT](#) may list both taxable and tax-exempt interest, so be sure to read the form(s) carefully.

Although tax-exempt interest is not taxable, it must be reported on [Form 1040](#), line 8b. This interest will be used to calculate the taxability of certain income items, such as social security benefits.

Certain types of interest are exempt from federal income tax but subject to state tax. Sometimes the reverse is true; interest exempt from state tax may be taxed by the IRS.



What Is Income?

Tax Exempt Interest (cont.)

Bonds issued by the following are exempt from federal income tax:

- state and political subdivisions (county or city)
- District of Columbia
- U.S. possessions and political subdivisions
- public authorities
- toll-road commissions
- utility service authorities
- community redevelopment agencies
- qualified volunteer fire department
- amounts indicated on broker statements as tax-exempt interest



What Is Income?

New York Additions

Interest income from some bonds is exempt from federal income tax, but taxable by New York State. Income that falls into this category includes:

- interest income on state and local bonds,
- interest and dividend income from tax-exempt bond mutual funds, and
- tax-exempt money market funds that invest in obligations of states **other than** New York.

Interest income from these sources must be reported as a New York State addition to income.

For more information see [TSB-M-95\(4\)](#), *New York Tax Treatment of Interest Income on Federal, State, and Municipal Bonds and Obligations*.





What Is Income?

Accrued Interest on Bonds

If a bond is sold between interest payment dates, part of the sales price represents interest accrued to the date of the sale. For the year of the sale, the seller must report part of the sales price as interest income, even if the seller does not receive a [Form 1099-INT](#). The buyer will treat this amount as a return of capital investment, reducing their basis in the bond.

For the year of the sale, the buyer of the bond may receive a [Form 1099-INT](#) reflecting the accrued interest. This amount is taxable to the seller. See [Publication 550, Investment Income and Expenses](#) for taxpayers who buy or sell bonds between interest payment dates.



What Is Income?

Knowledge Check

8. Beth has three savings accounts in three different banks. The total amount of interest earned from the accounts is \$2,800. Beth will receive Forms 1099-INT. She will list each payer and amount on Schedule B and file it with her tax return.

- True
- False

9. Mike holds a traditional IRA to which he makes contributions each year. Throughout the year, he gets statements listing the interest earned. He does not have to report any of the interest income on his traditional IRA on his tax return.

- True
- False



What Is Income?

Knowledge Check

8. Beth has three savings accounts in three different banks. The total amount of interest earned from the accounts is \$2,800. Beth will receive Forms 1099-INT. She will list each payer and amount on Schedule B and file it with her tax return.

-  True
 False

9. Mike holds a traditional IRA to which he makes contributions each year. Throughout the year, he gets statements listing the interest earned. He does not have to report any of the interest income on his traditional IRA on his tax return.

- True
 False



What Is Income?

Knowledge Check

8. Beth has three savings accounts in three different banks. The total amount of interest earned from the accounts is \$2,800. Beth will receive Forms 1099-INT. She will list each payer and amount on Schedule B and file it with her tax return.

-  True
 False



9. Mike holds a traditional IRA to which he makes contributions each year. Throughout the year, he gets statements listing the interest earned. He does not have to report any of the interest income on his traditional IRA on his tax return.

-  True
 False



What Is Income?

Section 5: Dividends and Corporate Distributions

Page 49 of 147

[Previous](#) [Next](#)

Section 5

Dividends and Corporate Distributions



What Is Income?

Overview

This topic explains how to determine ordinary dividend income and capital gain distributions and where to report them.

Upon completing this topic, you will be able to determine and report dividend and capital gain distribution income.



What Is Income?

Overview

Types of Distributions

Corporations make several types of distributions to their shareholders. Common corporate distributions are:

- ordinary dividends
- qualified dividends
- capital gain distributions
- nontaxable dividends and distributions

Most corporations use [Form 1099-DIV](#) to report distributions to shareholders. For information on shareholder reporting of corporate distributions, see [Publication 550](#), *Investment Income and Expenses*.

For further information on all types of corporate distributions, see [Publication 542](#), *Corporations*.



What Is Income?

Ordinary Dividends

Ordinary (taxable) dividends are the most common type of distribution from a corporation or a mutual fund. Mutual funds are regulated investment companies. Ordinary dividends are paid in cash out of earnings and profits.

For more information regarding New York taxation of dividends from mutual funds invested in federal obligations see [TSB-M-92 \(4\)](#), *Taxation of Dividends Paid by Regulated Investment Companies*.



What Is Income?

Qualified Dividends

Qualified dividends are ordinary dividends that are eligible for a lower tax rate than other ordinary income. They are shown on [Form 1099-DIV](#). Taxpayers who have questions about why a dividend is qualified or not qualified should contact the company that issued the dividend.

For more information, see the *Dividends and Other Distributions* section of [Publication 17](#) for the definition of qualified dividends.



What Is Income?

Capital Gains Distributions

Capital gain distributions come from mutual funds and real estate investment trusts (REITs). These distributions are treated as long-term capital gains, regardless of how long the taxpayer holds the shares.

Capital gain distributions are reported to the taxpayer on [Form 1099-DIV](#). The taxpayer reports these distributions as long-term capital gains on [Form 1040](#), line 13, and on Schedule D if required.



What Is Income?

Non-dividend Distributions

[Form 1099-DIV](#) also shows non-dividend distributions. Non-dividend distributions are nontaxable because they are a return of the taxpayer's cost or other basis. Taxpayers should keep this information with their tax records in order to calculate the adjusted basis of the stock when it is sold.

For help in calculating basis see [IRS Topic 703 - Basis of Assets](#). This refers to [Publication 551 Basis of Assets](#) and the [Form 1040, Schedule D Instructions](#), *Capital Gains and Losses*.



What Is Income?

Reporting Ordinary Dividends

[Form 1099-DIV](#), *Dividends and Distributions*, reports dividend income to the taxpayer and to the IRS. The taxpayer must report ordinary dividends on [Form 1040](#), line 9a. If the taxpayer's ordinary dividends exceed a specified amount (or if the taxpayer was the nominee for dividends that actually belong to someone else), Schedule B may need to be filed.

Married taxpayers who earn ordinary dividends from shares they own jointly must report the income:

- together on a joint return, or
- by splitting the dividends evenly between the spouses' separate returns if they file as *Married Filing Separately*.

Select these links to learn more about Forms 1099-DIV:

- [Unrecaptured Section 1250 gain](#)
- [Section 1202 gain](#)
- [cash liquidation distributions or noncash liquidation distributions](#)



What Is Income?

Knowledge Check

10. Olivia held both common stock and preferred stock in several U.S. corporations. Several of them paid dividends during the tax year. The Forms 1099-DIV she receives should list these dividends as:

- ordinary dividends
- mutual funds
- non-dividend distributions
- real estate investment trusts



What Is Income?

Knowledge Check



10. Olivia held both common stock and preferred stock in several U.S. corporations. Several of them paid dividends during the tax year. The Forms 1099-DIV she receives should list these dividends as:

- ordinary dividends
- mutual funds
- non-dividend distributions
- real estate investment trusts





What Is Income?

Reporting Capital Gain Distributions

Payers also report capital gain distributions (also called capital gain dividends) on [Form 1099-DIV](#).

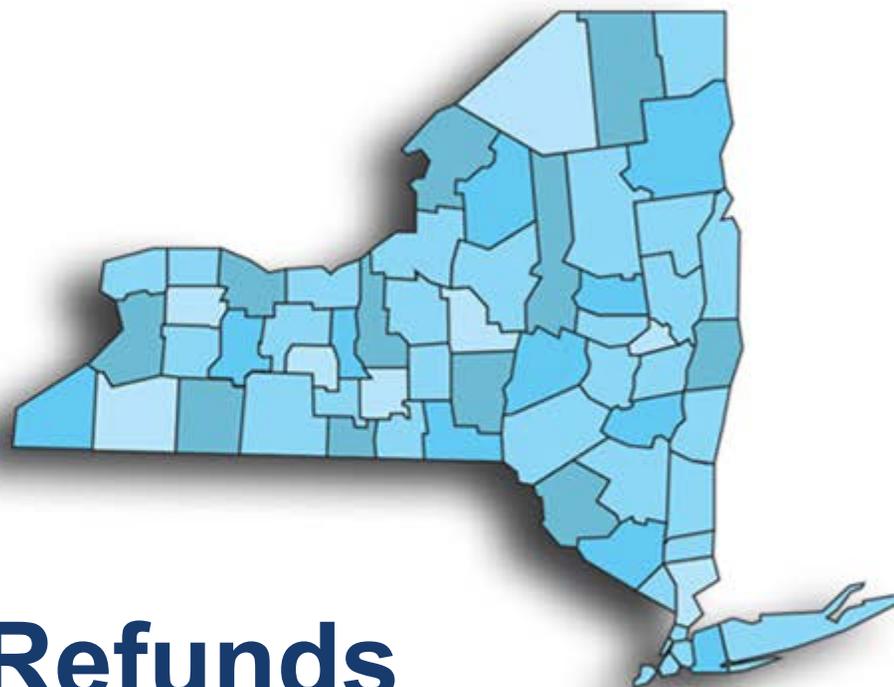
Capital gains and *capital gain distributions* are not the same thing.

