Part Two.

Income and Adjustments to Income

The five chapters in this part discuss many kinds of income and adjustments to income. They explain which income is and isn't taxed and discuss some of the adjustments to income that you can make in figuring your adjusted gross income.

The Form 1040 and Form 1040-SR schedules that are discussed in these chapters are:

- *Schedule 1, Additional Income and Adjustments to Income;*
- *Schedule 2 (Part II), Other Taxes; and*
- *Schedule 3 (Part II), Other Payments and Refundable Credits.*

Table V. **Other Adjustments to Income**

Use this table to find information about other adjustments to income not covered in this part of the publication.

IF you are looking for more information about the deduction for...	**THEN see...**
contributions to a health savings account	*Pub. 969, Health Savings Accounts and Other Tax-Favored Health Plans*.
moving expenses	*Pub. 3, Armed Forces' Tax Guide*.
part of your self-employment tax	*chapter 11*.
self-employed health insurance	*Pub. 502, Medical and Dental Expenses*.
payments to self-employed SEP, SIMPLE, and qualified plans	*Pub. 560, Retirement Plans for Small Business*.
penalty on the early withdrawal of savings	*chapter 6*.
contributions to an Archer MSA	*Pub. 969*.
reforestation amortization or expense	chapters 4 and 7 of *Pub. 225, Farmer's Tax Guide*.
contributions to Internal Revenue Code section 501(c)(18)(D) pension plans	*Pub. 525, Taxable and Nontaxable Income*.
expenses from the rental of personal property	*chapter 8*.
certain required repayments of supplemental unemployment benefits (sub-pay)	*chapter 8*.
foreign housing costs	chapter 4 of *Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad*.
jury duty pay given to your employer	*chapter 8*.
contributions by certain ministers or chaplains to Internal Revenue Code section 403(b) plans	*Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers*.
attorney fees and certain costs for actions involving IRS awards to whistleblowers	*Pub. 525*.

5.

Wages, Salaries, and Other Earnings

What's New

Deferred compensation contribution limit increased. If you participate in a 401(k) plan, 403(b) plan, or the federal government's Thrift Savings Plan, the total annual amount you can contribute is increased to $22,500 ($30,000 if age 50 or older) for 2023. This also applies to most 457 plans.

Health flexible spending arrangements (health FSAs) under cafeteria plans. For tax years beginning in 2023, the dollar limitation under section 125(i) on voluntary employee salary reductions for contributions to health FSAs is $3,050.

Introduction

This chapter discusses compensation received for services as an employee, such as wages, salaries, and fringe benefits. The following topics are included.

- Bonuses and awards.
- Special rules for certain employees.
- Sickness and injury benefits.

The chapter explains what income is included and isn't included in the employee's gross income and what's not included.

Useful Items

You may want to see:

Publication

- ❑ **463** Travel, Gift, and Car Expenses
- ❑ **502** Medical and Dental Expenses
- ❑ **524** Credit for the Elderly or the Disabled
- ❑ **525** Taxable and Nontaxable Income
- ❑ **526** Charitable Contributions
- ❑ **550** Investment Income and Expenses
- ❑ **554** Tax Guide for Seniors
- ❑ **575** Pension and Annuity Income
- ❑ **907** Tax Highlights for Persons With Disabilities
- ❑ **926** Household Employer's Tax Guide
- ❑ **3920** Tax Relief for Victims of Terrorist Attacks

For these and other useful items, go to *IRS.gov/Forms*.

Employee Compensation

This section discusses various types of employee compensation, including fringe benefits, retirement plan contributions, stock options, and restricted property.

Form W-2. If you're an employee, you should receive a Form W-2 from your employer showing the pay you received for your services. Include your pay on Form 1040 or 1040-SR, line 1a, even if you don't receive a Form W-2.

In some instances, your employer isn't required to give you a Form W-2. Your employer isn't required to give you a Form W-2 if you perform household work in your employer's home for less than $2,600 in cash wages during the calendar year and you have no federal income taxes withheld from your wages. Household work is work done in or around an employer's home. Some examples of workers who do household work are:

- Babysitters,
- Caretakers,
- House cleaning workers,
- Domestic workers,
- Drivers,
- Health aides,
- Housekeepers,
- Maids,
- Nannies,
- Private nurses, and
- Yard workers.

See Schedule H (Form 1040), Household Employment Taxes, and its instructions, and Pub. 926 for more information.

If you performed services, other than as an independent contractor, and your employer didn't withhold social security and Medicare taxes from your pay, you must file Form 8919, Uncollected Social Security and Medicare Tax on Wages, with your Form 1040 or 1040-SR. See Form 8919 and its instructions for more information on how to figure unreported wages and taxes and how to include them on your income tax return.

Childcare providers. If you provide childcare, either in the child's home or in your home or other place of business, the pay you receive must be included in your income. If you aren't an employee, you're probably self-employed and must include payments for your services on Schedule C (Form 1040), Profit or Loss From Business. You generally aren't an employee unless you're subject to the will and control of the person who employs you as to what you're to do and how you're to do it.

Babysitting. If you're paid to babysit, even for relatives or neighborhood children, whether on a regular basis or only periodically, the rules for childcare providers apply to you.

Self-employment tax. Whether you're an employee or self-employed person, your income could be subject to self-employment tax. See the instructions for Schedules C and SE (Form 1040) if you're self-employed. Also, see Pub. 926 for more information.

Miscellaneous Compensation

This section discusses different types of employee compensation.

Advance commissions and other earnings. If you receive advance commissions or other amounts for services to be performed in the future and you're a cash-method taxpayer, you must include these amounts in your income in the year you receive them.

If you repay unearned commissions or other amounts in the same year you receive them, reduce the amount included in your income by the repayment. If you repay them in a later tax year, you can deduct the repayment as an itemized deduction on your Schedule A (Form 1040), line 16, or you may be able to take a credit for that year. See *Repayments* in chapter 8.

Allowances and reimbursements. If you receive travel, transportation, or other business expense allowances or reimbursements from your employer, see Pub. 463, Travel, Gift, and Car Expenses. If you're a member of the military and you're reimbursed for moving expenses, see Pub. 521, Moving Expenses.

Back pay awards. If you receive an amount in payment of a settlement or judgment for back pay, you must include the amount of the payment in your income. This includes payments made to you for damages, unpaid life insurance premiums, and unpaid health insurance premiums. They should be reported to you by your employer on Form W-2.

Bonuses and awards. If you receive a bonus or award (cash, goods, services, etc.) from your employer, you must include its value in your income. However, if your employer merely promises to pay you a bonus or award at some future time, it isn't taxable until you receive it or it's made available to you.

Employee achievement award. If you receive tangible personal property (other than cash, a gift certificate, or an equivalent item) as an award for length of service or safety achievement, you can generally exclude its value from your income. The amount you can exclude is limited to your employer's cost and can't be more than $1,600 for qualified plan awards or $400 for nonqualified plan awards for all such awards you receive during the year. Your employer can tell you whether your award is a qualified plan award. Your employer must make the award as part of a meaningful presentation, under conditions and circumstances that don't create a significant likelihood of it being disguised pay.

However, the exclusion doesn't apply to the following awards.

- A length-of-service award if you received it for less than 5 years of service or if you received another length-of-service award during the year or the previous 4 years.
- A safety achievement award if you're a manager, administrator, clerical employee, or other professional employee or if more than 10% of eligible employees previously

received safety achievement awards during the year.

Example. You received three employee achievement awards during the year: a nonqualified plan award of a watch valued at $250, two qualified plan awards of a stereo valued at $1,000, and a set of golf clubs valued at $500. Assuming that the requirements for qualified plan awards are otherwise satisfied, each award by itself would be excluded from income. However, because the $1,750 total value of the awards is more than $1,600, you must include $150 ($1,750 – $1,600) in your income.

Differential wage payments. This is any payment made to you by an employer for any period during which you are, for a period of more than 30 days, an active duty member of the uniformed services and represents all or a portion of the wages you would have received from the employer during that period. These payments are treated as wages and are subject to income tax withholding, but not FICA or FUTA taxes. The payments are reported as wages on Form W-2.

Government cost-of-living allowances. Most payments received by U.S. Government civilian employees for working abroad are taxable. However, certain cost-of-living allowances are tax free. Pub. 516, U.S. Government Civilian Employees Stationed Abroad, explains the tax treatment of allowances, differentials, and other special pay you receive for employment abroad.

Nonqualified deferred compensation plans. Your employer may report to you the total amount of deferrals for the year under a nonqualified deferred compensation plan on Form W-2, box 12, using code Y. This amount isn't included in your income.

However, if at any time during the tax year, the plan fails to meet certain requirements, or isn't operated under those requirements, all amounts deferred under the plan for the tax year and all preceding tax years to the extent vested and not previously included in income are included in your income for the current year. This amount is included in your wages shown on Form W-2, box 1. It's also shown on Form W-2, box 12, using code Z.

Note received for services. If your employer gives you a secured note as payment for your services, you must include the fair market value (usually the discount value) of the note in your income for the year you receive it. When you later receive payments on the note, a proportionate part of each payment is the recovery of the fair market value that you previously included in your income. Don't include that part again in your income. Include the rest of the payment in your income in the year of payment.

If your employer gives you a nonnegotiable unsecured note as payment for your services, payments on the note that are credited toward the principal amount of the note are compensation income when you receive them.

Severance pay. If you receive a severance payment when your employment with your employer ends or is terminated, you must include this amount in your income.

Accrued leave payment. If you're a federal employee and receive a lump-sum payment for accrued annual leave when you retire or resign, this amount will be included as wages on your Form W-2.

If you resign from one agency and are reemployed by another agency, you may have to repay part of your lump-sum annual leave payment to the second agency. You can reduce gross wages by the amount you repaid in the same tax year in which you received it. Attach to your tax return a copy of the receipt or statement given to you by the agency you repaid to explain the difference between the wages on the return and the wages on your Forms W-2.

Outplacement services. If you choose to accept a reduced amount of severance pay so that you can receive outplacement services (such as training in résumé writing and interview techniques), you must include the unreduced amount of the severance pay in income.

Sick pay. Pay you receive from your employer while you're sick or injured is part of your salary or wages. In addition, you must include in your income sick pay benefits received from any of the following payers.

- A welfare fund.
- A state sickness or disability fund.
- An association of employers or employees.
- An insurance company, if your employer paid for the plan.

However, if you paid the premiums on an accident or health insurance policy yourself, the benefits you receive under the policy aren't taxable. For more information, see Pub. 525, Taxable and Nontaxable Income.

Social security and Medicare taxes paid by employer. If you and your employer have an agreement that your employer pays your social security and Medicare taxes without deducting them from your gross wages, you must report the amount of tax paid for you as taxable wages on your tax return. The payment is also treated as wages for figuring your social security and Medicare taxes and your social security and Medicare benefits. However, these payments aren't treated as social security and Medicare wages if you're a household worker or a farm worker.

Stock appreciation rights. Don't include a stock appreciation right granted by your employer in income until you exercise (use) the right. When you use the right, you're entitled to a cash payment equal to the fair market value of the corporation's stock on the date of use minus the fair market value on the date the right was granted. You include the cash payment in your income in the year you use the right.

Fringe Benefits

Fringe benefits received in connection with the performance of your services are included in your income as compensation unless you pay fair market value for them or they're specifically excluded by law. Refraining from the performance of services (for example, under a covenant not to compete) is treated as the performance of services for purposes of these rules.

Accounting period. You must use the same accounting period your employer uses to report your taxable noncash fringe benefits. Your employer has the option to report taxable noncash fringe benefits by using either of the following rules.

- The general rule: benefits are reported for a full calendar year (January 1–December 31).
- The special accounting period rule: benefits provided during the last 2 months of the calendar year (or any shorter period) are treated as paid during the following calendar year. For example, each year your employer reports the value of benefits provided during the last 2 months of the prior year and the first 10 months of the current year.

Your employer doesn't have to use the same accounting period for each fringe benefit, but must use the same period for all employees who receive a particular benefit.

You must use the same accounting period that you use to report the benefit to claim an employee business deduction (for use of a car, for example).

Form W-2. Your employer must include all taxable fringe benefits in Form W-2, box 1, as wages, tips, and other compensation and, if applicable, in boxes 3 and 5 as social security and Medicare wages. Although not required, your employer may include the total value of fringe benefits in box 14 (or on a separate statement). However, if your employer provided you with a vehicle and included 100% of its annual lease value in your income, the employer must separately report this value to you in box 14 (or on a separate statement).

Accident or Health Plan

In most cases, the value of accident or health plan coverage provided to you by your employer isn't included in your income. Benefits you receive from the plan may be taxable, as explained later under *Sickness and Injury Benefits*.

For information on the items covered in this section, other than long-term care coverage, see Pub. 969, Health Savings Accounts and Other Tax-Favored Health Plans.

Long-term care coverage. Contributions by your employer to provide coverage for long-term care services generally aren't included in your income. However, contributions made through a flexible spending or similar arrangement offered by your employer must be included in your income. This amount will be reported as wages in Form W-2, box 1.

Contributions you make to the plan are discussed in Pub. 502, Medical and Dental Expenses.

Archer MSA contributions. Contributions by your employer to your Archer MSA generally aren't included in your income. Their total will be reported in Form W-2, box 12, with code R. You must report this amount on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts. File the form with your return.

Health flexible spending arrangement (health FSA). If your employer provides a health FSA that qualifies as an accident or health plan, the amount of your salary reduction, and reimbursements of your medical care expenses, in most cases, aren't included in your income.

Note. Health FSAs are subject to a limit on salary reduction contributions for plan years beginning after 2012. For tax years beginning in 2023, the dollar limitation (as indexed for inflation) on voluntary employee salary reductions for contributions to health FSAs is $3,050.

Health reimbursement arrangement (HRA). If your employer provides an HRA that qualifies as an accident or health plan, coverage and reimbursements of your medical care expenses generally aren't included in your income.

Health savings account (HSA). If you're an eligible individual, you and any other person, including your employer or a family member, can make contributions to your HSA. Contributions, other than employer contributions, are deductible on your return whether or not you itemize deductions. Contributions made by your employer aren't included in your income. Distributions from your HSA that are used to pay qualified medical expenses aren't included in your income. Distributions not used for qualified medical expenses are included in your income. See Pub. 969 for the requirements of an HSA.

Contributions by a partnership to a bona fide partner's HSA aren't contributions by an employer. The contributions are treated as a distribution of money and aren't included in the partner's gross income. Contributions by a partnership to a partner's HSA for services rendered are treated as guaranteed payments that are includible in the partner's gross income. In both situations, the partner can deduct the contribution made to the partner's HSA.

