



IRS Nationwide **TaxForum** | 2021

Other Income: Taxable or Not
Tuesday, August 10, 2021

Start Time: 2:00pm Eastern / 1:00pm Central
12:00 Noon Mountain / 11:00am Pacific

Note: You should be hearing music while waiting for webinar to start.

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Today our webinar will:

- Recognize tax treatment of Covid19 related income
- Recognize when a refund, credit, or offset of income taxes received may have to be reported as additional income
- Describe the tax treatment of alimony received
- Recognize how to report unemployment compensation
- Identify what other types of income may be taxable or not taxable
- Name situations for which Form 4797 must be filed

What's New

SBA Payroll Protection Program Loans

Taxable or Not

- PPPL #1 is automatically forgiven under \$150,000
- PPPL over \$150,000 is forgiven if qualifications are met
- These loans are nontaxable and expenses paid with them are deductible.
- If loan is not forgiven it is not income but a repayable loan.
- SBA EIDL Grant of up to \$10,000 is nontaxable. The EID Loan is a loan and repayable, not taxable. The first 6 months of interest may be forgiven and is not taxable.

Health and Human Services (HHS) grants given to Medicare Providers are taxable income.

Business income (or loss) on Schedule C

Schedule C - Profit or Loss From Business is an entire class of its own, so just a few reminders:

A business needs to have a profit motive or it may be a hobby

Profit from a Schedule C is subject to Self Employment Tax, Form SE. This covers the owner's

Social Security Tax

Medicare Tax

See Pub 334



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Rental real estate and royalties reported on Schedule E

Income or loss from rental real estate and royalties are not business income, merely, investment activities

If deductible expenses exceed income, the loss may be limited by “at risk rules” and passive activity loss (PAL) rules.

At risk is the amount you have invested (cash plus loans)

Passive activity loss is limited based on passive activity income and adjusted gross income

Pub 527 Residential Rental Property

Income (or loss) from partnerships, S corps, trusts, and estate reported on Schedule E

The information to be used is taken from a K-1, issued by the entity as part of its tax return.

Partnerships and limited liability companies filing partnership returns (Form 1065) issue K-1s to partners and LLC members.

S corporations filing Form 1120-S issue K-1s to shareholders.

Trusts and estates filing Form 1041 issue K-1s to beneficiaries.

Schedule E reflects the taxpayer's share of income or loss from the entity. Only the net amount of income or loss is reported here.

Taxable Refunds

Federal income tax refunds are not taxable

State income tax refunds may be taxable

Form 1099-G

Only if produced a tax benefit in the year received

Standard deduction

Itemized deductions

State and income tax

Sales tax deduction



Alimony Received

Alimony rules:

1. Alimony under divorce or separation prior to 2019 is:
Included as gross income by recipient
Adjustment to income by payer
2. Alimony under divorce or separation after 2019 is:
Not included in gross income by recipient
Not an adjustment by payer



Other Alimony Issues

Receiver of taxable alimony must include month and year of agreement

Payer of taxable alimony must include recipient's social security number

Child support payments are not taxable

Property settlements are not taxable at time of settlement

Receiving spouse takes basis of giving spouse

Retirement benefits and IRA accounts

IRA transfers are not taxable between spouses until withdrawn

QDRO-Qualified Domestic Relations Order





Form 4797

If you sold or exchanged assets used in your business, you must report your gain or loss. To do this, you must complete Form 4797. The form allows for reporting different types of gains or losses:

- **Section 1231 transactions.** These include sales or exchanges of real or depreciable property used in a business and held for more than one year, as well as certain dispositions involving timber, coal, or cattle.
- **Involuntary conversions.** These are due to damage or destruction from a casualty event involving property held more than one year.
- **Ordinary gain and loss transactions.** These include sales or exchanges of real or depreciable property used in a business and held for one year or less. It also includes losses on the sale of Internal Revenue Code Section 1244 (small business) stock, which is treated as an ordinary loss up to \$50,000 (\$100,000 on a joint return).
- **Recapture of depreciation for certain property.** For example, if you sold property that was your home and you also used it for business (e.g., a home office), reporting on this form may be required.
- **Recapture of certain deductions.** These are deductions under Section 179 (first-year expensing) and Section 280F(b)(2) (listed property, such as a business vehicle) when business use of the listed property drops to 50% or less.

Unemployment compensation

Unemployment benefits are fully taxable in all years except 2020.

These include:

State unemployment insurance benefits

Benefits paid by a state or the District of Columbia from the Federal Unemployment Trust Fund

Railroad unemployment compensation benefits

Disability benefits paid as a substitute for unemployment compensation





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2020 Unemployment Rules

The American Rescue Plan Act signed on March 11, 2021 has changed the taxability of unemployment benefits for tax year 2020, only.

The first \$10,200 per taxpayer of unemployment benefits for 2020 will be nontaxable for taxpayers with a modified adjusted gross income of \$150,000.

Community property states have a unique set of rules for MFS filers. If income is deemed to be community income it may be split on MFS returns and each spouse may take the \$10,200 deduction if income permits.



Unemployment Repayment

Repayment of overpaid benefits:

If you receive an overpayment of benefits in the current year that were repaid in the current year, simply reduce the amount received by the amount repaid

If the benefits were received in a prior year and repaid in the current year and the repayment was more than \$3,000, you have a choice on how to handle this taxwise:

Claim the repayment as a miscellaneous itemized deduction, which is not subject to the 2%-of-adjusted-gross-income floor, or

Take a tax credit, through right of claim process

Other Taxable Income

Canceled debts. These may result where a lender, such as a credit card company forgives a debt or loan. However, canceled debts are not taxed in certain situations, although they need to be reported on the return and then zeroed out because the lender likely has filed an information return reporting the income from the canceled debt:





Cancelled Debt (Continued)

- ARPA Section 9675 makes student loan forgiveness free from income tax for 2021 through 2025.
- Discharge of student loan debt before 2026 for a person who is disabled or deceased
- Insolvent at the time of the discharge
- Bankruptcy
- Discharge of home mortgage debt up to \$2 million before 2021
- Cancellation intended to be a gift
- Qualified farm debt that is canceled by a qualified person
- Qualified real property business debt

Other Taxable Income

- Achieving a Better Life Experience (ABLE) account distributions used for nonqualified expenses
- Alaska Permanent Fund dividends
- Dividends on insurance policies if they exceed the total of all net premiums you paid for the contract
- Gambling winnings, including lotteries, raffles, a lump-sum payment from the sale of a right to receive future lottery payments, etc.
- Most prizes and awards
- Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property
- Jury duty pay

\$

Other Taxable Income

- Reimbursements or other amounts received for items deducted in an earlier year, such as medical expenses, real estate taxes, general sales taxes, or home mortgage interest.
- Distributions from a Coverdell education savings account (ESA) or a 529 plan used to pay nonqualified education expenses.
- Distributions from a health savings account (HSA) or an Archer medical savings account (MSA) used for other than the payment of qualified medical expenses.
- The taxable part of disaster relief payments.
- Bartering.



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Nontaxable Income

- Any Pay-for-Performance Success Payments that reduce the principal balance of your home mortgage under the Home Affordable Modification Program
- Child support
- Damages received as compensation for personal physical injury or illness
- Foster care payments. However, payments for the care of more than five individuals age 19 or older are taxable.

Nontaxable Income

- Gifts, inheritance, and bequests.
- Life insurance proceeds received because of someone's death
- Medicaid waiver payments to a care provider
- Olympic and Paralympic medals based on value, and the amount of USOC prize money you receive on account of participation in the Olympic or Paralympic Games.