- A **capital gain** occurs when the owner of a mutual fund (or capital asset) sells shares in the fund (or property) for more than its cost and realizes a profit.
- A **capital gain distribution** occurs when the mutual fund sells assets for more than their cost and distributes the realized gain to the shareholders.

If taxpayers actually sold mutual fund shares, or other shares of stock, refer to the Schedule D lesson, [Publication 550](#), *Investment Income and Expenses*, and [Publication 544](#), *Sales and Other Dispositions of Assets*.



What Is Income?



Section 6

State and Local Refunds



What Is Income?

State and Local Refunds

[Form 1099-G](#), Certain Government Payments, lists the amount of a taxpayer's state or local income tax refund.

In the past, New York State mailed Form 1099-G to all taxpayers who received refunds. However, New York State no longer mails these forms. Taxpayers can visit the Tax Department's Web site (www.tax.ny.gov) or call (518) 457-5181 to get their 1099-G amount.



What Is Income?

State and Local Refunds

Taxpayers who itemized deductions and received a federal income tax benefit for deducting their state or local income taxes must include their state/local tax refunds in income.

However, not everyone must include their state or local refund in their taxable income.

- Taxpayers who claimed the standard deduction on the tax return for the year they received a refund of state or local income taxes are not required to include the refund in their taxable income.
- If a taxpayer itemized deductions and deducted the **state sales tax** instead of the **state income tax withheld**, the refund is not taxable.

For more information, see [Publication 525, Taxable and Nontaxable Income](#) and [State and Local Income Tax Refund Worksheet—Line 10](#)



What Is Income?

State and Local Refunds

Ask the taxpayer if they received a refund of last year's state and/or local income taxes during the current tax year. If yes, ask these questions:

- Did you itemize your deductions last year?
- Did you include the state and/or local income taxes that you paid for that year?

If the answer to both questions is yes, complete the [State and Local Income Tax Refund Worksheet—Line 10](#), in 1040 instructions or in the software. The software calculates the taxable part of the refund (if any) and enters the amount on Form 1040, line 10.



What Is Income?

Example

Nancy itemized her deductions on last year's federal return. She included the state income taxes she had paid on Schedule A. During the current tax year she received a state refund on the overpaid portion of those taxes.

When filing her current tax return, she must use the [State and Local Income Tax Refund Worksheet—Line 10](#), in the Form 1040 instructions to see how much of the refund to include in her federal taxable income.



What Is Income?

New York Treatment

If it is determined that a state and local refund is taxable and therefore included in Federal Adjusted Gross Income, it should be subtracted from FAGI in determining New York Adjusted Gross Income.



What Is Income?

Section 7: Alimony

Page 66 of 147

[Previous](#) [Next](#)

Section 7

Alimony





What Is Income?

Alimony

[Alimony or separate maintenance payments](#) made under a court order are:

- taxable income to the person receiving them and reported on [Form 1040](#)
- deductible for the person paying them and reported on [Form 1040](#) as an adjustment to gross income

Child support is not treated the same way as alimony.

- Child support payments are not deductible to the payer and are not included in the income of the recipient.

For a taxpayer who is divorced or separated under an instrument executed before 1985, get and keep a copy of the [2004 version of Publication 504](#). This was the last year the information on pre-1985 instruments was included in Publication 504.



What Is Income?

Summary

- Earned income is any income accumulated by personal effort, such as wages or business/self-employment income.
- Unearned income is any income produced by investments, such as interest on savings or dividends on stock.
- [Form 1040](#), line 7 income includes wages, salaries, tips, and scholarships; income generally reported to the taxpayer on [Form W-2](#).
- Common sources of taxable interest income are checking and savings accounts, certificates of deposit (CDs), savings certificates, or U.S. government bonds.
 - This interest is reported by the payer on [Form 1099-INT](#) and included in the taxpayer's income on [Form 1040](#), line 8.



What Is Income?

Summary (cont.)

- Lines 9a and 9b on [Form 1040](#) are for reporting ordinary and qualified dividends. Dividends are reported to the taxpayer on [Form 1099-DIV](#).
 - Ordinary dividends are corporate distributions paid out of the earnings and profits of a corporation.
 - Qualified dividends are ordinary dividends that are eligible for a lower tax rate than other ordinary income.
- [Form 1040](#), line 10 is for taxpayers who received a state or local income tax refund.
 - Taxpayers who itemized deductions in the previous year and received a tax benefit from deducting state or local income taxes may have to report part or all of their refund as income.
 - Taxpayers may receive [Form 1099-G](#) reporting their state or local tax refund; if not, taxpayers can contact the New York State Tax Department to get the amount of their refund.



What Is Income?

Summary (cont.)

- Alimony is income received from a spouse or former spouse under a separation or divorce instrument. It is reported on [Form 1040](#), line 11.
- Capital gain distributions are reported on [Form 1040](#), line 13, and Schedule D, if required.



What Is Income?

Knowledge Check

11. Marie and her husband Arturo have three Forms 1099-INT: State of Washington Bond interest (\$300), Epping Credit Union (\$600), and Brenton Savings and Loan, (\$960). How much interest income should they report on Form 1040, Schedule B, Part 1?

- \$1,560
- \$1,860
- \$300
- \$1,260



What Is Income?

Knowledge Check

11. Marie and her husband Arturo have three Forms 1099-INT: State of Washington Bond interest (\$300), Epping Credit Union (\$600), and Brenton Savings and Loan, (\$960). How much interest income should they report on Form 1040, Schedule B, Part 1?

- \$1,560
- \$1,860
- \$300
- \$1,260

12. Toni received the following income: tip income, interest, alimony, inheritance, and IRA distributions. Which income is exempt from federal taxes?

- tip income
- alimony
- inheritance
- IRA distributions



What Is Income?

Knowledge Check



11. Marie and her husband Arturo have three Forms 1099-INT: State of Washington Bond interest (\$300), Epping Credit Union (\$600), and Brenton Savings and Loan, (\$960). How much interest income should they report on Form 1040, Schedule B, Part 1?

- \$1,560
- \$1,860
- \$300
- \$1,260

12. Toni received the following income: tip income, interest, alimony, inheritance, and IRA distributions. Which income is exempt from federal taxes?

- tip income
- alimony
- inheritance
- IRA distributions



What Is Income?

Knowledge Check

13. Keith has received Form W-2 for his part time job, but did not receive Form W-2 for a taxable college scholarship he won last year. Keith must report the scholarship as income on his tax return.

- True
- False



What Is Income?

Knowledge Check

13. Keith has received Form W-2 for his part time job, but did not receive Form W-2 for a taxable college scholarship he won last year. Keith must report the scholarship as income on his tax return.

-  True
 False

14. Kent and his wife Jeri received Form 1099-DIV for \$1,800 in ordinary dividend income from shares they own jointly. How do you report this income if they file separate returns?

- allow them to decide how they want to divide the amount between their two returns
- report \$900 on his return and \$900 on her return
- report the entire amount on one return or the other



What Is Income?

Knowledge Check



13. Keith has received Form W-2 for his part time job, but did not receive Form W-2 for a taxable college scholarship he won last year. Keith must report the scholarship as income on his tax return.

-  True
 False

14. Kent and his wife Jeri received Form 1099-DIV for \$1,800 in ordinary dividend income from shares they own jointly. How do you report this income if they file separate returns?

-  allow them to decide how they want to divide the amount between their two returns
 report \$900 on his return and \$900 on her return
 report the entire amount on one return or the other



What Is Income?

Knowledge Check

15. Wally claimed the standard deduction on last year's tax return and received a state tax refund. Is the refund taxable and if so, how does Wally report it?

- no, the refund is not taxable
- yes, he should enter the total amount of Form 1040, line 10
- yes, he should enter the total amount on Form 1040, line 13
- yes, he must use the appropriate worksheet to determine the amount to enter on line 10



What Is Income?

Section 7: Alimony

Page 73 of 147

[Previous](#) [Next](#)

Knowledge Check



15. Wally claimed the standard deduction on last year's tax return and received a state tax refund. Is the refund taxable and if so, how does Wally report it?