Contributions by an S corporation to a 2% shareholder-employee's HSA for services rendered are treated as guaranteed payments and are includible in the shareholder-employee's gross income. The shareholder-employee can deduct the contribution made to the shareholder-employee's HSA.

Qualified HSA funding distribution. You can make a one-time distribution from your individual retirement account (IRA) to an HSA and you generally won't include any of the distribution in your income.

Adoption Assistance

You may be able to exclude from your income amounts paid or expenses incurred by your employer for qualified adoption expenses in connection with your adoption of an eligible child. See the Instructions for Form 8839, Qualified Adoption Expenses, for more information.

Adoption benefits are reported by your employer in Form W-2, box 12, with code T. They are also included as social security and Medicare wages in boxes 3 and 5. However, they aren't included as wages in box 1. To determine the taxable and nontaxable amounts, you must complete Part III of Form 8839. File the form with your return.

De Minimis (Minimal) Benefits

If your employer provides you with a product or service and the cost of it is so small that it would be unreasonable for the employer to account for it, you generally don't include its value in your income. In most cases, don't include in your income the value of discounts at company cafeterias, cab fares home when working overtime, and company picnics.

Holiday gifts. If your employer gives you a turkey, ham, or other item of nominal value at Christmas or other holidays, don't include the value of the gift in your income. However, if your employer gives you cash or a cash equivalent, you must include it in your income.

Educational Assistance

You can exclude from your income up to $5,250 of qualified employer-provided educational assistance. For more information, see Pub. 970, Tax Benefits for Education.

Group-Term Life Insurance

In most cases, the cost of up to $50,000 of group-term life insurance coverage provided to you by your employer (or former employer) isn't included in your income. However, you must include in income the cost of employer-provided insurance that is more than the cost of $50,000 of coverage reduced by any amount you pay toward the purchase of the insurance.

For exceptions, see *Entire cost excluded* and *Entire cost taxed*, later.

If your employer provided more than $50,000 of coverage, the amount included in your income is reported as part of your wages in Form W-2, box 1. Also, it's shown separately in box 12 with code C.

Group-term life insurance. This insurance is term life insurance protection (insurance for a fixed period of time) that:

- Provides a general death benefit,
- Is provided to a group of employees,
- Is provided under a policy carried by the employer, and
- Provides an amount of insurance to each employee based on a formula that prevents individual selection.

Permanent benefits. If your group-term life insurance policy includes permanent benefits, such as a paid-up or cash surrender value, you must include in your income, as wages, the cost of the permanent benefits minus the amount you pay for them. Your employer should be able to tell you the amount to include in your income.

Accidental death benefits. Insurance that provides accidental or other death benefits but doesn't provide general death benefits (travel insurance, for example) isn't group-term life insurance.

Former employer. If your former employer provided more than $50,000 of group-term life insurance coverage during the year, the amount included in your income is reported as wages in Form W-2, box 1. Also, it's shown separately in box 12 with code C. Box 12 will also show the amount of uncollected social security and Medicare taxes on the excess coverage, with codes M and N. You must pay these taxes with your income tax return. Include them on Schedule 2 (Form 1040), line 13.

Two or more employers. Your exclusion for employer-provided group-term life insurance coverage can't exceed the cost of $50,000 of coverage, whether the insurance is provided by a single employer or multiple employers. If two or more employers provide insurance coverage that totals more than $50,000, the amounts reported as wages on your Forms W-2 won't be correct. You must figure how much to include in your income. Reduce the amount you figure by any amount reported in Form W-2, box 12, with code C, add the result to the wages reported in box 1, and report the total on your return.

Figuring the taxable cost. Use Worksheet 5-1 to figure the amount to include in your income.

Worksheet 5-1. **Figuring the Cost of Group-Term Life Insurance To Include in Income**

Keep for Your Records

1.	Enter the total amount of your insurance coverage from your employer(s)		**1.**	
2.	Limit on exclusion for employer-provided group-term life insurance coverage		**2.**	*50,000*
3.	Subtract line 2 from line 1		**3.**	
4.	Divide line 3 by $1,000. Figure to the nearest tenth		**4.**	
5.	Go to Table 5-1. Using your age on the last day of the tax year, find your age group in the left column, and enter the cost from the column on the right for your age group		**5.**	
6.	Multiply line 4 by line 5		**6.**	
7.	Enter the number of full months of coverage at this cost		**7.**	
8.	Multiply line 6 by line 7		**8.**	
9.	Enter the premiums you paid per month	**9.**		
10.	Enter the number of months you paid the premiums	**10.**		
11.	Multiply line 9 by line 10		**11.**	
12.	Subtract line 11 from line 8. **Include this amount in your income as wages**		**12.**	

Table 5-1. **Cost of $1,000 of Group-Term Life Insurance for 1 Month**

Age	Cost
Under 25	$ 0.05
25 through 29	0.06
30 through 34	0.08
35 through 39	0.09
40 through 44	0.10
45 through 49	0.15
50 through 54	0.23
55 through 59	0.43
60 through 64	0.66
65 through 69	1.27
70 and above	2.06

Example. You are 51 years old and work for employers A and B. Both employers provide group-term life insurance coverage for you for the entire year. Your coverage is $35,000 with employer A and $45,000 with employer B. You pay premiums of $4.15 a month under the employer B group plan. You figure the amount to include in your income as shown in Worksheet 5-1. Figuring the Cost of Group-Term Life Insurance To Include in Income—Illustrated next.

Worksheet 5-1. **Figuring the Cost of Group-Term Life Insurance To Include in Income—Illustrated**

Keep for Your Records

1. Enter the total amount of your insurance coverage from your employer(s)	**1.**	*80,000*
2. Limit on exclusion for employer-provided group-term life insurance coverage	**2.**	***50,000***
3. Subtract line 2 from line 1	**3.**	*30,000*
4. Divide line 3 by $1,000. Figure to the nearest tenth	**4.**	*30.0*
5. Go to Table 5-1. Using your age on the last day of the tax year, find your age group in the left column, and enter the cost from the column on the right for your age group	**5.**	*0.23*
6. Multiply line 4 by line 5	**6.**	*6.90*
7. Enter the number of full months of coverage at this cost	**7.**	*12*
8. Multiply line 6 by line 7	**8.**	*82.80*
9. Enter the premiums you paid per month **9.** *4.15*		
10. Enter the number of months you paid the premiums **10.** *12*		
11. Multiply line 9 by line 10	**11.**	*49.80*
12. Subtract line 11 from line 8. **Include this amount in your income as wages**	**12.**	*33.00*

Entire cost excluded. You aren't taxed on the cost of group-term life insurance if any of the following circumstances apply.

1. You're permanently and totally disabled and have ended your employment.
2. Your employer is the beneficiary of the policy for the entire period the insurance is in force during the tax year.
3. A charitable organization (defined in Pub. 526, Charitable Contributions) to which contributions are deductible is the only beneficiary of the policy for the entire period the insurance is in force during the tax year. (You aren't entitled to a deduction for a charitable contribution for naming a charitable organization as the beneficiary of your policy.)
4. The plan existed on January 1, 1984, and:
   a. You retired before January 2, 1984, and were covered by the plan when you retired, or
   b. You reached age 55 before January 2, 1984, and were employed by the employer or its predecessor in 1983.

Entire cost taxed. You're taxed on the entire cost of group-term life insurance if either of the following circumstances apply.

- The insurance is provided by your employer through a qualified employees' trust, such as a pension trust or a qualified annuity plan.
- You're a key employee and your employer's plan discriminates in favor of key employees.

Retirement Planning Services

Generally, don't include the value of qualified retirement planning services provided to you and your spouse by your employer's qualified retirement plan. Qualified services include retirement planning advice, information about your employer's retirement plan, and information about how the plan may fit into your overall individual retirement income plan. You can't exclude the value of any tax preparation, accounting, legal, or brokerage services provided by your employer.

Transportation

If your employer provides you with a qualified transportation fringe benefit, it can be excluded from your income, up to certain limits. A qualified transportation fringe benefit is:

- Transportation in a commuter highway vehicle (such as a van) between your home and work place,
- A transit pass, or
- Qualified parking.

Cash reimbursement by your employer for these expenses under a bona fide reimbursement arrangement is also excludable. However, cash reimbursement for a transit pass is excludable only if a voucher or similar item that can be exchanged only for a transit pass isn't readily available for direct distribution to you.

Exclusion limit. The exclusion for commuter vehicle transportation and transit pass fringe benefits can't be more than $300 a month.

The exclusion for the qualified parking fringe benefit can't be more than $300 a month.

If the benefits have a value that is more than these limits, the excess must be included in your income.

Commuter highway vehicle. This is a highway vehicle that seats at least six adults (not including the driver). At least 80% of the vehicle's mileage must reasonably be expected to be:

- For transporting employees between their homes and workplace, and
- On trips during which employees occupy at least half of the vehicle's adult seating capacity (not including the driver).

Transit pass. This is any pass, token, farecard, voucher, or similar item entitling a person to ride mass transit (whether public or private) free or at a reduced rate or to ride in a commuter highway vehicle operated by a person in the business of transporting persons for compensation.

Qualified parking. This is parking provided to an employee at or near the employer's place of business. It also includes parking provided on or near a location from which the employee commutes to work by mass transit, in a commuter highway vehicle, or by carpool. It doesn't include parking at or near the employee's home.

Retirement Plan Contributions

Your employer's contributions to a qualified retirement plan for you aren't included in income at the time contributed. (Your employer can tell you whether your retirement plan is qualified.) However, the cost of life insurance coverage included in the plan may have to be included. See *Group-Term Life Insurance*, earlier, under *Fringe Benefits*.

If your employer pays into a nonqualified plan for you, you must generally include the contributions in your income as wages for the tax year in which the contributions are made. However, if your interest in the plan isn't transferable or is subject to a substantial risk of forfeiture (you have a good chance of losing it) at the time of the contribution, you don't have to include the value of your interest in your income until it's transferable or is no longer subject to a substantial risk of forfeiture.

TIP *For information on distributions from retirement plans, see Pub. 575, Pension and Annuity Income (or Pub. 721, Tax Guide to U.S. Civil Service Retirement Benefits, if you're a federal employee or retiree).*

Elective deferrals. If you're covered by certain kinds of retirement plans, you can choose to have part of your compensation contributed by your employer to a retirement fund, rather than have it paid to you. The amount you set aside (called an "elective deferral") is treated as an employer contribution to a qualified plan. An elective deferral, other than a designated Roth contribution (discussed later), isn't included in wages subject to income tax at the time contributed. Rather, it's subject to income tax when distributed from the plan. However, it's included in wages subject to social security and Medicare taxes at the time contributed.

Elective deferrals include elective contributions to the following retirement plans.

1. Cash or deferred arrangements (section 401(k) plans).
2. The Thrift Savings Plan for federal employees.
3. Salary reduction simplified employee pension plans (SARSEP).
4. Savings incentive match plans for employees (SIMPLE plans).
5. Tax-sheltered annuity plans (section 403(b) plans).
6. Section 501(c)(18)(D) plans.
7. Section 457 plans.

Qualified automatic contribution arrangements. Under a qualified automatic contribution arrangement, your employer can treat you as having elected to have a part of your compensation contributed to a section 401(k) plan. You are to receive written notice of your rights and obligations under the qualified automatic contribution arrangement. The notice must explain:

- Your rights to elect not to have elective contributions made, or to have contributions made at a different percentage; and
- How contributions made will be invested in the absence of any investment decision by you.

You must be given a reasonable period of time after receipt of the notice and before the first elective contribution is made to make an election with respect to the contributions.

Overall limit on deferrals. For 2023, in most cases, you shouldn't have deferred more than a total of $22,500 of contributions to the plans listed in (1) through (3) and (5) above. The limit for SIMPLE plans is $15,500. The limit for section 501(c)(18)(D) plans is the lesser of $7,000 or 25% of your compensation. The limit for section 457 plans is the lesser of your includible compensation or $22,500. Amounts deferred under specific plan limits are part of the overall limit on deferrals.

Designated Roth contributions. Employers with section 401(k) plans, section 403(b) plans, and governmental section 457 plans can create qualified Roth contribution programs so that you may elect to have part or all of your elective deferrals to the plan designated as after-tax Roth contributions. Designated Roth contributions are treated as elective deferrals, except that they're included in income at the time contributed.

Excess deferrals. Your employer or plan administrator should apply the proper annual limit when figuring your plan contributions. However, you're responsible for monitoring the total you defer to ensure that the deferrals aren't more than the overall limit.

If you set aside more than the limit, the excess must generally be included in your income for that year, unless you have an excess deferral of a designated Roth contribution. See Pub. 525 for a discussion of the tax treatment of excess deferrals.

Catch-up contributions. You may be allowed catch-up contributions (additional elective deferral) if you're age 50 or older by the end of the tax year.

Stock Options

If you receive a nonstatutory option to buy or sell stock or other property as payment for your services, you will usually have income when you receive the option, when you exercise the option (use it to buy or sell the stock or other property), or when you sell or otherwise dispose of the option. However, if your option is a statutory stock option, you won't have any income until you sell or exchange your stock. Your employer can tell you which kind of option you hold. For more information, see Pub. 525.

Restricted Property

In most cases, if you receive property for your services, you must include its fair market value in your income in the year you receive the property. However, if you receive stock or other property that has certain restrictions that affect its value, you don't include the value of the property in your income until it has substantially vested. (Although you can elect to include the value of the property in your income in the year it's transferred to you.) For more information, see *Restricted Property* in Pub. 525.

Dividends received on restricted stock. Dividends you receive on restricted stock are treated as compensation and not as dividend income. Your employer should include these payments on your Form W-2.

Stock you elected to include in income. Dividends you receive on restricted stock you elected to include in your income in the year transferred are treated the same as any other dividends. Report them on your return as dividends. For a discussion of dividends, see Pub. 550, Investment Income and Expenses.

For information on how to treat dividends reported on both your Form W-2 and Form 1099-DIV, see *Dividends received on restricted stock* in Pub. 525.

Special Rules for Certain Employees

This section deals with special rules for people in certain types of employment: members of the clergy, members of religious orders, people working for foreign employers, military personnel, and volunteers.

Clergy

Generally, if you're a member of the clergy, you must include in your income offerings and fees you receive for marriages, baptisms, funerals, masses, etc., in addition to your salary. If the offering is made to the religious institution, it isn't taxable to you.

If you're a member of a religious organization and you give your outside earnings to the religious organization, you must still include the earnings in your income. However, you may be entitled to a charitable contribution deduction for the amount paid to the organization. See Pub. 526.