- no, the refund is not taxable
- yes, he should enter the total amount of Form 1040, line 10
- yes, he should enter the total amount on Form 1040, line 13
- yes, he must use the appropriate worksheet to determine the amount to enter on line 10





What Is Income?

Section 8: Retirement Income

Page 74 of 147

[Previous](#) [Next](#)



Section 8

Retirement Income



What Is Income?

Introduction

This lesson will help you identify and report the taxable portion of retirement income received by the taxpayer. To do this, you must understand the types of retirement income and the forms used to report them. You should also be able to recognize when taxpayers should adjust their withholding and determine which form to use.

At the end of this lesson, using your resource materials, you will be able to:

- Identify how retirement income is reported to the taxpayer using [Form 1099-R](#) series
- Calculate the taxable portion of different types of retirement income
- Determine how to report retirement income on the tax return
- Determine when an adjustment to withholding should be made



What Is Income?

What is Retirement Income?

Retirement income can include social security benefits, as well as any benefits from annuities, retirement or profit sharing plans, insurance contracts, IRAs, etc. Social security benefits and tier 1 railroad retirement benefits will be covered later in this lesson.

Retirement income can be reported to the taxpayer on:

- [Form 1099-R](#), *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*
- Form CSA 1099-R, *Statement of Annuity Paid (civil service retirement payments)* and Form CSF 1099-R, *Statement of Survivor Annuity Paid*
 - both are civil service retirement benefits issued by the Office of Personnel Management
- [Form RRB 1099-R](#), *Annuities or Pensions by the Railroad Retirement Board*



What Is Income?

What is Retirement Income?

If [Form 1099-R](#) is for an IRA-type distribution, it will be indicated in box 7.

The 1099 forms indicate information such as the amount received, the taxable portion, and the taxpayer's cost (investment) in the plan. If the taxable amount is indicated, only simple math is required to complete the return. In general, if the taxable amount is not indicated, the taxable portion must be calculated using the [Simplified Method Worksheet](#) (covered later in this lesson).



What Is Income?

Knowledge Check

16. Alisha received Form 1099-R for the current tax year. IRA/SEP/SIMPLE is checked in box 7 of her form. What does it indicate?

- prohibited transaction
- excessive contributions
- IRA-type distribution
- charitable gift annuity



What Is Income?

Knowledge Check



16. Alisha received Form 1099-R for the current tax year. IRA/SEP/SIMPLE is checked in box 7 of her form. What does it indicate?

- prohibited transaction
- excessive contributions
- IRA-type distribution
- charitable gift annuity





What Is Income?

Taxable Portion

Often, the payer will compute the taxable portion of the distribution and report it in box 2a of [Form 1099-R](#). Amounts from Form 1099-R are reported as follows:

- If the IRA/SEP/SIMPLE box is **not** checked on Form 1099-R:
 - The gross amount from box 1 Form 1099-R, Form CSA 1099-R and CSF-1099-R is entered on [Form 1040](#), line 16a, Pensions and annuities.
 - The taxable amount from box 2a of Form 1099-R, Form CSA 1099-R and CSF-1099-R is entered on Form 1040, line 16b, Taxable amount (pensions and annuities).
- If the IRA/SEP/SIMPLE box is checked on Form 1099-R:
 - Report the gross amount on Form 1040, line 15a, IRA distributions.
 - Report the taxable amount of Form 1040, line 15b, Taxable amount (IRA distributions).
- Any amount of federal income tax withheld on Form 1099-R, Form CSA 1099-R and CSF-1099-R is entered in the Payments section of the return.



What Is Income?

What if the Taxable Portion is Not Calculated?

If the payer did not include the taxable amount in box 2a of [Form 1099-R](#), Form CSA 1099-R or CSF-1099-R, or if the taxpayer has [Form RRB 1099-R](#), you will need to compute the taxable portion of the distribution. The following will help you determine the additional information that is needed to calculate the taxable portion of distributions from IRAs, pensions, or annuities.

- IRS [Publication 554](#), *Tax Guide for Seniors* explains federal tax benefits that apply to older Americans.
- New York [Publication 36](#), *General Information for Senior Citizens and Retired Persons* is also a good resource.



What Is Income?

Before-Tax or After-Tax Contributions

Retirement plans are funded by either "before-tax" or "after-tax" contributions.

- **Before-tax** simply means that the employee did not pay taxes on the money at the time it was contributed, that is, the taxpayer has no cost basis in the plan.
- **After-tax** means the employee paid taxes on the money when it was contributed, that is, the taxpayer has a cost basis in the plan.

If the taxpayer made all contributions to a plan with before-tax dollars, the entire distribution will be fully taxable. The funds are taxed at the time of the distribution because neither the contributions nor the earnings/investment gains were previously taxed. This is common in 401(k) and Thrift Savings plans.

If the taxpayer did not contribute to the retirement plan, all the distributions are fully taxable.



What Is Income?

Before-Tax or After-Tax Contributions

If the taxpayer made contributions to a plan with after-tax dollars, then the distribution will be partially taxable.

- The portion of the distribution that is considered a return of the after-tax dollars will not be taxed again; it is considered to be a return of the taxpayer's cost basis (an amount for which taxes have already been paid).
- The portion of the distribution that represents the earnings/investment gains is taxable because it has not been previously taxed. This is common in employer retirement plans.

Employee Contributions	Contributions Before-Tax	Contributions After-Tax	Taxability of Distributions Fully Taxable	Taxability of Distributions Partially Taxable
No	-----	-----	Yes	-----
Yes	Yes	-----	Yes	-----
Yes	-----	Yes	-----	Yes

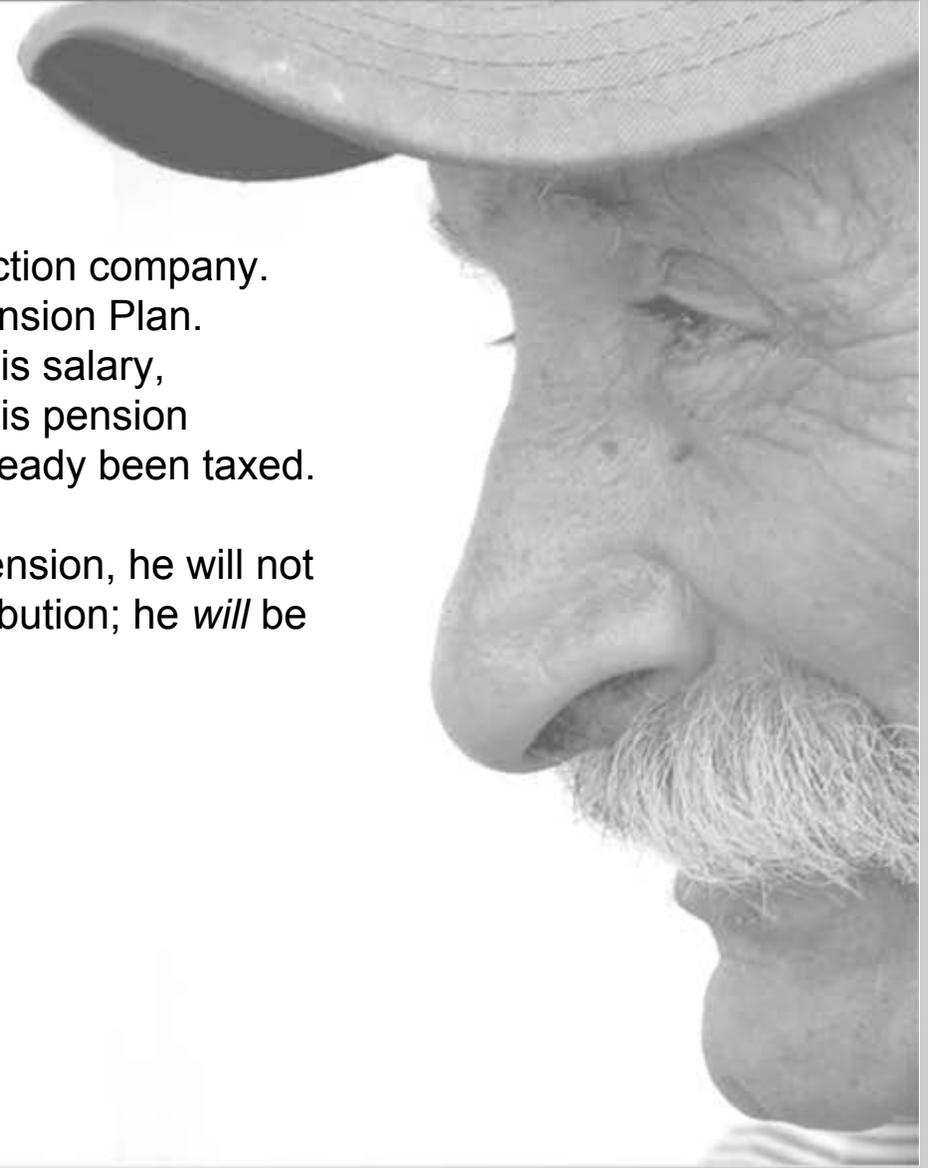


What Is Income?