Pension. A pension or retirement pay for a member of the clergy is usually treated as any other pension or annuity. It must be reported on lines 5a and 5b of Form 1040 or 1040-SR.

Housing. Special rules for housing apply to members of the clergy. Under these rules, you don't include in your income the rental value of a home (including utilities) or a designated housing allowance provided to you as part of your pay. However, the exclusion can't be more than the reasonable pay for your services. If you pay for the utilities, you can exclude any allowance designated for utility cost, up to your actual cost. The home or allowance must be provided as compensation for your services as an ordained, licensed, or commissioned minister. However, you must include the rental value of the home or the housing allowance as earnings from self-employment on Schedule SE (Form 1040) if you're subject to the self-employment tax. For more information, see Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers.

Members of Religious Orders

If you're a member of a religious order who has taken a vow of poverty, how you treat earnings that you renounce and turn over to the order depends on whether your services are performed for the order.

Services performed for the order. If you're performing the services as an agent of the order in the exercise of duties required by the order, don't include in your income the amounts turned over to the order.

If your order directs you to perform services for another agency of the supervising church or an associated institution, you're considered to be performing the services as an agent of the order. Any wages you earn as an agent of an order that you turn over to the order aren't included in your income.

Example. You're a member of a church order and have taken a vow of poverty. You renounce any claims to your earnings and turn over to the order any salaries or wages you earn. You're a registered nurse, so your order assigns you to work in a hospital that is an associated institution of the church. However, you remain under the general direction and control of the order. You're considered to be an agent of the order and any wages you earn at the hospital that you turn over to your order aren't included in your income.

Services performed outside the order. If you're directed to work outside the order, your services aren't an exercise of duties required by the order unless they meet both of the following requirements.

- They're the kind of services that are ordinarily the duties of members of the order.

- They're part of the duties that you must exercise for, or on behalf of, the religious order as its agent.

If you're an employee of a third party, the services you perform for the third party won't be considered directed or required of you by the order. Amounts you receive for these services are included in your income, even if you have taken a vow of poverty.

Example. You are a member of a religious order and have taken a vow of poverty. You renounce all claims to your earnings and turn over your earnings to the order.

You are a schoolteacher. You were instructed by the superiors of the order to get a job with a private tax-exempt school. You became an employee of the school, and, at your request, the school made the salary payments directly to the order.

Because you are an employee of the school, you're performing services for the school rather than as an agent of the order. The wages you earn working for the school are included in your income.

Foreign Employer

Special rules apply if you work for a foreign employer.

U.S. citizen. If you're a U.S. citizen who works in the United States for a foreign government, an international organization, a foreign embassy, or any foreign employer, you must include your salary in your income.

Social security and Medicare taxes. You're exempt from social security and Medicare employee taxes if you're employed in the United States by an international organization or a foreign government. However, you must pay self-employment tax on your earnings from services performed in the United States, even though you aren't self-employed. This rule also applies if you're an employee of a qualifying wholly owned instrumentality of a foreign government.

Employees of international organizations or foreign governments. Your compensation for official services to an international organization is exempt from federal income tax if you aren't a citizen of the United States or you're a citizen of the Philippines (whether or not you're a citizen of the United States).

Your compensation for official services to a foreign government is exempt from federal income tax if all of the following are true.

- You aren't a citizen of the United States or you're a citizen of the Philippines (whether or not you're a citizen of the United States).
- Your work is like the work done by employees of the United States in foreign countries.
- The foreign government gives an equal exemption to employees of the United States in its country.

Waiver of alien status. If you're an alien who works for a foreign government or international organization and you file a waiver under section 247(b) of the Immigration and Nationality Act to keep your immigrant status, different rules may apply. See *Foreign Employer* in Pub. 525.

Employment abroad. For information on the tax treatment of income earned abroad, see Pub. 54.

Military

Payments you receive as a member of a military service are generally taxed as wages except for retirement pay, which is taxed as a pension. Allowances generally aren't taxed. For more information on the tax treatment of military allowances and benefits, see Pub. 3, Armed Forces' Tax Guide.

Differential wage payments. Any payments made to you by an employer during the time you're performing service in the uniformed services are treated as compensation. These wages are subject to income tax withholding and are reported on a Form W-2. See the discussion under *Miscellaneous Compensation*, earlier.

Military retirement pay. If your retirement pay is based on age or length of service, it's taxable and must be included in your income as a pension on lines 5a and 5b of Form 1040 or 1040-SR. Don't include in your income the amount of any reduction in retirement or retainer pay to provide a survivor annuity for your spouse or children under the Retired Serviceman's Family Protection Plan or the Survivor Benefit Plan.

For more detailed discussion of survivor annuities, see Pub. 575, Pension and Annuity Income.

Disability. If you're retired on disability, see *Military and Government Disability Pensions* under *Sickness and Injury Benefits*, later.

Veterans' benefits. Don't include in your income any veterans' benefits paid under any law, regulation, or administrative practice administered by the Department of Veterans Affairs (VA). The following amounts paid to veterans or their families aren't taxable.

- Education, training, and subsistence allowances.
- Disability compensation and pension payments for disabilities paid either to veterans or their families.
- Grants for homes designed for wheelchair living.
- Grants for motor vehicles for veterans who lost their sight or the use of their limbs.
- Veterans' insurance proceeds and dividends paid either to veterans or their beneficiaries, including the proceeds of a veteran's endowment policy paid before death.
- Interest on insurance dividends you leave on deposit with the VA.
- Benefits under a dependent-care assistance program.
- The death gratuity paid to a survivor of a member of the Armed Forces who died after September 10, 2001.
- Payments made under the compensated work therapy program.
- Any bonus payment by a state or political subdivision because of service in a combat zone.

Volunteers

The tax treatment of amounts you receive as a volunteer worker for the Peace Corps or similar agency is covered in the following discussions.

Peace Corps. Living allowances you receive as a Peace Corps volunteer or volunteer leader for housing, utilities, household supplies, food, and clothing are generally exempt from tax.

Taxable allowances. The following allowances, however, must be included in your income and reported as wages.

- Allowances paid to your spouse and minor children while you're a volunteer leader training in the United States.
- Living allowances designated by the Director of the Peace Corps as basic compensation. These are allowances for personal items such as domestic help, laundry and clothing maintenance, entertainment and recreation, transportation, and other miscellaneous expenses.
- Leave allowances.
- Readjustment allowances or termination payments. These are considered received by you when credited to your account.

Example. You are a Peace Corps volunteer and get $175 a month as a readjustment allowance during your period of service, to be paid to you in a lump sum at the end of your tour of duty. Although the allowance isn't available to you until the end of your service, you must include it in your income on a monthly basis as it's credited to your account.

Volunteers in Service to America (VISTA). If you're a VISTA volunteer, you must include meal and lodging allowances paid to you in your income as wages.

National Senior Services Corps programs. Don't include in your income amounts you receive for supportive services or reimbursements for out-of-pocket expenses from the following programs.

- Retired Senior Volunteer Program (RSVP).
- Foster Grandparent Program.
- Senior Companion Program.

Service Corps of Retired Executives (SCORE). If you receive amounts for supportive services or reimbursements for out-of-pocket expenses from SCORE, don't include these amounts in gross income.

Volunteer tax counseling. Don't include in your income any reimbursements you receive for transportation, meals, and other expenses you have in training for, or actually providing, volunteer federal income tax counseling for the elderly (TCE).

You can deduct as a charitable contribution your unreimbursed out-of-pocket expenses in taking part in the volunteer income tax assistance (VITA) program. See Pub. 526.

Volunteer firefighters and emergency medical responders. If you are a volunteer firefighter or emergency medical responder, don't include in your income the following benefits you receive from a state or local government.

- Rebates or reductions of property or income taxes you receive because of services you performed as a volunteer firefighter or emergency medical responder.
- Payments you receive because of services you performed as a volunteer firefighter or emergency medical responder, up to $50 for each month you provided services.

The excluded income reduces any related tax or contribution deduction.

Sickness and Injury Benefits

This section discusses sickness and injury benefits, including disability pensions, long-term care insurance contracts, workers' compensation, and other benefits.

In most cases, you must report as income any amount you receive for personal injury or sickness through an accident or health plan that is paid for by your employer. If both you and your employer pay for the plan, only the amount you receive that is due to your employer's payments is reported as income. However, certain payments may not be taxable to you. For information on nontaxable payments, see *Military and Government Disability Pensions* and *Other Sickness and Injury Benefits*, later in this discussion.

TIP *Don't report as income any amounts paid to reimburse you for medical expenses you incurred after the plan was established.*

Cost paid by you. If you pay the entire cost of a health or accident insurance plan, don't include any amounts you receive from the plan for personal injury or sickness as income on your tax return. If your plan reimbursed you for medical expenses you deducted in an earlier year, you may have to include some, or all, of the reimbursement in your income. See *What if You Receive Insurance Reimbursement in a Later Year?* in Pub. 502, Medical and Dental Expenses.

Cafeteria plans. In most cases, if you're covered by an accident or health insurance plan through a cafeteria plan, and the amount of the insurance premiums wasn't included in your income, you aren't considered to have paid the premiums and you must include any benefits you receive in your income. If the amount of the premiums was included in your income, you're considered to have paid the premiums, and any benefits you receive aren't taxable.

Disability Pensions

If you retired on disability, you must include in income any disability pension you receive under a plan that is paid for by your employer. You must report your taxable disability payments on line 1h of Form 1040 or 1040-SR until you reach minimum retirement age. Minimum retirement age is generally the age at which you can first receive a pension or annuity if you're not disabled.

TIP *You may be entitled to a tax credit if you were permanently and totally disabled when you retired. For information on this credit and the definition of permanent and total disability, see Pub. 524, Credit for the Elderly or the Disabled.*

Beginning on the day after you reach minimum retirement age, payments you receive are taxable as a pension or annuity. Report the payments on lines 5a and 5b of Form 1040 or 1040-SR. The rules for reporting pensions are explained in Disability Pensions in Pub. 575.

For information on disability payments from a governmental program provided as a substitute for unemployment compensation, see *Unemployment Benefits* in chapter 8.

Retirement and profit-sharing plans. If you receive payments from a retirement or profit-sharing plan that doesn't provide for disability retirement, don't treat the payments as a disability pension. The payments must be reported as a pension or annuity. For more information on pensions, see Pub. 575.

Accrued leave payment. If you retire on disability, any lump-sum payment you receive for accrued annual leave is a salary payment. The payment is not a disability payment. Include it in your income in the tax year you receive it.

Military and Government Disability Pensions

Certain military and government disability pensions aren't taxable.

Service-connected disability. You may be able to exclude from income amounts you receive as a pension, annuity, or similar allowance for personal injury or sickness resulting from active service in one of the following government services.

- The armed forces of any country.
- The National Oceanic and Atmospheric Administration.
- The Public Health Service.
- The Foreign Service.

Conditions for exclusion. Don't include the disability payments in your income if any of the following conditions apply.

1. You were entitled to receive a disability payment before September 25, 1975.
2. You were a member of a listed government service or its reserve component, or were under a binding written commitment to become a member, on September 24, 1975.
3. You receive the disability payments for a combat-related injury. This is a personal injury or sickness that:
   a. Results directly from armed conflict;
   b. Takes place while you're engaged in extra-hazardous service;
   c. Takes place under conditions simulating war, including training exercises such as maneuvers; or
   d. Is caused by an instrumentality of war.
4. You would be entitled to receive disability compensation from the Department of Veterans Affairs (VA) if you filed an application for it. Your exclusion under this condition is equal to the amount you would be entitled to receive from the VA.

Pension based on years of service. If you receive a disability pension based on years of service, in most cases you must include it in your income. However, if the pension qualifies for the exclusion for a service-connected disability (discussed earlier), don't include in income the part of your pension that you would have received if the pension had been based on a percentage of disability. You must include the rest of your pension in your income.

Retroactive VA determination. If you retire from the armed services based on years of service and are later given a retroactive service-connected disability rating by the VA, your retirement pay for the retroactive period is excluded from income up to the amount of VA disability benefits you would have been entitled to receive. You can claim a refund of any tax paid on the excludable amount (subject to the statute of limitations) by filing an amended return on Form 1040-X for each previous year during the retroactive period. You must include with each Form 1040-X a copy of the official VA determination letter granting the retroactive benefit. The letter must show the amount withheld and the effective date of the benefit.

If you receive a lump-sum disability severance payment and are later awarded VA disability benefits, exclude 100% of the severance benefit from your income. However, you must include in your income any lump-sum readjustment or other nondisability severance payment you received on release from active duty, even if you're later given a retroactive disability rating by the VA.

Special period of limitation. In most cases, under the period of limitation, a claim for credit or refund must be filed within 3 years from the time a return was filed or 2 years from the time the tax was paid. However, if you receive a retroactive service-connected disability rating determination, the period of limitation is extended by a 1-year period beginning on the date of the determination. This 1-year extended period applies to claims for credit or refund filed after June 17, 2008, and doesn't apply to any tax year that began more than 5 years before the date of the determination.

Terrorist attack or military action. Don't include in your income disability payments you receive for injuries incurred as a direct result of a terrorist attack or military action directed against the United States (or its allies), whether outside or within the United States or from military action. See Pub. 3920 and Pub. 907 for more information.

Long-Term Care Insurance Contracts

Long-term care insurance contracts in most cases are treated as accident and health insurance contracts. Amounts you receive from them (other than policyholder dividends or premium refunds) in most cases are excludable from income as amounts received for personal injury or sickness. To claim an exclusion for payments made on a per diem or other periodic basis under a long-term care insurance contract, you must file Form 8853 with your return.

A long-term care insurance contract is an insurance contract that only provides coverage for qualified long-term care services. The contract must:

- Be guaranteed renewable;
- Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed;
- Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract, may only be used to reduce future premiums or increase future benefits; and
- In most cases, not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer or the contract makes per diem or other periodic payments without regard to expenses.

Qualified long-term care services. Qualified long-term care services are:

- Necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance and personal care services; and
- Required by a chronically ill individual and provided pursuant to a plan of care prescribed by a licensed health care practitioner.

Chronically ill individual. A chronically ill individual is one who has been certified by a licensed health care practitioner within the previous 12 months as one of the following.

- An individual who, for at least 90 days, is unable to perform at least two activities of daily living without substantial assistance due to loss of functional capacity. Activities of daily living are eating, toileting, transferring, bathing, dressing, and continence.
- An individual who requires substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.

Limit on exclusion. You can generally exclude from gross income up to $420 a day for 2023. See *Limit on exclusion*, under *Long-Term Care Insurance Contracts*, under *Sickness and Injury Benefits* in Pub. 525 for more information.

Workers' Compensation

Amounts you receive as workers' compensation for an occupational sickness or injury are fully exempt from tax if they're paid under a workers' compensation act or a statute in the nature of a workers' compensation act. The exemption also applies to your survivors. The exemption, however, doesn't apply to retirement plan benefits you receive based on your age, length of service, or prior contributions to the plan, even if you retired because of an occupational sickness or injury.

CAUTION *If part of your workers' compensation reduces your social security or equivalent railroad retirement benefits received, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. For more information, see Pub. 915, Social Security and Equivalent Railroad Retirement Benefits.*

Return to work. If you return to work after qualifying for workers' compensation, salary payments you receive for performing light duties are taxable as wages.

Other Sickness and Injury Benefits

In addition to disability pensions and annuities, you may receive other payments for sickness or injury.

Railroad sick pay. Payments you receive as sick pay under the Railroad Unemployment Insurance Act are taxable and you must include them in your income. However, don't include them in your income if they're for an on-the-job injury.

If you received income because of a disability, see *Disability Pensions*, earlier.

Federal Employees' Compensation Act (FECA). Payments received under this Act for personal injury or sickness, including payments to beneficiaries in case of death, aren't taxable. However, you're taxed on amounts you receive under this Act as continuation of pay for up to 45 days while a claim is being decided. Report this income as wages. Also, pay for sick leave while a claim is being processed is taxable and must be included in your income as wages.

CAUTION *If part of the payments you receive under FECA reduces your social security or equivalent railroad retirement benefits received, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. See Pub. 554 for more information.*

Other compensation. Many other amounts you receive as compensation for sickness or injury aren't taxable. These include the following amounts.

- Compensatory damages you receive for physical injury or physical sickness, whether paid in a lump sum or in periodic payments.
- Benefits you receive under an accident or health insurance policy on which either you paid the premiums or your employer paid the premiums but you had to include them in your income.
- Disability benefits you receive for loss of income or earning capacity as a result of injuries under a no-fault car insurance policy.
- Compensation you receive for permanent loss or loss of use of a part or function of your body, or for your permanent disfigurement. This compensation must be based only on the injury and not on the period of your absence from work. These benefits aren't taxable even if your employer pays for the accident and health plan that provides these benefits.

Reimbursement for medical care. A reimbursement for medical care is generally not taxable. However, it may reduce your medical expense deduction. For more information, see Pub. 502.

6.

Interest Income

Reminders

Foreign source income. If you are a U.S. citizen with interest income from sources outside the United States (foreign income), you must report that income on your tax return unless it is exempt by U.S. law. This is true whether you reside inside or outside the United States and whether or not you receive a Form 1099 from the foreign payer.

Automatic 6-month extension. If you receive your Form 1099 reporting your interest income late and you need more time to file your tax return, you can request a 6-month extension of time to file. See *Automatic Extension* in chapter 1.

Children who have unearned income. See Form 8615 and its instructions for the rules and rates that apply to certain children with unearned income.

Introduction

This chapter discusses the following topics.

- Different types of interest income.
- What interest is taxable and what interest is nontaxable.
- When to report interest income.
- How to report interest income on your tax return.

In general, any interest you receive or that is credited to your account and can be withdrawn is taxable income. Exceptions to this rule are discussed later in this chapter.

You may be able to deduct expenses you have in earning this income on Schedule A (Form 1040) if you itemize your deductions. See *Money borrowed to invest in certificate of deposit*, later, and chapter 12.

Useful Items

You may want to see:

Publication

- ❏ **537** Installment Sales
- ❏ **550** Investment Income and Expenses
- ❏ **1212** Guide to Original Issue Discount (OID) Instruments

Form (and Instructions)

- ❏ **1040** U.S. Individual Income Tax Return
- ❏ **1040-SR** U.S. Income Tax Return for Seniors
- ❏ **Schedule A (Form 1040)** Itemized Deductions
- ❏ **Schedule B (Form 1040)** Interest and Ordinary Dividends
- ❏ **1099** General Instructions for Certain Information Returns
- ❏ **3115** Application for Change in Accounting Method
- ❏ **8615** Tax for Certain Children Who Have Unearned Income
- ❏ **8814** Parents' Election To Report Child's Interest and Dividends
- ❏ **8815** Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989
- ❏ **8818** Optional Form To Record Redemption of Series EE and I U.S. Savings Bonds Issued After 1989

For these and other useful items, go to *IRS.gov/Forms*.

General Information

A few items of general interest are covered here.

RECORDS **Recordkeeping.** You should keep a list showing sources of interest income and interest amounts received during the year. Also, keep the forms you receive showing your interest income (Forms 1099-INT, for example) as an important part of your records.

Tax on unearned income of certain children. Part of a child's 2023 unearned income may be taxed at the parent's tax rate. If so, Form 8615 must be completed and attached to the child's tax return. If not, Form 8615 isn't required and the child's income is taxed at his or her own tax rate.

Some parents can choose to include the child's interest and dividends on the parent's return. If you can, use Form 8814 for this purpose.

For more information about the tax on unearned income of children and the parents' election, go to *Form 8615*.

Beneficiary of an estate or trust. Interest you receive as a beneficiary of an estate or trust is generally taxable income. You should receive a Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, etc., from the fiduciary. Your copy of Schedule K-1 (Form 1041) and its instructions will tell you where to report the income on your Form 1040 or 1040-SR.

Taxpayer identification number (TIN). You must give your name and TIN (either a social security number (SSN), an employer identification number (EIN), an adoption taxpayer identification number (ATIN), or an individual tax identification number (ITIN)) to any person required by federal tax law to make a return, statement, or other document that relates to you. This includes payers of interest. If you don't give your TIN to the payer of interest, the payer will generally be required to backup withhold on the interest payments at a rate of 24%, and you may also be subject to a penalty. Use Form W-9, Request for Taxpayer Identification Number and Certification, to provide the necessary information. See Form W-9 and its instructions.

TIN for joint account. Generally, if the funds in a joint account belong to one person, list that person's name first on the account and give that person's TIN to the payer. (For information on who owns the funds in a joint account, see *Joint accounts*, later.) If the joint account contains combined funds, give the TIN of the person whose name is listed first on the account. This is because only one name and TIN can be shown on Form 1099.

These rules apply to both joint ownership by a married couple and to joint ownership by other individuals. For example, if you open a joint savings account with your child using funds belonging to the child, list the child's name first on the account and give the child's TIN.

Form W-9 and its instructions provide: If this Form W-9 is for a joint account (other than an account maintained by a foreign financial institution (FFI)), list first, and then circle, the name of the person or entity whose number you entered in Part I of Form W-9. If you are providing Form W-9 to an FFI to document a joint account, each holder of the account that is a U.S. person must provide a Form W-9. See Form W-9 and its instructions.

Custodian account for your child. If your child is the actual owner of an account that is recorded in your name as custodian for the child, give the child's TIN to the payer. For example, you must give your child's SSN to the payer of interest on an account owned by your child, even though the interest is paid to you as custodian.

Penalty for failure to supply TIN. If you don't give your TIN to the payer of interest, you may have to pay a penalty. See *Failure to supply SSN* under *Penalties* in chapter 1. Backup withholding may also apply.

Backup withholding. Your interest income is generally not subject to regular withholding. However, it may be subject to backup withholding to ensure that income tax is collected on the income. Under backup withholding, the payer of interest must withhold, as income tax, on the amount you are paid, by applying the appropriate withholding rate. The current rate is 24%. Withholding is required only if there is a condition for backup withholding, such as failing to provide your TIN to the payer or failing to certify your TIN under penalties of perjury, if required.

Backup withholding may also be required if the IRS has determined that you underreported your interest or dividend income. For more information, see *Backup Withholding* in chapter 4.

Reporting backup withholding. If backup withholding is deducted from your interest income, the amount withheld will be reported on your Form 1099-INT. The Form 1099-INT will show any backup withholding as "Federal income tax withheld."

Joint accounts. If two or more persons hold property (such as a savings account or bond) as joint tenants, tenants by the entirety, or tenants in common, each person's share of any interest from the property is determined by local law.

Income from property given to a child. Property you give as a parent to your child under the Model Gifts of Securities to Minors Act, the Uniform Gifts to Minors Act, or any similar law becomes the child's property.

Income from the property is taxable to the child, except that any part used to satisfy a legal obligation to support the child is taxable to the parent or guardian having that legal obligation.

Savings account with parent as trustee. Interest income from a savings account opened for a minor child, but placed in the name and subject to the order of the parents as trustees, is taxable to the child if, under the law of the state in which the child resides, both of the following are true.

- The savings account legally belongs to the child.
- The parents aren't legally permitted to use any of the funds to support the child.

Form 1099-INT. Interest income is generally reported to you on Form 1099-INT, or a similar statement, by banks, savings and loans, and other payers of interest. This form shows you the interest income you received during the year. Keep this form for your records. You don't have to attach it to your tax return.

Report on your tax return the total interest income you receive for the tax year. See the Form 1099-INT Instructions for Recipient to see whether you need to adjust any of the amounts reported to you.

Interest not reported on Form 1099-INT. Even if you don't receive a Form 1099-INT, you must still report all of your interest income. For example, you may receive distributive shares of interest from partnerships or S corporations. This interest is reported to you on Schedule K-1 (Form 1065), Partner's Share of Income, Deduction, Credits, etc.; or Schedule K-1 (Form 1120-S), Shareholder's Share of Income, Deductions, Credits, etc.

Nominees. Generally, if someone receives interest as a nominee for you, that person must give you a Form 1099-INT showing the interest received on your behalf.

If you receive a Form 1099-INT and interest as a nominee for another person, see the discussion on nominee distributions under *How To Report Interest Income* in Publication 550, chapter 1 or the Schedule B (Form 1040) instructions.

Incorrect amount. If you receive a Form 1099-INT that shows an incorrect amount or other incorrect information, you should ask the issuer for a corrected form. The new Form 1099-INT you receive will have the “CORRECTED” box checked.

Form 1099-OID. Reportable interest income may also be shown on Form 1099-OID, Original Issue Discount. For more information about amounts shown on this form, see Original Issue Discount (OID), later in this chapter.

CAUTION *The box references discussed below are from the January 2022 revisions of Form 1099-INT and Form 1099-DIV. Later revisions may have different box references.*

Exempt-interest dividends. Exempt-interest dividends you receive from a mutual fund or other regulated investment company (RIC) aren't included in your taxable income. (However, see *Information reporting requirement* next.) Exempt-interest dividends should be shown on Form 1099-DIV, box 12. You don't reduce your basis for distributions that are exempt-interest dividends.

Information reporting requirement. Although exempt-interest dividends aren't taxable, you must show them on your tax return if you have to file. This is an information reporting requirement and doesn't change the exempt-interest dividends into taxable income.

Note. Exempt-interest dividends paid by a mutual fund or other RIC on specified private activity bonds may be subject to the alternative minimum tax (AMT). The exempt-interest dividends subject to the AMT should be shown in box 13 of Form 1099-DIV. See Alternative Minimum Tax (AMT) in chapter 13 for more information. Publication 550, chapter 1 contains a discussion on private activity bonds under *State or Local Government Obligations*.

Interest on VA dividends. Interest on insurance dividends left on deposit with the Department of Veterans Affairs (VA) isn't taxable. This includes interest paid on dividends on converted United States Government Life Insurance and on National Service Life Insurance policies.

Individual retirement arrangements (IRAs). Interest on a Roth IRA generally isn't taxable. Interest on a traditional IRA is tax deferred. You generally don't include interest earned in an IRA in your income until you make withdrawals from the IRA. See chapter 9.

Taxable Interest—General

Taxable interest includes interest you receive from bank accounts, loans you make to others, and other sources. The following are some sources of taxable interest.

Dividends that are actually interest. Certain distributions commonly called dividends are actually interest. You must report as interest so-called dividends on deposits or on share accounts in:

- Cooperative banks,
- Credit unions,
- Domestic building and loan associations,
- Domestic savings and loan associations,
- Federal savings and loan associations, and
- Mutual savings banks.

The “dividends” will be shown as interest income on Form 1099-INT.

Money market funds. Money market funds pay dividends and are offered by nonbank financial institutions, such as mutual funds and stock brokerage houses. Generally, amounts you receive from money market funds should be reported as dividends, not as interest.

Certificates of deposit and other deferred interest accounts. If you buy a certificate of deposit or open a deferred interest account, interest may be paid at fixed intervals of 1 year or less during the term of the account. You must generally include this interest in your income when you actually receive it or are entitled to receive it without paying a substantial penalty. The same is true for accounts that mature in 1 year or less and pay interest in a single payment at maturity. If interest is deferred for more than 1 year, see Original Issue Discount (OID), later.

Interest subject to penalty for early withdrawal. If you withdraw funds from a deferred interest account before maturity, you may have to pay a penalty. You must report the total amount of interest paid or credited to your account during the year, without subtracting the penalty. See *Penalty on early withdrawal of savings* in Publication 550, chapter 1 for more information on how to report the interest and deduct the penalty.

Money borrowed to invest in certificate of deposit. The interest you pay on money borrowed from a bank or savings institution to meet the minimum deposit required for a certificate of deposit from the institution and the interest you earn on the certificate are two separate items. You must report the total interest income you earn on the certificate in your income. If you itemize deductions, you can deduct the interest you pay as investment interest, up to the amount of your net investment income. See *Interest Expenses* in Publication 550, chapter 3.

Example. You purchase a $10,000 certificate of deposit by borrowing $5,000 from Bank and adding an additional $5,000 of your funds. The certificate earned $575 at maturity in 2023, but you received only $265, which represented the $575 you earned minus $310 interest charged on your $5,000 loan. The bank gives you a Form 1099-INT for 2023 showing the $575 interest you earned. The bank also gives you a statement showing that you paid $310 of interest for 2023. You must include the $575 in your income. If you itemize your deductions on Schedule A (Form 1040), you can deduct $310, subject to the net investment income limit.

Gift for opening account. If you receive noncash gifts or services for making deposits or for opening an account in a savings institution, you may have to report the value as interest.

For deposits of less than $5,000, gifts or services valued at more than $10 must be reported as interest. For deposits of $5,000 or more, gifts or services valued at more than $20 must be reported as interest. The value is determined by the cost to the financial institution.

Example. You open a savings account at your local bank and deposit $800. The account earns $20 interest. You also receive a $15 calculator. If no other interest is credited to your account during the year, the Form 1099-INT you receive will show $35 interest for the year. You must report $35 interest income on your tax return.