Example

Mark retired after working 30 years for a construction company. Each week, he contributed to the Carpenter's Pension Plan. Every year, he paid tax on the gross amount of his salary, including his pension contribution. This means his pension contributions were made with dollars that had already been taxed.

Now that Mark is receiving payments from the pension, he will not be taxed on the portion that represents his contribution; he *will* be taxed on the portion that represents earnings.





What Is Income?

Knowledge Check

17. A 401 (k) includes "after-tax" contributions, which means employees pay income tax on their salary before the contributions have been deducted.

- True
- False



What Is Income?

Knowledge Check



17. A 401 (k) includes "after-tax" contributions, which means employees pay income tax on their salary before the contributions have been deducted.



- True
- False



What Is Income?

Individual Retirement Arrangements (IRAs)

IRA distributions are reported in box 7 of [Form 1099-R](#) with a check. Earnings and investment gains in a taxpayer's IRA generally accumulate tax-free or tax-deferred until they are withdrawn as fully or partially taxable distributions.

There are four kinds of IRAs, each with different tax implications:

- Traditional IRA
- Roth IRA
- Savings Incentive Match Plans for Employees (SIMPLE) IRA
- Simplified Employee Pension (SEP) IRA



What Is Income?

Individual Retirement Arrangements (IRAs)

Traditional IRA

Distributions from traditional IRAs are fully taxable unless nondeductible contributions have been made. See the *Adjustments to Income* lesson for additional information. [Form 8606](#), *Nondeductible IRAs*, is used to keep track of nondeductible contributions.

When you learn about IRA accounts in the *Adjustments to Income* lesson, be sure to note the difference between "contributions" and "deductions." Simply put, contributions are the amounts deposited into an IRA account; deductions are the portion of the contribution that is deducted on the tax return. The deductible portion may be less than the amount allowed as a contribution.



What Is Income?

Examples

1. Richard contributed \$500 a year to a traditional IRA. Each year he deducted his traditional IRA contribution from his income. This year he received his first distribution from the traditional IRA. It is fully taxable. Richard will pay income tax on the distributions he receives, which represent the contributions he made and deducted as well as the earnings on these contributions.
2. Tess contributed \$750 a year to a traditional IRA. She did not qualify to deduct her contributions from her income. This year Tess received her first distribution from the traditional IRA. She will pay income tax only on the part of the distribution from the traditional IRA that represents earnings on the contributions. She will use [Form 8606](#), *Nondeductible IRAs*, to determine the taxable portion of her distribution.



What Is Income?

Roth IRA (Individual Retirement Arrangements)

Distributions from a Roth IRA are tax-free and may be excluded from income if the following requirements are met:

- The distribution is made after the five-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for the taxpayer's benefit, and the distribution is:
 - made on or after age 59½, or
 - made because the taxpayer was disabled*, or
 - made to a beneficiary or to an estate, or
 - to pay certain qualified first-time homebuyer amounts (up to a \$10,000 lifetime limit).
- If these requirements are not met, the Roth IRA distributions could be partially taxable and subject to a ten percent additional tax. [Retirement Plans Frequently Asked Questions \(FAQs\)](#), can be helpful.

* *Taxpayers are considered disabled if they cannot engage in any substantial gainful activity because of any medically determinable physical or mental condition that can be expected to result in death or to be of long-continued and indefinite duration.*



What Is Income?

Roth IRAs

- Distributions from a Roth IRA are not taxable as long as they meet all the criteria discussed previously. If the distribution does not meet the criteria, then all or part of the funds will be taxable.
- An early distribution from a traditional or Roth IRA may be subject to a [10 percent additional tax](#), unless you met one of the exceptions listed in [Publication 590](#). You may need to complete and attach a [Form 5329](#) *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*, to the tax return.



What Is Income?

Individual Retirement Arrangements (cont.)

Savings Incentive Match Plans for Employees ([SIMPLE IRA plans](#))

Some employers offer their employees the chance to contribute part of their pay to an IRA as part of a SIMPLE plan. The employer may be required to make contributions on behalf of eligible employees. Generally, SIMPLE IRA contributions are not included in an employee's income when paid into an IRA and the distributions are fully taxable when the employee receives them in later years.

Simplified Employee Pension ([SEP IRA plans](#))

Similarly, some employers (including self-employed individuals) offer their employees a chance to take part in a SEP. Generally, SEP IRA contributions are not included in an employee's income when paid into the IRA. Distributions are generally fully taxable when the employee receives them in later years.

NOTE: Self-employed persons are also eligible to participate in SIMPLE IRA and SEP IRA plans. Distributions from a SIMPLE IRA and from a SEP IRA are generally fully taxable. See [1040 Instructions](#).



What Is Income?

Knowledge Check

18. Distributions from all IRAs discussed in this topic are fully taxable with the exception of the Roth IRA.

- True
- False



What Is Income?

Knowledge Check

18. Distributions from all IRAs discussed in this topic are fully taxable with the exception of the Roth IRA.



- True
- False

19. May contributed to a Roth IRA for the last three years. This year, she took the full amount of her Roth IRA as a distribution to help her purchase her first home. The entire distribution is excluded from her taxable income.

- True
- False



What Is Income?

Knowledge Check

18. Distributions from all IRAs discussed in this topic are fully taxable with the exception of the Roth IRA.

-  True
 False

19. May contributed to a Roth IRA for the last three years. This year, she took the full amount of her Roth IRA as a distribution to help her purchase her first home. The entire distribution is excluded from her taxable income.

-  True
 False

20. Amy, age 60, contributed to a Roth IRA for 5 years. In year six, she received a distribution from her IRA. The entire distribution is excluded from her taxable income.

- True
 False



What Is Income?

Knowledge Check



18. Distributions from all IRAs discussed in this topic are fully taxable with the exception of the Roth IRA.

-  True
 False

19. May contributed to a Roth IRA for the last three years. This year, she took the full amount of her Roth IRA as a distribution to help her purchase her first home. The entire distribution is excluded from her taxable income.

-  True
 False

20. Amy, age 60, contributed to a Roth IRA for 5 years. In year six, she received a distribution from her IRA. The entire distribution is excluded from her taxable income.

-  True
 False



What Is Income?

Traditional IRA, SIMPLE IRA, or SEP IRA

If IRA/SEP/SIMPLE is checked in box 7 of [Form 1099-R](#), ask the taxpayer:

- Was this a distribution from a traditional IRA?
- Were the contributions deducted from income in the year they were made?

If the answers to both questions are yes, the entire distribution is taxable. Report the distributions on [Form 1040](#), line 15b. It is not necessary to enter the amount on line 15a. If the distribution was from a traditional IRA but the contributions were not deducted in the year they were made, the distribution is partially taxable.



What Is Income?

Traditional IRA, SIMPLE IRA, or SEP IRA

Nondeductible contributions made to a traditional IRA are reported using [Form 8606](#), *Nondeductible IRAs*. Use [Form 8880](#), *Credit for Qualified Retirement Savings Contributions*, to determine whether the taxpayer is also eligible for a tax credit.

Taxation of distributions from traditional, SEP, or SIMPLE IRA, where the taxpayer has never made nondeductible contributions (including nontaxable amounts you rolled over from a qualified retirement plan) to traditional IRAs, are not reported on [Form 8606](#).



What Is Income?

Rollovers

Generally, a rollover is a tax-free distribution to the taxpayer from one retirement account (traditional IRA or employer's pension plan) to a similar retirement account within 60 days.

[Form 1099-R](#) will be issued to the taxpayer by the financial institution.

- If it was a direct rollover by the institution to another institution, box 7 will contain code G.
- If there is no code G, ask the taxpayer if the full amount was re-deposited into an appropriate account within 60 days. If it was not, the distribution may be partially or fully taxable.

Most of the rules for rollovers to traditional IRAs apply to Roth IRAs. Generally, a withdrawal of all or part of the assets from one Roth IRA and a contribution to another Roth IRA within 60 days is tax free. A rollover from a Roth IRA to an employer retirement plan is not allowed.



What Is Income?

Rollovers (cont.)

If there is a direct rollover of a designated Roth account distribution to a Roth IRA, box 7 of [Form 1099-R](#) will contain code H.

If the distribution does not meet the tax-free rollover requirements, all or part may be taxable. Report the amount of the distribution on [Form 1040](#), line 15a. To show that it is a qualified rollover and none of the amount is taxable, enter zero on Form 1040, line 15b, and write "Rollover" next to line 15b.

See [Publication 590](#), *Individual Retirement Arrangements (IRAs)*.



What Is Income?

Knowledge Check

21. Andrew received Form 1099-R from his previous employer; \$11,200 is shown in Form 1099-R, box 1. Andrew deposited the entire \$11,200 into his IRA within 30 days of receiving the check. Which of the following statements is true?

- the entire distribution is includable as income
- the entire distribution is excludable from income
- the distribution is eligible for the ten-year tax option
- the distribution is eligible to be taxed at a special rate



What Is Income?

Knowledge Check



21. Andrew received Form 1099-R from his previous employer; \$11,200 is shown in Form 1099-R, box 1. Andrew deposited the entire \$11,200 into his IRA within 30 days of receiving the check. Which of the following statements is true?

- the entire distribution is includable as income
- the entire distribution is excludable from income
- the distribution is eligible for the ten-year tax option
- the distribution is eligible to be taxed at a special rate





What Is Income?

Fully Taxable Pensions and Annuities

Pension and annuity income is reported on [Form 1099-R](#) (box 7 is not checked), Form CSA 1099-R, and [Form RRB 1099-R](#). Generally, pension or annuity payments are fully taxable if any of the following are true:

- taxpayers did not pay any part of the cost of their employee pensions or annuities,
- employers did not withhold part of the cost from the taxpayers' pay while they worked, or
- employers withheld part of the cost from the taxpayers' "before-tax" pay while they worked.

Social security benefits and IRA distributions are not reported on the pension line of the tax return.



What Is Income?

Example

Susan worked for a software development company for 20 years. She retired and began receiving pension income the same year. She never contributed to the pension plan while she was working; her employer made all of the contributions.

Her pension is fully taxable.





What Is Income?

Partially Taxable Pensions and Annuities Other than IRAs

Methods for Figuring Taxable Portions

There are two methods used to figure the taxable portion of each pension or annuity payment:

- The General Rule
- The Simplified Method

Unless an exception applies, retirees must use the Simplified Method for annuity payments from a qualified plan.

- A qualified plan is established by an employer to provide retirement benefits for employees and their beneficiaries.
- Employees typically do not pay taxes on plan assets until the assets are distributed; furthermore, earnings on qualified plans are tax deferred.

Refer to [Publication 575](#), *Pension and Annuity Income*, for taxpayers who have been using the General Rule to figure the taxable portion for past years.

Taxpayer's cost basis ÷ Number of monthly payments = Monthly Tax-Free Portion



What Is Income?

Partially Taxable Pensions and Annuities Other than IRAs

Simplified Method

The Simplified Method is used to calculate the tax-free portion of each pension or annuity payment. The Simplified Method Worksheet calculates the taxpayer's cost basis for each monthly payment. The number of monthly payments is based on the taxpayer's age (and the spouse's age if a joint/survivor annuity is selected by the taxpayer) on the annuity start date. Note if the annuity starting date is before or after the taxpayer's birthday for that year.

Using the [Simplified Method Worksheet](#), you can figure the tax-free portion of each pension/annuity payment by dividing the taxpayer's cost in the contract by the total number of expected monthly payments. The table in the worksheet will help determine the number of monthly payments based on the taxpayer's age (or the combined ages if a joint and survivor annuity is elected) on the annuity start date.

Do not forget to include any amounts in box 4 of [Form 1099-R](#) in the Payments section of the tax return.



What Is Income?

Knowledge Check

22. Dotty worked for the local tire plan for 32 years. She retired in June and receives a monthly pension of \$1,679. She received six payments for July through December. Dotty never contributed to the pension plan. Her employer made all of the contributions.

How much of her pension is taxable?

- \$12,074
- \$11,074
- \$10,074
- \$1,679



What Is Income?

Knowledge Check



22. Dotty worked for the local tire plan for 32 years. She retired in June and receives a monthly pension of \$1,679. She received six payments for July through December. Dotty never contributed to the pension plan. Her employer made all of the contributions.

How much of her pension is taxable?

- \$12,074
- \$11,074
- \$10,074
- \$1,679



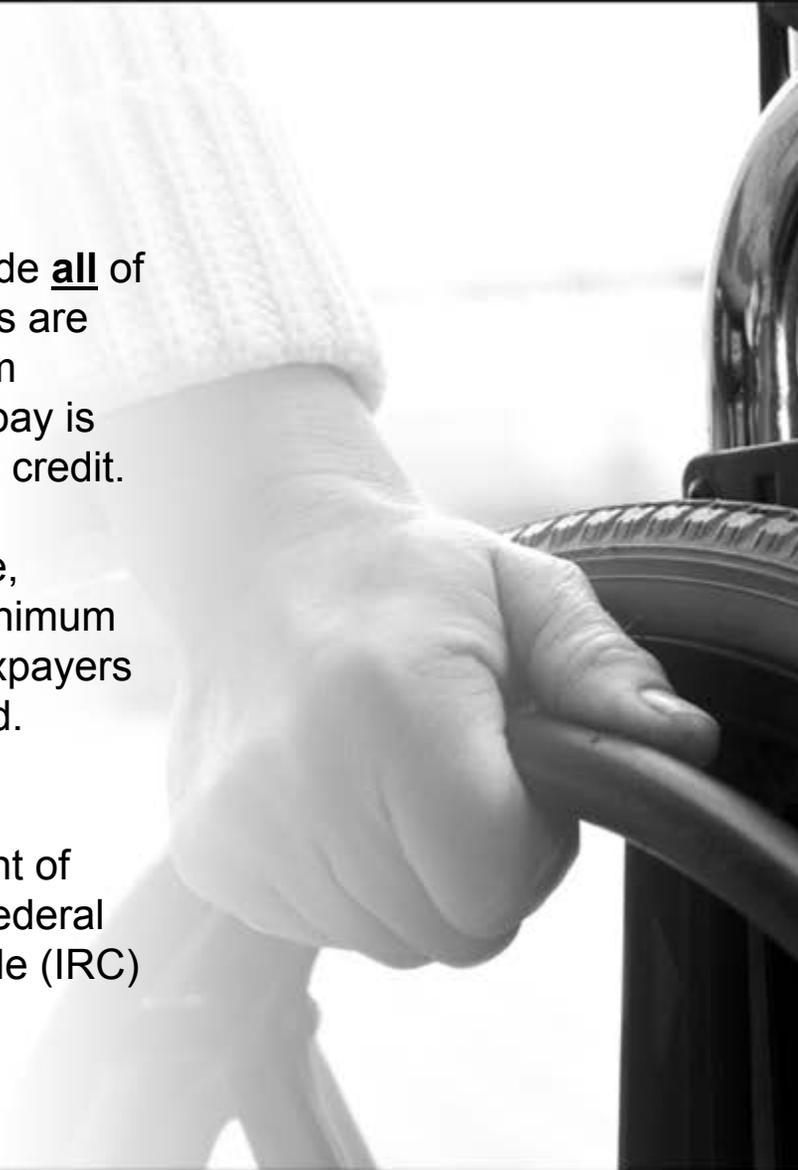
What Is Income?

Disability Pension Income

Generally, taxpayers who retire on disability must include **all** of their disability payments in income. Disability payments are taxed as wages until the taxpayer reaches the minimum retirement age (set by the employer). When disability pay is treated as wages, it might affect the earned income tax credit.

After the taxpayer reaches the minimum retirement age, disability payments are treated as pension income. Minimum retirement age is generally the earliest age at which taxpayers may receive a pension whether or not they are disabled.

See **New York State [Form IT-221](#)**, *Disability Income Exclusion*, and the [instructions](#) to determine any amount of disability income that could have been excluded from federal adjusted gross income based on Internal Revenue Code (IRC) section 105(d).





What Is Income?

Reporting Disability Income

Employers may report disability income on one of the following forms:

- [Form W-2](#), if the taxpayer has not reached the minimum retirement age set by the employer
- [Form 1099-R](#), if the taxpayer has reached the minimum retirement age (though some employers report disability income on Form 1099-R regardless of the taxpayer's age).

If both the taxpayer and the employer pay for a disability insurance plan, only the amount the taxpayer receives because of the employer's payments is taxable as income. The taxpayer's employer should be able to give specific details about the pension plan and the amount the taxpayer paid for the disability pension.