Interest on insurance dividends. Interest on insurance dividends left on deposit with an insurance company that can be withdrawn annually is taxable to you in the year it is credited to your account. However, if you can withdraw it only on the anniversary date of the policy (or other specified date), the interest is taxable in the year that date occurs.

Prepaid insurance premiums. Any increase in the value of prepaid insurance premiums, advance premiums, or premium deposit funds is interest if it is applied to the payment of premiums due on insurance policies or made available for you to withdraw.

U.S. obligations. Interest on U.S. obligations issued by any agency or instrumentality of the United States, such as U.S. Treasury bills, notes, and bonds, is taxable for federal income tax purposes.

Interest on tax refunds. Interest you receive on tax refunds is taxable income.

Interest on condemnation award. If the condemning authority pays you interest to compensate you for a delay in payment of an award, the interest is taxable.

Installment sale payments. If a contract for the sale or exchange of property provides for deferred payments, it also usually provides for interest payable with the deferred payments. Generally, that interest is taxable when you receive it. If little or no interest is provided for in a deferred payment contract, part of each payment may be treated as interest. See *Unstated Interest and Original Issue Discount (OID)* in Pub. 537, Installment Sales.

Interest on annuity contract. Accumulated interest on an annuity contract you sell before its maturity date is taxable.

Usurious interest. Usurious interest is interest charged at an illegal rate. This is taxable as interest unless state law automatically changes it to a payment on the principal.

Interest income on frozen deposits. Exclude from your gross income interest on frozen deposits. A deposit is frozen if, at the end of the year, you can't withdraw any part of the deposit because:

- The financial institution is bankrupt or insolvent, or
- The state where the institution is located has placed limits on withdrawals because other financial institutions in the state are bankrupt or insolvent.

The amount of interest you must exclude is the interest that was credited on the frozen deposits minus the sum of:

- The net amount you withdrew from these deposits during the year, and
- The amount you could have withdrawn as of the end of the year (not reduced by any penalty for premature withdrawals of a time deposit).

If you receive a Form 1099-INT for interest income on deposits that were frozen at the end of 2023, see *Frozen deposits* under *How To Report Interest Income* in Publication 550, chapter 1 for information about reporting this interest income exclusion on your tax return.

The interest you exclude is treated as credited to your account in the following year. You must include it in income in the year you can withdraw it.

Example. $100 of interest was credited on your frozen deposit during the year. You withdrew $80 but couldn't withdraw any more as of the end of the year. You must include $80 in your income and exclude $20 from your income for the year. You must include the $20 in your income for the year you can withdraw it.

Bonds traded flat. If you buy a bond at a discount when interest has been defaulted or when the interest has accrued but hasn't been paid, the transaction is described as trading a bond flat. The defaulted or unpaid interest isn't income and isn't taxable as interest if paid later. When you receive a payment of that interest, it is a return of capital that reduces the remaining cost basis of your bond. Interest that accrues after the date of purchase, however, is taxable interest income for the year it is received or accrued. See *Bonds Sold Between Interest Dates*, later, for more information.

Below-market loans. Generally, a “below-market loan” means any loan if (A) in the case of a gift or demand loan, interest is payable on the loan at a rate less than the applicable Federal rate, or (B) in the case of a term loan, the amount loaned exceeds the present value (using a discount rate equal to the applicable Federal rate) of all payments due under the loan. (See Code section 7872 for details.) Section 7872 applies to certain below-market loans, including gift loans, compensation-related loans, and corporation-shareholder loans. (See Code section 7872(c).) If you are the lender of a below-market loan, you may have additional interest income. See *Below-Market Loans* in Publication 550, chapter 1 for more information.

U.S. Savings Bonds

This section provides tax information on U.S. savings bonds. It explains how to report the interest income on these bonds and how to treat transfers of these bonds.

U.S. savings bonds currently offered to individuals include Series EE bonds and Series I bonds.

For information about U.S. savings bonds, go to *TreasuryDirect.gov/savings-bonds/*.

If you prefer, write to:

Treasury Retail Securities Services
P.O. Box 9150
Minneapolis, MN 55480-9150

Accrual method taxpayers. If you use an accrual method of accounting, you must report interest on U.S. savings bonds each year as it accrues. You can't postpone reporting interest until you receive it or until the bonds mature. Accrual methods of accounting are explained in chapter 1 under *Accounting Methods*.

Cash method taxpayers. If you use the cash method of accounting, as most individual taxpayers do, you generally report the interest on U.S. savings bonds when you receive it. The cash method of accounting is explained in chapter 1 under *Accounting Methods*. But see *Reporting options for cash method taxpayers*, later.

Series H and HH bonds. These bonds were issued at face value in exchange for other savings bonds. Series HH bonds were issued between 1980 and 2004. They mature 20 years after issue. Series HH bonds that have not matured pay interest twice a year (usually by direct deposit to your bank account). If you are a cash method taxpayer, you must report this interest as income in the year you receive it.

Series H bonds were issued before 1980. All Series H bonds have matured and are no longer earning interest.

In addition to the twice-a-year interest payments, most H/HH bonds have a deferred interest component. The reporting of this as income is addressed later in this chapter.

Series EE and Series I bonds. Interest on these bonds is payable when you redeem the bonds. The difference between the purchase price and the redemption value is taxable interest.

Series E and EE bonds. Series E bonds were issued before July 1980. All Series E bonds have matured and are no longer earning interest. Series EE bonds were first offered in January 1980 and have a maturity period of 30 years; they were offered in paper (definitive) form until 2012. Paper Series EE and Series E bonds were issued at a discount and increase in value as they earn interest. Electronic (book-entry) Series EE bonds were first offered in 2003; they are issued at face value and increase in value as they earn interest. For all Series E and Series EE bonds, the purchase price plus all accrued interest is payable to you at redemption.

Series I bonds. Series I bonds were first offered in 1998. These are inflation-indexed bonds issued at face value with a maturity period of 30 years. Series I bonds increase in value as they earn interest. The face value plus all accrued interest is payable to you at redemption.

Reporting options for cash method taxpayers. If you use the cash method of reporting income, you can report the interest on Series EE and Series I bonds in either of the following ways.

1. ***Method 1.*** Postpone reporting the interest until the earlier of the year you cash or dispose of the bonds or the year they mature. (However, see *Savings bonds traded*, later.)
   Note. Series EE bonds issued in 1993 matured in 2023. If you used method 1, you must generally report the interest on these bonds on your 2023 return.
2. ***Method 2.*** Choose to report the increase in redemption value as interest each year.

You must use the same method for all Series EE and Series I bonds you own. If you don't choose method 2 by reporting the increase in redemption value as interest each year, you must use method 1.

TIP *If you plan to cash your bonds in the same year you will pay for higher education expenses, you may want to use method 1 because you may be able to exclude the interest from your income. To learn how, see* Education Savings Bond Program*, later.*

Change from method 1. If you want to change your method of reporting the interest from method 1 to method 2, you can do so without permission from the IRS. In the year of change, you must report all interest accrued to date and not previously reported for all your bonds.

Once you choose to report the interest each year, you must continue to do so for all Series EE and Series I bonds you own and for any you get later, unless you request permission to change, as explained next.

Change from method 2. To change from method 2 to method 1, you must request permission from the IRS. Permission for the change is automatically granted if you send the IRS a statement that meets all the following requirements.

1. You have typed or printed the following number at the top: “131.”
2. It includes your name and social security number under “131.”
3. It includes the year of change (both the beginning and ending dates).
4. It identifies the savings bonds for which you are requesting this change.
5. It includes your agreement to:
   a. Report all interest on any bonds acquired during or after the year of change when the interest is realized upon disposition, redemption, or final maturity, whichever is earliest; and
   b. Report all interest on the bonds acquired before the year of change when the interest is realized upon disposition, redemption, or final maturity, whichever is earliest, with the exception of the interest reported in prior tax years.

Table 6-1. **Who Pays the Tax on U.S. Savings Bond Interest**

IF...	THEN the interest must be reported by...
you buy a bond in your name and the name of another person as co-owners, using only your own funds	you.
you buy a bond in the name of another person, who is the sole owner of the bond	the person for whom you bought the bond.
you and another person buy a bond as co-owners, each contributing part of the purchase price	both you and the other co-owner, in proportion to the amount each paid for the bond.
you and your spouse, who live in a community property state, buy a bond that is community property	you and your spouse. If you file separate returns, both you and your spouse generally report one-half of the interest.

You must attach this statement to your tax return for the year of change, which you must file by the due date (including extensions).

You can have an automatic extension of 6 months from the due date of your return for the year of change (excluding extensions) to file the statement with an amended return. On the statement, type or print "Filed pursuant to section 301.9100-2." To get this extension, you must have filed your original return for the year of the change by the due date (including extensions).

Instead of filing this statement, you can request permission to change from method 2 to method 1 by filing Form 3115, Application for Change in Accounting Method. In that case, follow the form instructions for an automatic change. No user fee is required.

Co-owners. If a U.S. savings bond is issued in the names of co-owners, such as you and your child or you and your spouse, interest on the bond is generally taxable to the co-owner who bought the bond.

One co-owner's funds used. If you used your funds to buy the bond, you must pay the tax on the interest. This is true even if you let the other co-owner redeem the bond and keep all the proceeds. Under these circumstances, the co-owner who redeemed the bond will receive a Form 1099-INT at the time of redemption and must provide you with another Form 1099-INT showing the amount of interest from the bond taxable to you. The co-owner who redeemed the bond is a "nominee." See *Nominee distributions* under *How To Report Interest Income* in Publication 550, chapter 1 for more information about how a person who is a nominee reports interest income belonging to another person.

Both co-owners' funds used. If you and the other co-owner each contribute part of the bond's purchase price, the interest is generally taxable to each of you, in proportion to the amount each of you paid.

Community property. If you and your spouse live in a community property state and hold bonds as community property, one-half of the interest is considered received by each of you. If you file separate returns, each of you must generally report one-half of the bond interest. For more information about community property, see Pub. 555.

Table 6-1. These rules are also shown in Table 6-1.

Ownership transferred. If you bought Series EE or Series I bonds entirely with your own funds and had them reissued in your co-owner's name or beneficiary's name alone, you must include in your gross income for the year of reissue all interest that you earned on these bonds and have not previously reported. But, if the bonds were reissued in your name alone, you don't have to report the interest accrued at that time.

This same rule applies when bonds (other than bonds held as community property) are transferred between spouses or incident to divorce.

Purchased jointly. If you and a co-owner each contributed funds to buy Series EE or Series I bonds jointly and later have the bonds reissued in the co-owner's name alone, you must include in your gross income for the year of reissue your share of all the interest earned on the bonds that you have not previously reported. The former co-owner doesn't have to include in gross income at the time of reissue his or her share of the interest earned that was not reported before the transfer. This interest, however, as well as all interest earned after the reissue, is income to the former co-owner.

This income-reporting rule also applies when a new co-owner purchases your share of the bond and the bonds are reissued in the name of your former co-owner and a new co-owner. But the new co-owner will report only his or her share of the interest earned after the transfer.

If bonds that you and a co-owner bought jointly are reissued to each of you separately in the same proportion as your contribution to the purchase price, neither you nor your co-owner has to report at that time the interest earned before the bonds were reissued.

Example 1. You and your spouse each spent an equal amount to buy a $1,000 Series EE savings bond. The bond was issued to you and your spouse as co-owners. You both postpone reporting interest on the bond. You later have the bond reissued as two $500 bonds, one in your name and one in your spouse's name. At that time, neither you nor your spouse has to report the interest earned to the date of reissue.

Example 2. You bought a $1,000 Series EE savings bond entirely with your own funds. The bond was issued to you and your spouse as co-owners. You both postpone reporting interest on the bond. You later have the bond reissued as two $500 bonds, one in your name and one in your spouse's name. You must report half the interest earned to the date of reissue.

Transfer to a trust. If you own Series EE or Series I bonds and transfer them to a trust, giving up all rights of ownership, you must include in your income for that year the interest earned to the date of transfer if you have not already reported it. However, if you are considered the owner of the trust and if the increase in value both before and after the transfer continues to be taxable to you, you can continue to defer reporting the interest earned each year. You must include the total interest in your income in the year you cash or dispose of the bonds or the year the bonds finally mature, whichever is earlier.

The same rules apply to previously unreported interest on Series EE or Series E bonds if the transfer to a trust consisted of Series HH bonds you acquired in a trade for the Series EE or Series E bonds. See *Savings bonds traded*, later.

Decedents. The manner of reporting interest income on Series EE or Series I bonds, after the death of the owner (decedent), depends on the accounting and income-reporting methods previously used by the decedent. This is explained in Publication 550, chapter 1.

Savings bonds traded. Prior to September 2004, you could trade (exchange) Series E or EE bonds for Series H or HH bonds. At the time of the trade, you had the choice to postpone (defer) reporting the interest earned on your Series E or EE bonds until the Series H or HH bonds received in the trade were redeemed or matured. Any cash you received in the transaction was income up to the amount of the interest that had accrued on the Series E or EE bonds. The amount of income that you chose to postpone reporting was recorded on the face of the Series H or HH bonds as "Deferred Interest"; this amount is also equal to the difference between the redemption value of the Series H or HH bonds and your cost. Your cost is the sum of the amount you paid for the exchanged Series E or EE bonds plus any amount you had to pay at the time of the transaction.

Example. You traded Series EE bonds (on which you postponed reporting the interest) for $2,500 in Series HH bonds and $223 in cash. You reported the $223 as taxable income on your tax return. At the time of the trade, the Series EE bonds had accrued interest of $523 and a redemption value of $2,723. You hold the Series HH bonds until maturity, when you receive $2,500. You must report $300 as interest income in the year of maturity. This is the difference between their redemption value, $2,500, and your cost, $2,200 (the amount you paid for the Series EE bonds). It is also the difference between the accrued interest of $523 on the Series EE bonds and the $223 cash received on the trade.

Note. The $300 amount that is reportable upon redemption or maturity may be found recorded on the face of the Series HH bond as "Deferred Interest." If more than one Series HH bond is received in the exchange, the total amount of interest postponed/deferred in the transaction is divided proportionately among the Series HH bonds.

Choice to report interest in year of trade. You can choose to treat all of the previously unreported accrued interest on the Series EE bonds traded for Series HH bonds as income in the year of the trade. If you made this choice, it is treated as a change from method 1. See *Change from method 1*, earlier. If you choose to report the interest, then the "Deferred Interest" notation on the face of the Series HH bonds received in the trade will be $0 or blank.

Form 1099-INT for U.S. savings bonds interest. When you cash a bond, the bank or other payer that redeems it must give you a Form 1099-INT if the interest part of the payment you receive is $10 or more. Box 3 of your Form 1099-INT should show the interest as the difference between the amount you received and the amount paid for the bond. However, your Form 1099-INT may show more interest than you have to include on your income tax return. For example, this may happen if any of the following are true.

- You chose to report the increase in the redemption value of the bond each year. The interest shown on your Form 1099-INT won't be reduced by amounts previously included in income.
- You received the bond from a decedent. The interest shown on your Form 1099-INT won't be reduced by any interest reported by the decedent before death, or on the decedent's final return, or by the estate on the estate's income tax return.
- Ownership of the bond was transferred. The interest shown on your Form 1099-INT won't be reduced by interest that accrued before the transfer.

  Note. This is true for paper bonds, but the Treasury reporting process for electronic bonds is more refined—if Treasury is aware that the transfer of an electronic savings bond is a reportable event, then the transferor will receive a Form 1099-INT for the year of the transfer for the interest accrued up to the time of the transfer; when the transferee later disposes of the bond (redemption, maturity, or further transfer), the transferee will receive a Form 1099-INT reduced by the amount reported to the transferor at the time of the original transfer.
- You were named as a co-owner, and the other co-owner contributed funds to buy the bond. The interest shown on your Form 1099-INT won't be reduced by the amount you received as nominee for the other co-owner. (See *Co-owners*, earlier in this chapter, for more information about the reporting requirements.)
- You received the bond in a taxable distribution from a retirement or profit-sharing plan. The interest shown on your Form 1099-INT won't be reduced by the interest portion of the amount taxable as a distribution from the plan and not taxable as interest. (This amount is generally shown on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., for the year of distribution.)

For more information on including the correct amount of interest on your return, see *How To Report Interest Income*, later. Pub. 550 includes examples showing how to report these amounts.

TIP *Interest on U.S. savings bonds is exempt from state and local taxes. The Form 1099-INT you receive will indicate the amount that is for U.S. savings bond interest in box 3. Do not include this income on your state or local income tax return.*

Education Savings Bond Program

You may be able to exclude from income all or part of the interest you receive on the redemption of qualified U.S. savings bonds during the year if you pay qualified higher educational expenses during the same year. This exclusion is known as the Education Savings Bond Program.

You don't qualify for this exclusion if your filing status is married filing separately.

Form 8815. Use Form 8815 to figure your exclusion. Attach the form to your Form 1040 or 1040-SR.

Qualified U.S. savings bonds. A qualified U.S. savings bond is a Series EE bond issued after 1989 or a Series I bond. The bond must be issued either in your name (sole owner) or in your and your spouse's names (co-owners). You must be at least 24 years old before the bond's issue date. For example, a bond bought by a parent and issued in the name of his or her child under age 24 doesn't qualify for the exclusion by the parent or child.

CAUTION *The issue date of a bond may be earlier than the date the bond is purchased because the issue date assigned to a bond is the first day of the month in which it is purchased.*

Beneficiary. You can designate any individual (including a child) as a beneficiary of the bond.

Verification by IRS. If you claim the exclusion, the IRS will check it by using bond redemption information from the Department of the Treasury.

Qualified expenses. Qualified higher education expenses are tuition and fees required for you, your spouse, or your dependent (for whom you claim an exemption) to attend an eligible educational institution.

Qualified expenses include any contribution you make to a qualified tuition program or to a Coverdell education savings account (ESA).

Qualified expenses don't include expenses for room and board or for courses involving sports, games, or hobbies that aren't part of a degree- or certificate-granting program.

Eligible educational institutions. These institutions include most public, private, and nonprofit universities, colleges, and vocational schools that are accredited and eligible to participate in student aid programs run by the U.S. Department of Education.

Reduction for certain benefits. You must reduce your qualified higher education expenses by all of the following tax-free benefits.

1. Tax-free part of scholarships and fellowships (see *Scholarships and fellowships* in chapter 8).
2. Expenses used to figure the tax-free portion of distributions from a Coverdell ESA.
3. Expenses used to figure the tax-free portion of distributions from a qualified tuition program.
4. Any tax-free payments (other than gifts or inheritances) received for educational expenses, such as:
   a. Veterans' educational assistance benefits,
   b. Qualified tuition reductions, or
   c. Employer-provided educational assistance.
5. Any expense used in figuring the American opportunity and lifetime learning credits.

Amount excludable. If the total proceeds (interest and principal) from the qualified U.S. savings bonds you redeem during the year aren't more than your adjusted qualified higher education expenses for the year, you may be able to exclude all of the interest. If the proceeds are more than the expenses, you may be able to exclude only part of the interest.

To determine the excludable amount, multiply the interest part of the proceeds by a fraction. The numerator of the fraction is the qualified higher education expenses you paid during the year. The denominator of the fraction is the total proceeds you received during the year.

Example. In January 2023, Mark and Joan, a married couple, cashed qualified Series EE U.S. savings bonds with a total denomination of $10,000 that they bought in January 2007 for $5,000. They received proceeds of $8,848, representing principal of $5,000 and interest of $3,848. In 2023, they paid $4,000 of their daughter's college tuition. They aren't claiming an education credit for that amount, and their daughter doesn't have any tax-free educational assistance. They can exclude $1,739.60 ($3,848 × ($4,000 ÷ $8,848)) of interest in 2023. They must include the remaining $2,108.40 ($3,848 − $1,739.60) interest in gross income.

Modified adjusted gross income limit. The interest exclusion is limited if your modified adjusted gross income (modified AGI) is:

- $137,800 to $167,800 for married taxpayers filing jointly, and
- $91,850 to $106,850 for all other taxpayers.

You don't qualify for the interest exclusion if your modified AGI is equal to or more than the upper limit for your filing status.

Modified AGI, for purposes of this exclusion, is adjusted gross income (Form 1040 or 1040-SR, line 11) figured before the interest exclusion, and modified by adding back any:

1. Foreign earned income exclusion,
2. Foreign housing exclusion and deduction,
3. Exclusion of income for bona fide residents of American Samoa,
4. Exclusion for income from Puerto Rico,
5. Exclusion for adoption benefits received under an employer's adoption assistance program, and

6. Deduction for student loan interest.

Use the Line 9 Worksheet in the Form 8815 instructions to figure your modified AGI.

If you have investment interest expense incurred to earn royalties and other investment income, see *Education Savings Bond Program* and *Royalties included in modified AGI* in Publication 550, chapter 1.

Recordkeeping. If you claim the interest exclusion, you must keep a written record of the qualified U.S. savings bonds you redeem. Your record must include the serial number, issue date, face value, and total redemption proceeds (principal and interest) of each bond. You can use Form 8818 to record this information. You should also keep bills, receipts, canceled checks, or other documentation that shows you paid qualified higher education expenses during the year.

U.S. Treasury Bills, Notes, and Bonds

Treasury bills, notes, and bonds are direct debts (obligations) of the U.S. Government.

Taxation of interest. Interest income from Treasury bills, notes, and bonds is subject to federal income tax but is exempt from all state and local income taxes. You should receive a Form 1099-INT showing the interest paid to you for the year in box 3.

Treasury bills. These bills generally have a 4-week, 8-week, 13-week, 26-week, or 52-week maturity period. They are generally issued at a discount in the amount of $100 and multiples of $100. The difference between the discounted price you pay for the bills and the face value you receive at maturity is interest income. Generally, you report this interest income when the bill is paid at maturity. If you paid a premium for a bill (more than the face value), you generally report the premium as a section 171 deduction when the bill is paid at maturity.

If you reinvest your Treasury bill at its maturity in a new Treasury bill, note, or bond, you will receive payment for the difference between the proceeds of the maturing bill (par amount less any tax withheld) and the purchase price of the new Treasury security. However, you must report the full amount of the interest income on each of your Treasury bills at the time it reaches maturity.

Treasury notes and bonds. Treasury notes generally have maturity periods of more than 1 year, ranging up to 10 years. Maturity periods for Treasury bonds are generally longer than 10 years. Both are generally issued in denominations of $100 to $1,000,000 and generally pay interest every 6 months. Generally, you report this interest for the year paid. For more information, see *U.S. Treasury Bills, Notes, and Bonds* in Publication 550, chapter 1.

For other information on Treasury notes or bonds, write to:

Treasury Retail Securities Services
P.O. Box 9150
Minneapolis, MN 55480-9150

Or, on the Internet, go to TreasuryDirect.gov/marketable-securities/.

For information on Series EE, Series I, and Series HH savings bonds, see U.S. Savings Bonds, earlier.

Treasury inflation-protected securities (TIPS). These securities pay interest twice a year at a fixed rate, based on a principal amount adjusted to take into account inflation and deflation. For the tax treatment of these securities, see *Inflation-Indexed Debt Instruments* under *Original Issue Discount (OID)* in IRS.gov/Pub550.

Bonds Sold Between Interest Dates

If you sell a bond between interest payment dates, part of the sales price represents interest accrued to the date of sale. You must report that part of the sales price as interest income for the year of sale.

If you buy a bond between interest payment dates, part of the purchase price represents interest accrued before the date of purchase. When that interest is paid to you, treat it as a nontaxable return of your capital investment, rather than as interest income. See *Accrued interest on bonds* under *How To Report Interest Income* in Publication 550, chapter 1 for information on reporting the payment.

Insurance

Life insurance proceeds paid to you as beneficiary of the insured person are usually not taxable. But if you receive the proceeds in installments, you must usually report a part of each installment payment as interest income.

For more information about insurance proceeds received in installments, see Pub. 525, Taxable and Nontaxable Income.

Annuity. If you buy an annuity with life insurance proceeds, the annuity payments you receive are taxed as pension and annuity income from a nonqualified plan, not as interest income. See chapter 5 for information on pension and annuity income from nonqualified plans.

State or Local Government Obligations

Interest on a bond used to finance government operations generally isn't taxable if the bond is issued by a state, the District of Columbia, a territory of the United States, or any of their political subdivisions.

Bonds issued after 1982 by an Indian tribal government (including tribal economic development bonds issued after February 17, 2009) are treated as issued by a state. Interest on these bonds is generally tax exempt if the bonds are part of an issue of which substantially all proceeds are to be used in the exercise of any essential government function. However, the essential government function requirement does not apply to tribal economic development bonds issued after February 17, 2009. See section 7871(f).

For information on federally guaranteed bonds, mortgage revenue bonds, arbitrage bonds, private activity bonds, qualified bonds, and tax credit bonds, including whether interest on some of these bonds is taxable, see *State or Local Government Obligations* in Publication 550, chapter 1.

Information reporting requirement. If you file a tax return, you are required to show any tax-exempt interest you received on your return. Tax-exempt interest paid to you will be reported to you on Form 1099-INT, box 8. This is an information reporting requirement only. It doesn't change tax-exempt interest to taxable interest.

Original Issue Discount (OID)

OID is a form of interest. You generally include OID in your income as it accrues over the term of the debt instrument, whether or not you receive any payments from the issuer.

A debt instrument generally has OID when the instrument is issued for a price that is less than its stated redemption price at maturity. OID is the difference between the stated redemption price at maturity and the issue price.

All debt instruments that pay no interest before maturity are presumed to be issued at a discount. Zero coupon bonds are one example of these instruments.

The OID accrual rules generally don't apply to short-term obligations (those with a fixed maturity date of 1 year or less from date of issue). See *Discount on Short-Term Obligations* in Publication 550, chapter 1.

De minimis OID. You can treat the discount as zero if it is less than one-fourth of 1% (0.0025) of the stated redemption price at maturity multiplied by the number of full years from the date of original issue to maturity. This small discount is known as de minimis OID.

Example 1. You bought a 10-year bond with a stated redemption price at maturity of $1,000, issued at $980 with OID of $20. One-fourth of 1% of $1,000 (stated redemption price) times 10 (the number of full years from the date of original issue to maturity) equals $25. Because the $20 discount is less than $25, the OID is treated as zero. (If you hold the bond at maturity, you will recognize $20 ($1,000 – $980) of capital gain.)

Example 2. The facts are the same as in *Example 1*, except that the bond was issued at $950. The OID is $50. Because the $50 discount is more than the $25 figured in *Example 1*, you must include the OID in income as it accrues over the term of the bond.

Debt instrument bought after original issue. If you buy a debt instrument with de minimis OID at a premium, the de minimis OID isn't includible in income. If you buy a debt instrument with de minimis OID at a discount, the discount is reported under the market discount rules. See *Market Discount Bonds* in Publication 550, chapter 1.

Exceptions to reporting OID as current income. The OID rules discussed in this chapter don't apply to the following debt instruments.

1. Tax-exempt obligations. (However, see *Stripped tax-exempt obligations* under *Stripped Bonds and Coupons* in Publication 550, chapter 1.)
2. U.S. savings bonds.
3. Short-term debt instruments (those with a fixed maturity date of not more than 1 year from the date of issue).
4. Loans between individuals if all the following are true.
   a. The loan is not made in the course of a trade or business of the lender.
   b. The amount of the loan, plus the amount of any outstanding prior loans between the same individuals, is $10,000 or less.
   c. Avoiding any federal tax isn't one of the principal purposes of the loan.
5. A debt instrument purchased at a premium.

Form 1099-OID. The issuer of the debt instrument (or your broker if you held the instrument through a broker) should give you Form 1099-OID, or a similar statement, if the total OID for the calendar year is $10 or more. Form 1099-OID will show, in box 1, the amount of OID for the part of the year that you held the bond. It will also show, in box 2, the stated interest you must include in your income. Box 8 shows OID on a U.S. Treasury obligation for the part of the year you owned it and isn't included in box 1. A copy of Form 1099-OID will be sent to the IRS. Don't file your copy with your return. Keep it for your records.

In most cases, you must report the entire amount in boxes 1, 2, and 8 of Form 1099-OID as interest income. But see Refiguring OID shown on Form 1099-OID, later in this discussion, for more information.

Form 1099-OID not received. If you had OID for the year but didn't receive a Form 1099-OID, you may have to figure the correct amount of OID to report on your return. See Pub. 1212 for details on how to figure the correct OID.

Nominee. If someone else is the holder of record (the registered owner) of an OID instrument belonging to you and receives a Form 1099-OID on your behalf, that person must give you a Form 1099-OID.

Refiguring OID shown on Form 1099-OID. You may need to refigure the OID shown in box 1 or box 8 of Form 1099-OID if either of the following applies.

- You bought the debt instrument after its original issue and paid a premium or an acquisition premium.
- The debt instrument is a stripped bond or a stripped coupon (including certain zero coupon instruments).