If the taxpayer has reached the minimum retirement age, report the disability income as a taxable pension on [Form 1040](#), line 16b. If the taxpayer has not reached the minimum retirement age, report the disability income as wages on Form 1040, line 7.



What Is Income?

Retired Employees

A public employee's pension income is not taxable to New York if it is paid by:

- New York State or local government
- the federal government
- certain public authorities

Retired public and private employees over the age of 59 ½ (or who turn 59 ½ during the tax year) may qualify for a private pension and annuity exclusion of up to \$20,000. This exclusion from New York taxable income applies to pension and annuity income included in the taxpayer's federal adjusted gross income.

For more information on the pension exclusions and other benefits for retired people, see [Publication 36](#), *General Information for Senior Citizens and Retired Persons* and [Publication 575](#), *Pension and Annuity Income*.



What Is Income?

Pension and Annuity Income Exclusion

If you were age 59½ or older before January 1, 2013, you may exclude up to \$20,000 of your qualified pension and annuity income from your federal adjusted gross income for purposes of determining your New York adjusted gross income.

If you became age 59½ during the tax year, the exclusion is allowed only for the amount of pension and annuity income received on or after you became 59½, but not more than \$20,000.



What Is Income?

Pension and Annuity Income Exclusion (cont.)

Qualified pension and annuity income includes:

- periodic payments for services you performed as an employee before you retired;
- periodic and lump-sum payments from an IRA attributable to compensation for personal services, but not payments derived from contributions made after you retired that are not attributable to compensation for personal services;
- periodic distributions from an annuity contract (IRC section 403(b)) purchased by an employer for an employee, and the employer is a corporation, community chest fund, foundation or public school;
- periodic payments from an HR-10 (Keogh) plan, but not payments derived from contributions made after you retired;
- lump-sum payments from an HR-10 (Keogh) plan, but only if federal [Form 4972](#), *Tax on Lump Sum Distributions*, is not used. Do not include that part of your payment that was derived from contributions made after you retired;
- periodic distributions from deferred compensation plans sponsored by state and local governments and tax-exempt organizations (under IRC section 457); and
- periodic distributions of benefits from a cafeteria plan (IRC section 125) or a qualified cash or deferred profit-sharing or stock bonus plan (IRC section 401(k)), but not distributions derived from contributions made after you retired.



What Is Income?

Knowledge Check

23. Annie Jo is 47 years old and has retired on disability from her job. She used to load cargo for a tractor-trailer company, but a large box fell on her and left her paralyzed. She receives a monthly payment from her former employer's pension plan. She has not reached the minimum retirement age set by her company's pension plan.

On which line of her [Form 1040](#) should you report her disability income?

- line 61
- line 16a
- line 16b
- line 7



What Is Income?

Knowledge Check



23. Annie Jo is 47 years old and has retired on disability from her job. She used to load cargo for a tractor-trailer company, but a large box fell on her and left her paralyzed. She receives a monthly payment from her former employer's pension plan. She has not reached the minimum retirement age set by her company's pension plan.

On which line of her [Form 1040](#) should you report her disability income?

- line 61
- line 16a
- line 16b
- line 7





What Is Income?

Additional Taxes on Retirement Income

There are a few other issues related to reporting retirement income that you may encounter. Some of the following distributions are subject to various additional taxes that are computed on [Form 5329](#), *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*. If certain exceptions are met, the additional tax on early distributions does not apply.



What Is Income?

Lump-Sum Distributions

A lump-sum distribution is the distribution (within a single tax year) of an employee's entire balance from all in a qualified pension, stock bonus, or profit-sharing plans that the employer maintains. Distributions from IRAs or tax-sheltered annuities do not qualify as lump-sum distributions.

Lump-sum distributions do not include certain deductible voluntary employee contributions and certain amounts forfeited or subject to forfeiture. To qualify as a lump-sum distribution, the payment must have been made:

- because the plan participant died, or
- after the participant reached age 59½, or
- because the participant (not including a self-employed individual) separated from service with the employer, or
- after the participant, if a self-employed individual, becomes totally and permanently disabled.



What Is Income?

Lump-Sum Distributions (cont.)

Lump-sum distributions are reported on [Form 1099-R](#) like any other pension distribution. Some lump-sum distributions qualify for special tax treatments. Code A shown in box 7 of Form 1099-R indicates that the distribution is a lump-sum distribution and qualifies for special tax treatments.

Use [Form 4972](#) to figure the tax on a qualified lump-sum distribution received using the 20% capital gain election, the ten-year tax option, or both. These are special formulas used to figure a separate tax on the distribution that may result in a smaller tax than if the taxable amount of the distribution **was reported** as ordinary income.

The tax is paid only once, for the year the taxpayer receives the distribution, not over the next ten years. The separate tax is added to the regular tax figured on other income.

See New York [Form IT-230](#), *Separate Tax on Lump-Sum Distributions*, and its [instructions](#).



What Is Income?

Premature Distributions

A premature distribution is an early withdrawal from a pension fund, for purposes other than retirement, by a taxpayer who is under 59½. Early distributions can be subject to an additional tax of ten percent. The tax applies to the taxable portion of the distribution or payment.

If the distribution code in box 7 is 1, the taxpayer will be subject to the additional ten percent tax, unless an exception applies.

Certain early distributions are excluded from the early distribution tax. If the distribution code in box 7 of [Form 1099-R](#) is 2, 3, or 4, the taxpayer does not have to pay the additional tax.



What Is Income?

Required Minimum Distributions (RMDs)

To avoid an additional tax, participants in retirement plans must begin taking a Required Minimum Distribution (RMD) by a previously specified date. That date is April 1 of the calendar year that follows the later of two events—the year the taxpayer:

- reached age 70½, or
- retired from employment.

The trustee of the qualified plan normally will contact the taxpayer at the appropriate time to begin RMDs. This information is provided for your awareness only, to help you answer questions taxpayers may ask about RMDs. RMDs are reported on [Form 1099-R](#) and included on the return using the procedures previously discussed.

For IRAs, it doesn't matter whether the taxpayer is employed. Distributions must begin by April 1 of the year following the calendar year in which the taxpayer reaches 70½. These rules do not apply to Roth IRAs.



What Is Income?

Required Minimum Distributions (RMDs) (cont.)

After the starting year for RMDs, taxpayers must receive the minimum distribution for each year by December 31 of that year. The starting year is the year in which the taxpayer reaches 70½ or retires. If no distribution is received during the taxpayer's starting year, the RMD for two years must be received the following year, one of which must be taken by April 1.

This information is provided for information purposes only to help you answer any questions that the taxpayer may ask about RMD. RMDs are reported on [Form 1099-R](#) and are included on the return, using the procedures previously discussed.

If the taxpayer does not receive the minimum distribution, an excise tax may be imposed.

The tax is 50 percent of the difference between the minimum distribution and the amount actually distributed for the tax year.



What Is Income?

Examples

1. Peter turned 70-1/2 on August 20 of this year. He must receive the first required minimum distribution from his IRA by April 1 next year. He must receive a second required minimum distribution by December 31 of next year.
2. Ralph retired five years ago. He turned 70-1/2 this tax year. He must begin taking minimum distributions from his qualified plan by April 1 of the following year.
3. Myrna was 72 when she retired in 2013. She was required to begin taking minimum distributions from her traditional IRA after age 70-1/2 even though she had not retired. Myrna has until December 31, 2013, to take her 2013 minimum distribution.



What Is Income?

Withdrawal of Excess IRA Contributions

An excess IRA contribution is the amount contributed to a traditional IRA during the year that is more than the smaller of:

- \$5,500 (\$6,500 if age 50 or older), or
- the taxable compensation for the year

The taxpayer may not know that a contribution is excess until the tax return is completed after the end of the year. When this situation is identified, the excess amount (and any earnings on that amount) need to be withdrawn by the due date of the return including extensions. If the excess amount is not withdrawn by the due date of the return, the taxpayer will be subject to an additional 6 percent tax on this amount.



What Is Income?

Withdrawal of Excess IRA Contributions (cont.)

The withdrawn excess contribution is not included in the taxpayer's gross income if both of the following conditions are met:

- no deduction was allowed for the excess contribution
- all interest or other income earned on the excess contribution is withdrawn by the due date of the return, including extensions

However, taxpayers must include the earnings on the excess contribution as income on the return. This income is reported on the return for the year in which the excess contribution was made. The withdrawal of interest or other income may also be subject to an additional ten percent tax on early distributions.



What Is Income?