If you acquired your debt instrument before 2014, your payer is only required to report a gross amount of OID in box 1 or box 8 of Form 1099-OID.

For information about figuring the correct amount of OID to include in your income, see *Figuring OID on Long-Term Debt Instruments* in Pub. 1212 and the Form 1099-OID Instructions for Recipient.

If you acquired your debt instrument after 2013, unless you have informed your payer that you do not want to amortize bond premium, your payer must generally report either (1) a net amount of OID that reflects the offset of OID by the amount of bond premium or acquisition premium amortization for the year, or (2) a gross amount for both the OID and the bond premium or acquisition premium amortization for the year.

Refiguring periodic interest shown on Form 1099-OID. If you disposed of a debt instrument or acquired it from another holder during the year, see Bonds Sold Between Interest Dates, earlier, for information about the treatment of periodic interest that may be shown in box 2 of Form 1099-OID for that instrument.

Certificates of deposit (CDs). A CD is a debt instrument. If you buy a CD with a maturity of more than 1 year, you must include in income each year a part of the total interest due and report it in the same manner as other OID.

This also applies to similar deposit arrangements with banks, building and loan associations, etc., including:

- Time deposits,
- Bonus plans,
- Savings certificates,
- Deferred income certificates,
- Bonus savings certificates, and
- Growth savings certificates.

Bearer CDs. CDs issued after 1982 must generally be in registered form. Bearer CDs are CDs not in registered form. They aren't issued in the depositor's name and are transferable from one individual to another.

Banks must provide the IRS and the person redeeming a bearer CD with a Form 1099-INT.

More information. See Publication 550, chapter 1 for more information about OID and related topics, such as market discount bonds.

When To Report Interest Income

When to report your interest income depends on whether you use the cash method or an accrual method to report income.

Cash method. Most individual taxpayers use the cash method. If you use this method, you generally report your interest income in the year in which you actually or constructively receive it. However, there are special rules for reporting the discount on certain debt instruments. See U.S. Savings Bonds and Original Issue Discount (OID), earlier.

Example. On September 1, 2021, you loaned another individual $2,000 at 4% interest, compounded annually. You aren't in the business of lending money. The note stated that principal and interest would be due on August 31, 2023. In 2023, you received $2,163.20 ($2,000 principal and $163.20 interest). If you use the cash method, you must include in income on your 2023 return the $163.20 interest you received in that year.

Constructive receipt. You constructively receive income when it is credited to your account or made available to you. You don't need to have physical possession of it. For example, you are considered to receive interest, dividends, or other earnings on any deposit or account in a bank, savings and loan, or similar financial institution, or interest on life insurance policy dividends left to accumulate, when they are credited to your account and subject to your withdrawal.

You constructively receive income on the deposit or account even if you must:

- Make withdrawals in multiples of even amounts;
- Give a notice to withdraw before making the withdrawal;
- Withdraw all or part of the account to withdraw the earnings; or
- Pay a penalty on early withdrawals, unless the interest you are to receive on an early withdrawal or redemption is substantially less than the interest payable at maturity.

Accrual method. If you use an accrual method, you report your interest income when you earn it, whether or not you have received it. Interest is earned over the term of the debt instrument.

Example. If, in the previous example, you use an accrual method, you must include the interest in your income as you earn it. You would report the interest as follows: 2021, $26.67; 2022, $81.06; and 2023, $55.47.

Coupon bonds. Interest on bearer bonds with detachable coupons is generally taxable in the year the coupon becomes due and payable. It doesn't matter when you mail the coupon for payment.

How To Report Interest Income

Generally, you report all your taxable interest income on Form 1040 or 1040-SR, line 2b.

Schedule B (Form 1040). You must complete Schedule B (Form 1040), Part I, if you file Form 1040 or 1040-SR and any of the following apply.

1. Your taxable interest income is more than $1,500.
2. You are claiming the interest exclusion under the Education Savings Bond Program (discussed earlier).
3. You received interest from a seller-financed mortgage, and the buyer used the property as a home.
4. You received a Form 1099-INT for U.S. savings bond interest that includes amounts you reported in a previous tax year.
5. You received, as a nominee, interest that actually belongs to someone else.

6. You received a Form 1099-INT for interest on frozen deposits.
7. You received a Form 1099-INT for interest on a bond you bought between interest payment dates.
8. You are reporting OID in an amount less than the amount shown on Form 1099-OID.
9. You reduce interest income from bonds by amortizable bond premium.

In Part I, line 1, list each payer's name and the amount received from each. If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the brokerage firm as the payer.

CAUTION *The box references discussed below are from the January 2022 revisions of Form 1099-INT and Form 1099-DIV. Later revisions may have different box references.*

Reporting tax-exempt interest. Total your tax-exempt interest (such as interest or accrued OID on certain state and municipal bonds, including zero coupon municipal bonds) reported on Form 1099-INT, box 8; Form 1099-OID, box 11; and exempt-interest dividends from a mutual fund or other regulated investment company reported on Form 1099-DIV, box 12. Add these amounts to any other tax-exempt interest you received. Report the total on line 2a of Form 1040 or 1040-SR.

Form 1099-INT, box 9, and Form 1099-DIV, box 13, show the tax-exempt interest subject to the AMT on Form 6251. These amounts are already included in the amounts on Form 1099-INT, box 8, and Form 1099-DIV, box 12. Don't add the amounts in Form 1099-INT, box 9, and Form 1099-DIV, box 13, to, or subtract them from, the amounts on Form 1099-INT, box 8, and Form 1099-DIV, box 12.

CAUTION *Don't report interest from an IRA as tax-exempt interest.*

Form 1099-INT. Your taxable interest income, except for interest from U.S. savings bonds and Treasury obligations, is shown in box 1 of Form 1099-INT. Add this amount to any other taxable interest income you received. See the Form 1099-INT Instructions for Recipient if you have interest from a security acquired at a premium. You must report all of your taxable interest income even if you don't receive a Form 1099-INT. Contact your financial institution if you don't receive a Form 1099-INT by February 15. Your identifying number may be truncated on any Form 1099-INT you receive.

If you forfeited interest income because of the early withdrawal of a time deposit, the deductible amount will be shown on Form 1099-INT in box 2. See *Penalty on early withdrawal of savings* in Publication 550, chapter 1.

Box 3 of Form 1099-INT shows the interest income you received from U.S. savings bonds, Treasury bills, Treasury notes, and Treasury bonds. Generally, add the amount shown in box 3 to any other taxable interest income you received. If part of the amount shown in box 3 was previously included in your interest income, see *U.S. savings bond interest previously reported*, later. If you acquired the security at a premium, see the Form 1099-INT Instructions for Recipient.

Box 4 of Form 1099-INT will contain an amount if you were subject to backup withholding. Include the amount from box 4 on Form 1040 or 1040-SR, line 25b (federal income tax withheld).

Box 5 of Form 1099-INT shows investment expenses. This amount is not deductible. See chapter 12 for more information about investment expenses.

Box 6 of Form 1099-INT shows foreign tax paid. You may be able to claim this tax as a deduction or a credit on your Form 1040 or 1040-SR. See your tax return instructions.

Box 7 of Form 1099-INT shows the country or U.S. territory to which the foreign tax was paid.

U.S. savings bond interest previously reported. If you received a Form 1099-INT for U.S. savings bond interest, the form may show interest you don't have to report. See *Form 1099-INT for U.S. savings bonds interest*, earlier.

On Schedule B (Form 1040), Part I, line 1, report all the interest shown on your Form 1099-INT. Then follow these steps.

1. Several rows above line 2, enter a subtotal of all interest listed on line 1.
2. Below the subtotal, enter "U.S. Savings Bond Interest Previously Reported" and enter amounts previously reported or interest accrued before you received the bond.
3. Subtract these amounts from the subtotal and enter the result on line 2.

More information. For more information about how to report interest income, see Publication 550, chapter 1 or the instructions for the form you must file.

7.

Social Security and Equivalent Railroad Retirement Benefits

Reminders

Lines 1a through 1z on Forms 1040 and 1040-SR. Line 1 was expanded and there are lines 1a through 1z. Some amounts that in prior years were reported on Form 1040, and some amounts reported on Form 1040-SR, are now reported on Schedule 1.

- Scholarships and fellowship grants are now reported on Schedule 1, line 8r.
- Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan is now reported on Schedule 1, line 8t.
- Wages earned while incarcerated are now reported on Schedule 1, line 8u.

Line 6c on Forms 1040 and 1040-SR. A checkbox was added on line 6c. Taxpayers who elect to use the lump-sum election method for their benefits will check this box. See *Lump-Sum Election* in Pub. 915, Social Security and Equivalent Railroad Retirement Benefits, for details.

Introduction

This chapter explains the federal income tax rules for social security benefits and equivalent tier 1 railroad retirement benefits. It explains the following topics.

- How to figure whether your benefits are taxable.
- How to report your taxable benefits.
- How to use the Social Security Benefits Worksheet (with examples).
- Deductions related to your benefits and how to treat repayments that are more than the benefits you received during the year.

Social security benefits include monthly retirement, survivor, and disability benefits. They don't include Supplemental Security Income (SSI) payments, which aren't taxable.

Equivalent tier 1 railroad retirement benefits are the part of tier 1 benefits that a railroad employee or beneficiary would have been entitled to receive under the social security system. They are commonly called the social security equivalent benefit (SSEB) portion of tier 1 benefits.

If you received these benefits during 2023, you should have received a Form SSA-1099, Social Security Benefit Statement; or Form RRB-1099, Payments by the Railroad Retirement Board. These forms show the amounts received and repaid, and taxes withheld for the year. You may receive more than one of these forms for the same year. You should add the amounts shown on all the Forms SSA-1099 and Forms RRB-1099 you receive for the year to determine the total amounts received and repaid, and taxes withheld for that year. See the Appendix at the end of Pub. 915 for more information.

Note. When the term "benefits" is used in this chapter, it applies to both social security benefits and the SSEB portion of tier 1 railroad retirement benefits.

***my Social Security* account.** Social security beneficiaries may quickly and easily obtain information from the SSA's website with a *my Social Security* account to:

- Keep track of your earnings and verify them every year,
- Get an estimate of your future benefits if you are still working,

- Get a letter with proof of your benefits if you currently receive them,
- Change your address,
- Start or change your direct deposit,
- Get a replacement Medicare card, and
- Get a replacement Form SSA-1099 for the tax season.

For more information and to set up an account, go to *SSA.gov/myaccount*.

What isn't covered in this chapter. This chapter doesn't cover the tax rules for the following railroad retirement benefits.

- Non-social security equivalent benefit (NSSEB) portion of tier 1 benefits.
- Tier 2 benefits.
- Vested dual benefits.
- Supplemental annuity benefits.

For information on these benefits, see Pub. 575, Pension and Annuity Income.

This chapter doesn't cover the tax rules for social security benefits reported on Form SSA-1042S, Social Security Benefit Statement; or Form RRB-1042S, Statement for Nonresident Alien Recipients of Payments by the Railroad Retirement Board. For information about these benefits, see Pub. 519, U.S. Tax Guide for Aliens; and Pub. 915.

This chapter also doesn't cover the tax rules for foreign social security benefits. These benefits are taxable as annuities, unless they are exempt from U.S. tax or treated as a U.S. social security benefit under a tax treaty.

Useful Items

You may want to see:

Publication

- ❏ **501** Dependents, Standard Deduction, and Filing Information
- ❏ **505** Tax Withholding and Estimated Tax
- ❏ **519** U.S. Tax Guide for Aliens
- ❏ **575** Pension and Annuity Income
- ❏ **590-A** Contributions to Individual Retirement Arrangements (IRAs)
- ❏ **915** Social Security and Equivalent Railroad Retirement Benefits

Form (and Instructions)

- ❏ **1040-ES** Estimated Tax for Individuals
- ❏ **SSA-1099** Social Security Benefit Statement
- ❏ **RRB-1099** Payments by the Railroad Retirement Board
- ❏ **W-4V** Voluntary Withholding Request

For these and other useful items, go to *IRS.gov/Forms*.

Are Any of Your Benefits Taxable?

To find out whether any of your benefits may be taxable, compare the base amount (explained later) for your filing status with the total of:

1. One-half of your benefits; plus
2. All your other income, including tax-exempt interest.

Exclusions. When making this comparison, don't reduce your other income by any exclusions for:

- Interest from qualified U.S. savings bonds,
- Employer-provided adoption benefits,
- Interest on education loans,
- Foreign earned income or foreign housing, or
- Income earned by bona fide residents of American Samoa or Puerto Rico.

Children's benefits. The rules in this chapter apply to benefits received by children. See *Who is taxed*, later.

Figuring total income. To figure the total of one-half of your benefits plus your other income, use Worksheet 7-1, discussed later. If the total is more than your base amount, part of your benefits may be taxable.

If you are married and file a joint return for 2023, you and your spouse must combine your incomes and your benefits to figure whether any of your combined benefits are taxable. Even if your spouse didn't receive any benefits, you must add your spouse's income to yours to figure whether any of your benefits are taxable.

TIP *If the only income you received during 2023 was your social security or the SSEB portion of tier 1 railroad retirement benefits, your benefits generally aren't taxable and you probably don't have to file a return. If you have income in addition to your benefits, you may have to file a return even if none of your benefits are taxable. See Do I Have To File a Return? in chapter 1, earlier; Pub. 501; or your tax return instructions to find out if you have to file a return.*

Base amount. Your base amount is:

- $25,000 if you are single, head of household, or qualifying surviving spouse;
- $25,000 if you are married filing separately and lived apart from your spouse for all of 2023;
- $32,000 if you are married filing jointly; or
- $0 if you are married filing separately and lived with your spouse at any time during 2023.

Worksheet 7-1. You can use Worksheet 7-1 to figure the amount of income to compare with your base amount. This is a quick way to check whether some of your benefits may be taxable.

Worksheet 7-1. **A Quick Way To Check if Your Benefits May Be Taxable**

Note. If you plan to file a joint income tax return, include your spouse's amounts, if any, on lines A, C, and D.

A.	Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Include the full amount of any lump-sum benefit payments received in 2023, for 2023 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.)	A. ______

Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.

B.	Multiply line A by 50% (0.50)	B. ______
C.	Enter your total income that is taxable (excluding line A), such as pensions, wages, interest, ordinary dividends, and capital gain distributions. Don't reduce your income by any deductions, exclusions (listed earlier), or exemptions	C. ______
D.	Enter any tax-exempt interest income, such as interest on municipal bonds	D. ______
E.	Add lines B, C, and D	E. ______

Note. Compare the amount on line E to your **base amount** for your filing status. If the amount on line E equals or is less than the **base amount** for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your **base amount,** some of your benefits may be taxable and you will need to complete Worksheet 1 in Pub. 915 (or the Social Security Benefits Worksheet in your tax form instructions). If none of your benefits are taxable, but you must otherwise file a tax return, see *Benefits not taxable*, later, under *How To Report Your Benefits*.