Knowledge Check

24. Taxpayers who withdraw excess contributions and earnings on the excess contributions by the due date of the tax return are not subject to an additional 6 percent tax on the excess contribution.

- True
- False



What Is Income?

Knowledge Check

24. Taxpayers who withdraw excess contributions and earnings on the excess contributions by the due date of the tax return are not subject to an additional 6 percent tax on the excess contribution.

-  True
 False

25. Helen turned 70.5 on March 17, 2013. She retired in 2003. She has never taken any distribution from her traditional IRA accounts. She must take a distribution from the IRA this year. The bank where she has her IRA told her that she needs to take a minimum distribution of \$1,479 per year. Helen is required to _____.

- take a distribution of \$1,479 by December 31, 2013
- take a distribution of \$1,479 by April 1, 2013, and another \$1,479 by December 31, 2013
- take a distribution of \$2,958 by December 31, 2013
- take a distribution of \$1,479 by April 1, 2014, and another \$1,479 by December 31, 2014



What Is Income?

Knowledge Check

24. Taxpayers who withdraw excess contributions and earnings on the excess contributions by the due date of the tax return are not subject to an additional 6 percent tax on the excess contribution.

-  True
 False

25. Helen turned 70.5 on March 17, 2013. She retired in 2003. She has never taken any distribution from her traditional IRA accounts. She must take a distribution from the IRA this year. The bank where she has her IRA told her that she needs to take a minimum distribution of \$1,479 per year. Helen is required to _____.



-  take a distribution of \$1,479 by December 31, 2013
 take a distribution of \$1,479 by April 1, 2013, and another \$1,479 by December 31, 2013
 take a distribution of \$2,958 by December 31, 2013
 take a distribution of \$1,479 by April 1, 2014, and another \$1,479 by December 31, 2014



What Is Income?

Pension Withholding and Estimated Tax Payments

Some taxpayers are not aware that they can request federal income tax to be withheld from their retirement income by filing [Form W-4P](#), *Withholding Certificate for Pension or Annuity Payments*. Form W-4P is sent to the payer. Also, [Form W-4V](#), *Voluntary Withholding Request*, can be used to request withholding from social security benefits. Form W-4V is sent to the Social Security Administration. [Form RRB W-4P](#) is sent to the Railroad Retirement Board to withhold taxes.

New York Withholding

If annuity or pension payment must be included in your New York adjusted gross income, you may file [IT-2104-P](#) to have New York State (New York City or Yonkers resident) personal income tax withheld from each payment. However, the annuity or pension must be payable over a period longer than one year.

If taxpayers owe \$1,000 or more on the tax return, you should discuss their withholding and estimated tax options with them.



What Is Income?

Pension Withholding and Estimated Tax Payments (cont.)

A taxpayer who chooses not to have tax withheld may have to pay estimated tax each quarter. Failure to have enough federal income tax paid in throughout the year can result in an estimated tax penalty. Also, it can result in a large amount of tax due when the return is filed. [Form 1040-ES](#), *Estimated Tax for Individuals*, is used to calculate the estimated quarterly payment and provides vouchers with which to remit the payments.

New York Estimated Tax

Generally, taxpayers must pay estimated income tax on [Form IT-2105](#), *Estimated Income Tax Payment Voucher for Individuals*, if (after subtracting withheld tax and credits) they expect to owe at least \$300 of either New York State, New York City, or Yonkers tax. See the instructions to [Form IT-2105-I](#) for exceptions to this rule.

New York estimated tax can be paid electronically at www.tax.ny.gov.



What Is Income?

Knowledge Check

26. Faith comes to your site to get her 2013 tax return done. When you finish her return, you explain to her that she owes \$985, and that she needs to pay this amount by April 15, 2014. She says that she will pay the amount, but wants to know if there is some way to have more tax withheld from her pension so that she doesn't owe so much at the end of the year.

What form should she complete to increase withholding from her pension?

- Form W-4P
- Form W-4V



What Is Income?

Knowledge Check



26. Faith comes to your site to get her 2013 tax return done. When you finish her return, you explain to her that she owes \$985, and that she needs to pay this amount by April 15, 2014. She says that she will pay the amount, but wants to know if there is some way to have more tax withheld from her pension so that she doesn't owe so much at the end of the year.

What form should she complete to increase withholding from her pension?

- Form W-4P
- Form W-4V



What Is Income?

Unemployment Compensation Objectives

Upon completing this section, you will be able to:

- Identify unemployment compensation income
- Determine how to report unemployment compensation on the tax return



What Is Income?

Unemployment Compensation

In most cases, unemployment compensation is taxable. Unemployment compensation generally includes any amount received under a federal or state unemployment compensation law. However, it is not considered earned income for the purposes of calculating [EIC](#).

Unemployment compensation is reported to the recipient on [Form 1099-G](#). Be aware that other [Forms 1099-G](#), *Certain Government Payments*, is used to report an overpayment or refund of a state income tax return.



What Is Income?

Unemployment Compensation (cont.)

In determining if the taxpayer received unemployment compensation, ask the taxpayer for any [Forms 1099-G](#), *Certain Government Payments*, that document unemployment compensation payments from each government entity.

In most states, a taxpayer can elect to have federal income taxes withheld from unemployment compensation. Review box 4 [Form 1099-G](#) for any federal income tax withheld.



What Is Income?

Reporting Unemployment Compensation

- Enter the amount of unemployment received in box 1 of [Form 1099-G](#) on Form 1040, line 19.
- Enter the amount of withholding from Form 1099-G, box 4 in the payment section on Form 1040.
- If the taxpayer has more than one Form 1099-G, total the amounts from each box on all the Form(s) 1099-G and enter on the return.



What Is Income?

Knowledge Check

27. When Peter was laid off, he received state unemployment compensation totaling \$4,000 before finding a new job.

How much would he report as income?

- \$1,600
- \$2,400
- \$4,000
- too little information to answer the question



What Is Income?

Knowledge Check

27. When Peter was laid off, he received state unemployment compensation totaling \$4,000 before finding a new job.

How much would he report as income?

- \$1,600
- \$2,400
- \$4,000
- too little information to answer the question





What Is Income?

Section 10: Social Security

Page 127 of 147

[Previous](#) [Next](#)

Section 10

Social Security





What Is Income?

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Determine the taxable portion of social security and railroad retirement benefits
- Determine the most advantageous method of reporting lump sum social security benefits
- Report social security and railroad retirement benefits on the tax return



What Is Income?

Introduction

This lesson will help you assist taxpayers who have social security and equivalent railroad retirement benefits. These benefits may or may not be taxable.

Ask the taxpayer about the receipt of either of these benefits.

- The [Social Security Administration](#) issues Form SSA-1099, *Social Security Benefit Statement*, to social security benefit recipients.
- The [Railroad Retirement Board](#) issues Form RRB-1099, *Payments by the Railroad Retirement Board* and [Form RRB 1099-R](#), *Annuities or Pensions by the Railroad Retirement Board*

See [Publication 575](#), *Pension and Annuity Income*, and [Publication 915](#), *Social Security and Equivalent Railroad Retirement Benefits*, for additional information on the topics discussed in this lesson.



What Is Income?

Social Security Benefits

Social Security benefits are payments made under Title II of the Social Security Act and include old-age, survivor, and disability insurance (OASDI) benefits. These include monthly retirement, survivor, and disability benefits. They do not include supplemental security income (SSI). Certain government retirees who receive a pension from work are not covered by social security.

Some portion of the social security benefits received may be taxable. Generally, if social security benefits are the only source of income, the benefits are not taxable. In this instance, taxpayers may not be required to file a return. However, if the taxpayers are filing Married Filing Separately and lived with their spouse at any time during the tax year, 85% of the benefits will be taxable.



What Is Income?

Railroad Retirement Benefits (RRBs)

Railroad Retirement Benefits (RRBs) are benefits paid to railroad employees who are covered by the Railroad Retirement Act (RRA). The RRA benefits have two components:

- tier 1 (social security equivalent benefits), and
- tier 2 (treated as a qualified employee plan).

The tier 2 benefits are reported on Form RRB 1099-R. These funds are discussed in the previous lesson on Retirement Income.

IRS [Publication 554](#), *Tax Guide for Seniors* explains federal tax benefits that apply to older Americans.



What Is Income?

New York Taxation of Social Security Benefits

Social security benefits and Tier 1 railroad retirement benefits that are included in federal adjusted gross income are exempt from state and local income taxes. Be sure to subtract these benefits from your federal adjusted gross income when computing your New York adjusted gross income.

Railroad Retirement Benefits

If federal adjusted gross income includes either:

- supplemental annuity or Tier 2 benefits received under the Railroad Retirement Act of 1974, or
- benefits received under the Railroad Unemployment Insurance Act

and those benefits are exempt from state income taxes under Title 45 of the United States Code, subtract the amount of those benefits from federal adjusted gross income when computing New York adjusted gross income.

See [Publication 36, General Information for Senior Citizens and Retired Persons](#).



What Is Income?

How Benefits Are Reported to Taxpayers

Form SSA-1099:

Social security benefits are reported on Form SSA-1099. Taxpayers who did not receive Form SSA-1099 or have misplaced it, can obtain a printout of benefits from their local social security office or request a replacement by accessing the Social Security Administration's web site at www.ssa.gov.

Form RRB-1099:

Tier 1 railroad retirement benefits are equal to the social security benefit that a railroad employee or beneficiary would have been entitled to receive under the social security system. These benefits are called "social security equivalent benefits" and, for tax purposes, are treated like social security benefits. They are shown on the blue Form RRB-1099.



What Is Income?

Example

Jacob is a retired railroad switchyard operator. You determine that Jacob received Railroad Retirement Benefits. He received Form RRB-1099 and Form RRB-1099-R. The amount from Form RRB-1099 will be added to any amount of social security benefits.





What Is Income?

When Are Benefits Taxable?

Part of the following benefits received by the taxpayer may be taxable:

- Social security benefits
- Railroad retirement benefits, tier 1 (social security equivalent portion)

The amount from box 5 of Form SSA-1099 or Form RRB-1099 is used to calculate the taxable portion of the benefits. The taxable amount, if any, of a taxpayer's social security (or social security equivalent) benefits depends upon:

- Filing status and other reportable income
- Whether the benefits were the taxpayer's only source of income
 - - If the benefits were the only source of income, the taxpayer generally does not need to file a federal income tax return.



What Is Income?

When Are Benefits Taxable?

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 based upon filing status. A portion of the benefits is also taxable if the taxpayers are filing Married Filing Separately and lived with their spouse at any time during the year.

The taxable portion of social security benefits is never more than 85% of the net benefits the taxpayer received. In many cases, the taxable portion is less than 50%.

If the taxpayer received social security benefits and other income, complete the [Social Security Benefits Worksheet](#) to calculate the taxable portion.



What Is Income?

Social Security Benefits Worksheet

If taxpayers are filing a joint return, combine both spouses' benefits and other income when completing the worksheet. Even if one spouse did not receive social security benefits, include that spouse's other income.

If the taxpayer is itemizing deductions, include Medicare premiums (Part B and D) from Forms SSA-1099 and RRB-1099 so that it flows to Schedule A. Be sure to enter any federal income tax withholding. The tax software will perform all the calculations to determine the taxable amount based on other information on the return. Enter all income, including tax-exempt interest, so the software will correctly calculate the taxability of benefits.



What Is Income?

Example

Wanda and Dan are both retired and will file a joint return. Wanda received Form SSA-1099 with \$4,300 in box 5. Dan retired from the railroad and his Form RRB-1099 shows \$6,800 in box 5.

Wanda and Dan will use the combined benefits of \$11,100 and only one worksheet to determine if any of their benefits are taxable.





What Is Income?

Knowledge Check

28. Hank comes to you to get some help with his tax return. He is upset because his neighbor told him that he would have to pay tax on all of his social security benefits this year. After talking to Hank, you learn that his wife died several years ago.

This tax year he sold all of his stock and moved into senior housing. Hank, received \$31,896 of taxable income from the sale of the stock. His neighbor told him, with that much income, the entire \$11,724 of his social security benefits would be taxable.

What is the maximum amount of Hank's benefits?

- \$31,896
- \$20,172
- \$11,724
- \$9,965



What Is Income?

Knowledge Check



28. Hank comes to you to get some help with his tax return. He is upset because his neighbor told him that he would have to pay tax on all of his social security benefits this year. After talking to Hank, you learn that his wife died several years ago.

This tax year he sold all of his stock and moved into senior housing. Hank, received \$31,896 of taxable income from the sale of the stock. His neighbor told him, with that much income, the entire \$11,724 of his social security benefits would be taxable.

What is the maximum amount of Hank's benefits?

- \$31,896
- \$20,172
- \$11,724
- \$9,965



What Is Income?

Lump-Sum Benefit Payments

Some taxpayers may have received a lump-sum benefit payment. The payment could be for the current tax year and for prior tax years. Box 3 of the taxpayer's Form SSA-1099 or Form RRB-1099 will include the lump-sum payment. The form will also show the year, or years, of the payment. This additional information will be shown in Description of Amount in Box 3 on Form SSA-1099 or in boxes 7-9 on Form RRB-1099.

NOTE: Do not confuse this type of lump-sum benefit payment with the lump-sum death benefit that both the SSA and the RRB pay to many of their beneficiaries. No part of the lump-sum death benefit is subject to tax.



What Is Income?

Calculating the Taxable Portion

When figuring the taxable portion of social security benefits, two options are available for lump-sum benefit payments:

1. The taxpayer can report the whole payment in the year it was received. When the taxpayer chooses this option, complete the Social Security Benefits Worksheet as usual by including the entire lump-sum payment on line 1.
2. The taxpayer can treat the payment as received in the earlier year (or years). This is done by figuring whether any part of these benefits is taxable, based on the earlier year's income. Any part that is taxable is then added to any taxable benefits for the current year and included on Form 1040, line 20b. The taxpayer can elect this method if it lowers the taxable benefits.



What Is Income?

Computing Taxable Benefits

Under the lump-sum election method, refigure the taxable part of all the benefits for the earlier year (including the lump-sum payment) using that year's income, then subtract any taxable benefits for that year that were previously reported. The remainder is the taxable part of the lump-sum payment. Add it to the taxable part of the benefits for the current year (figured without the lump-sum for the earlier year).

In order to compute the taxable benefits, you will need copies of the taxpayer's prior year returns. For additional information on the lump-sum election, see [Publication 915](#), *Social Security and Equivalent Railroad Retirement Benefits*.



What Is Income?

Example

In 2011, Jane applied for social security disability benefits but was told she was ineligible. She appealed the decision and won. In 2013, she received a lump-sum payment of \$11,000, of which \$2,000 was for 2011 and \$4,000 was for 2012. Jane also received \$5000 in social security benefits in 2013, so her 2013 Form SSA-1099 shows benefits paid of \$11,000.

Jane had other taxable income in 2011, 2012, and 2013. She should figure her taxable benefits under the lump-sum election method to see if it is lower.

Because the earlier year's taxable benefits are included in the current year's income, no adjustment is made to the earlier year's return. Do not file an amended return for the earlier year. Once a taxpayer elects this method of figuring the taxable part of a lump-sum payment, the election can only be revoked with the consent of the [IRS](#).





What Is Income?

Knowledge Check

29. Joan presents you with her Form SSA-1099 that includes a lump-sum benefit payment for both 2012 and 2013. She had other taxable income in both 2012 and 2013.

What lump-sum election method may be used to determine the taxable portion of social security benefits if it lowers her tax benefit?

- report the whole payment in the year it was received
- complete the Social Security Benefits Worksheet including the lump-sum payment on line 1
- figure whether any part of the lump-sum payment is taxable based on earlier year's income
- file an amended return to make adjustments for 2012



What Is Income?

Knowledge Check



29. Joan presents you with her Form SSA-1099 that includes a lump-sum benefit payment for both 2012 and 2013. She had other taxable income in both 2012 and 2013.

What lump-sum election method may be used to determine the taxable portion of social security benefits if it lowers her tax benefit?

- report the whole payment in the year it was received
- complete the Social Security Benefits Worksheet including the lump-sum payment on line 1
- figure whether any part of the lump-sum payment is taxable based on earlier year's income
- file an amended return to make adjustments for 2012





What Is Income?

Social Security Benefits Summary

This lesson explained how to determine whether income from taxpayers' social security benefits and railroad retirement benefits is taxable.

Generally, if social security benefits were the taxpayer's only source of income, the benefits are not taxable and the taxpayer does not need to file a federal income tax return. If the taxpayer received social security benefits and other income, complete the [Social Security Benefits Worksheet](#) to calculate the taxable portion.

When figuring the taxable portion of social security benefits, two options are available for lump-sum benefit payments. The taxpayer may report the whole payment in the year it was received or treat the payment as received in the applicable earlier year or years.



What Is Income?

Conclusion

Page 146 of 147

[Previous](#) [Next](#)

Connect With Us



<http://www.tax.ny.gov>



Online Demos



Email Subscription Service



NYSTaxDepartment



NYSTax



NYSTaxNews

Tax Practitioner Hotline (518) 457-5451