Example. You and your spouse (both over 65) are filing a joint return for 2023 and you both received social security benefits during the year. In January 2024, you received a Form SSA-1099 showing net benefits of $1,500 in box 5. Your spouse received a Form SSA-1099 showing net benefits of $700 in box 5. You also received a taxable pension of $30,100 and interest income of $700. You didn't have any tax-exempt interest income. Your benefits aren't taxable for 2023 because your income, as figured in Worksheet 7-1, isn't more than your base amount ($32,000) for married filing jointly.

Even though none of your benefits are taxable, you must file a return for 2023 because your taxable gross income ($30,800) exceeds the minimum filing requirement amount for your filing status.

Filled-in Worksheet 7-1. **A Quick Way To Check if Your Benefits May Be Taxable**

Note. If you plan to file a joint income tax return, include your spouse's amounts, if any, on lines A, C, and D.

A. Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Include the full amount of any lump-sum benefit payments received in 2023, for 2023 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.)	A.	$2,200

Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.

B. Multiply line A by 50% (0.50)	B.	1,100
C. Enter your total income that is taxable (excluding line A), such as pensions, wages, interest, ordinary dividends, and capital gain distributions. Don't reduce your income by any deductions, exclusions (listed earlier), or exemptions	C.	30,800
D. Enter any tax-exempt interest income, such as interest on municipal bonds	D.	-0-
E. Add lines B, C, and D . . .	E.	$31,900

Note. Compare the amount on line E to your **base amount** for your filing status. If the amount on line E equals or is less than the **base amount** for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your **base amount,** some of your benefits may be taxable and you will need to complete Worksheet 1 in Pub. 915 (or the Social Security Benefits Worksheet in your tax form instructions). If none of your benefits are taxable, but you otherwise must file a tax return, see *Benefits not taxable*, later, under *How To Report Your Benefits*.

Who is taxed. Benefits are included in the taxable income (to the extent they are taxable) of the person who has the legal right to receive the benefits. For example, if you and your child receive benefits, but the check for your child is made out in your name, you must use only your part of the benefits to see whether any benefits are taxable to you. One-half of the part that belongs to your child must be added to your child's other income to see whether any of those benefits are taxable to your child.

Repayment of benefits. Any repayment of benefits you made during 2023 must be subtracted from the gross benefits you received in 2023. It doesn't matter whether the repayment was for a benefit you received in 2023 or in an earlier year. If you repaid more than the gross benefits you received in 2023, see *Repayments More Than Gross Benefits*, later.

Your gross benefits are shown in box 3 of Form SSA-1099 or RRB-1099. Your repayments are shown in box 4. The amount in box 5 shows your net benefits for 2023 (box 3 minus box 4). Use the amount in box 5 to figure whether any of your benefits are taxable.

Tax withholding and estimated tax. You can choose to have federal income tax withheld from your social security benefits and/or the SSEB portion of your tier 1 railroad retirement benefits. If you choose to do this, you must complete a Form W-4V.

If you don't choose to have income tax withheld, you may have to request additional withholding from other income or pay estimated tax during the year. For details, see chapter 4, earlier; Pub. 505; or the Instructions for Form 1040-ES.

How To Report Your Benefits

If part of your benefits are taxable, you must use Form 1040 or 1040-SR.

Reporting on Form 1040 or 1040-SR. Report your net benefits (the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099) on line 6a and the taxable part on line 6b. If you are married filing separately and you lived apart from your spouse for all of 2023, also enter “D” to the right of the word “benefits” on line 6a.

Benefits not taxable. Report your net benefits (the total amount from box 5 of all your Forms SSA-1099 and Forms RRB-1099) on Form 1040 or 1040-SR, line 6a. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you lived apart from your spouse for all of 2023, also enter “D” to the right of the word “benefits” on Form 1040 or 1040-SR, line 6a.

How Much Is Taxable?

If part of your benefits are taxable, how much is taxable depends on the total amount of your benefits and other income. Generally, the higher that total amount, the greater the taxable part of your benefits.

Maximum taxable part. Generally, up to 50% of your benefits will be taxable. However, up to 85% of your benefits can be taxable if either of the following situations applies to you.

- The total of one-half of your benefits and all your other income is more than $34,000 ($44,000 if you are married filing jointly).
- You are married filing separately and lived with your spouse at any time during 2023.

Which worksheet to use. A worksheet you can use to figure your taxable benefits is in the Instructions for Form 1040. You can use either that worksheet or Worksheet 1 in Pub. 915, unless any of the following situations applies to you.

1. You contributed to a traditional individual retirement arrangement (IRA) and you or your spouse is covered by a retirement plan at work. In this situation, you must use the special worksheets in Appendix B of Pub. 590-A to figure both your IRA deduction and your taxable benefits.
2. Situation 1 doesn't apply and you take an exclusion for interest from qualified U.S. savings bonds (Form 8815), for adoption benefits (Form 8839), for foreign earned income or housing (Form 2555), or for income earned in American Samoa (Form 4563) or Puerto Rico by bona fide residents. In this situation, you must use Worksheet 1 in Pub. 915 to figure your taxable benefits.
3. You received a lump-sum payment for an earlier year. In this situation, also complete Worksheet 2 or 3 and Worksheet 4 in Pub. 915. See *Lump-sum election* next.

Lump-sum election. You must include the taxable part of a lump-sum (retroactive) payment of benefits received in 2023 in your 2023 income, even if the payment includes benefits for an earlier year.

Line 6c: Check the box on line 6c if you elect to use the lump-sum election method for your benefits. If any of your benefits are taxable for 2023 and they include a lump-sum benefit payment that was for an earlier year, you may be able to reduce the taxable amount with the lump-sum election. See Lump-Sum Election *in Pub. 915 for details.*

This type of lump-sum benefit payment shouldn't be confused with the lump-sum death benefit that both the SSA and RRB pay to many of their beneficiaries. No part of the lump-sum death benefit is subject to tax.

Generally, you use your 2023 income to figure the taxable part of the total benefits received in 2023. However, you may be able to figure the taxable part of a lump-sum payment for an earlier year separately, using your income for the earlier year. You can elect this method if it lowers your taxable benefits.

Making the election. If you received a lump-sum benefit payment in 2023 that includes benefits for one or more earlier years, follow the instructions in Pub. 915 under *Lump-Sum Election* to see whether making the election will lower your taxable benefits. That discussion also explains how to make the election.

Because the earlier year's taxable benefits are included in your 2023 income, no adjustment is made to the earlier year's return. Don't file an amended return for the earlier year.

Examples

The following are a few examples you can use as a guide to figure the taxable part of your benefits.

Example 1. George White is single and files Form 1040 for 2023. He received the following income in 2023.

Fully taxable pension	$18,600
Wages from part-time job	9,400
Taxable interest income	990
Total	$28,990

George also received social security benefits during 2023. The Form SSA-1099 he received in January 2024 shows $5,980 in box 5. To figure his taxable benefits, George completes the worksheet shown here.

Filled-in Worksheet 1.
Figuring Your Taxable Benefits

1. Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Also enter this amount on Form 1040 or 1040-SR, line 6a $5,980
2. Multiply line 1 by 50% (0.50) 2,990
3. Combine the amounts from Form 1040 or 1040-SR, lines 1z, 2b, 3b, 4b, 5b, 7, and 8 28,990
4. Enter the amount, if any, from Form 1040 or 1040-SR, line 2a . . . . -0-
5. Enter the total of any exclusions/adjustments for:
   - Adoption benefits (Form 8839, line 28),
   - Foreign earned income or housing (Form 2555, lines 45 and 50), and
   - Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico . . . . -0-
6. Combine lines 2, 3, 4, and 5 above . . . 31,980
7. Enter the total of the amounts from Schedule 1 (Form 1040), lines 11 through 20, and 23 and 25 . . . . -0-
8. Is the amount on line 7 less than the amount on line 6?

   No. STOP None of your social security benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b.

   Yes. Subtract line 7 from line 6 31,980
9. If you are:
   - Married filing jointly, enter $32,000; or
   - Single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023, enter $25,000 25,000

   Note. If you are married filing separately and you lived with your spouse at any time in 2023, skip lines 9 through 16, multiply line 8 by 85% (0.85), and enter the result on line 17. Then, go to line 18.
10. Is the amount on line 9 less than the amount on line 8?

    No. STOP None of your benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you **lived apart** from your spouse for all of 2023, be sure you entered "D" to the right of the word "benefits" on Form 1040 or 1040-SR, line 6a.

    Yes. Subtract line 9 from line 8 6,980
11. Enter $12,000 if married filing jointly; or $9,000 if single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023 9,000
12. Subtract line 11 from line 10. If zero or less, enter -0- . . . . -0-
13. Enter the **smaller** of line 10 or line 11 6,980
14. Multiply line 13 by 50% (0.50) 3,490
15. Enter the **smaller** of line 2 or line 14 . . 2,990
16. Multiply line 12 by 85% (0.85). If line 12 is zero, enter -0- . . . . -0-
17. Add lines 15 and 16 2,990
18. Multiply line 1 by 85% (0.85) 5,083
19. **Taxable benefits.** Enter the **smaller** of line 17 or line 18. Also enter this amount on Form 1040 or 1040-SR, line 6b . . . $2,990

The amount on line 19 of George's worksheet shows that $2,990 of his social security benefits is taxable. On line 6a of his Form 1040, George enters his net benefits of $5,980. On line 6b, he enters his taxable benefits of $2,990.

Example 2. Ray and Alice Hopkins file a joint return on Form 1040 for 2023. Ray is retired and received a fully taxable pension of $15,500. He also received social security benefits, and his Form SSA-1099 for 2023 shows net benefits of $5,600 in box 5. Alice worked during the year and had wages of $14,000. She made a deductible payment to her IRA account of $1,000 and isn't covered by a retirement plan at work. Ray and Alice have two savings accounts with a total of $250 in taxable interest income. They complete Worksheet 1, shown below, entering $29,750 ($15,500 + $14,000 + $250) on line 3. They find none of Ray's social security benefits are taxable. On Form 1040, they enter $5,600 on line 6a and -0- on line 6b.

Filled-in Worksheet 1.
Figuring Your Taxable Benefits

1. Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Also enter this amount on Form 1040 or 1040-SR, line 6a $5,600
2. Multiply line 1 by 50% (0.50) . . . 2,800
3. Combine the amounts from Form 1040 or 1040-SR, lines 1z, 2b, 3b, 4b, 5b, 7, and 8 29,750
4. Enter the amount, if any, from Form 1040 or 1040-SR, line 2a . . . . -0-
5. Enter the total of any exclusions/adjustments for:
   - Adoption benefits (Form 8839, line 28),
   - Foreign earned income or housing (Form 2555, lines 45 and 50), and
   - Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico . . . . -0-
6. Combine lines 2, 3, 4, and 5 above 32,550
7. Enter the total of the amounts from Schedule 1 (Form 1040), lines 11 through 20, and 23 and 25 1,000
8. Is the amount on line 7 less than the amount on line 6?

   No. STOP None of your social security benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b.

   Yes. Subtract line 7 from line 6 31,550
9. If you are:
   - Married filing jointly, enter $32,000; or
   - Single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023, enter $25,000 32,000

   Note. If you are married filing separately and you lived with your spouse at any time in 2023, skip lines 9 through 16, multiply line 8 by 85% (0.85), and enter the result on line 17. Then, go to line 18.
10. Is the amount on line 9 less than the amount on line 8?

    No. STOP None of your benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you **lived apart** from your spouse for all of 2023, be sure you entered "D" to the right of the word "benefits" on Form 1040 or 1040-SR, line 6a.

    Yes. Subtract line 9 from line 8 . . . . . _____

11. Enter $12,000 if married filing jointly; or $9,000 if single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023 . . . . . ______
12. Subtract line 11 from line 10. If zero or less, enter -0- . . . . ______
13. Enter the **smaller** of line 10 or line 11 . . . . ______
14. Multiply line 13 by 50% (0.50) . . . . . . ______
15. Enter the **smaller** of line 2 or line 14 . . ______
16. Multiply line 12 by 85% (0.85). If line 12 is zero, enter -0- . . . . ______
17. Add lines 15 and 16 . . . . ______
18. Multiply line 1 by 85% (0.85) . . . . ______
19. **Taxable benefits.** Enter the **smaller** of line 17 or line 18. Also enter this amount on Form 1040 or 1040-SR, line 6b . . . ______

Example 3. Joe and Betty Johnson file a joint return on Form 1040 for 2023. Joe is a retired railroad worker and in 2023 received the SSEB portion of tier 1 railroad retirement benefits. Joe's Form RRB-1099 shows $10,000 in box 5. Betty is a retired government worker and received a fully taxable pension of $38,000. They had $2,300 in taxable interest income plus interest of $200 on a qualified U.S. savings bond. The savings bond interest qualified for the exclusion. They figure their taxable benefits by completing Worksheet 1, shown below. Because they have qualified U.S. savings bond interest, they follow the note at the beginning of the worksheet and use the amount from line 2 of their Schedule B (Form 1040) on line 3 of the worksheet instead of the amount from line 2b of their Form 1040. On line 3 of the worksheet, they enter $40,500 ($38,000 + $2,500).

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Before you begin:

- If you are married filing separately and you lived apart from your spouse for all of 2023, enter “D” to the right of the word “benefits” on Form 1040 or 1040-SR, line 6a.
- Don’t use this worksheet if you repaid benefits in 2023 and your total repayments (box 4 of Forms SSA-1099 and RRB-1099) were more than your gross benefits for 2023 (box 3 of Forms SSA-1099 and RRB-1099). None of your benefits are taxable for 2023. For more information, see *Repayments More Than Gross Benefits*, later.
- If you are filing Form 8815, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989, don’t include the amount from line 2b of Form 1040 or 1040-SR on line 3 of this worksheet. Instead, include the amount from Schedule B (Form 1040), line 2.

1. Enter the total amount from ***box 5*** of **all** your **Forms SSA-1099** and **RRB-1099**. Also enter this amount on Form 1040 or 1040-SR, line 6a $10,000
2. Multiply line 1 by 50% (0.50) 5,000
3. Combine the amounts from Form 1040 or 1040-SR, lines 1z, 2b, 3b, 4b, 5b, 7, and 8 40,500
4. Enter the amount, if any, from Form 1040 or 1040-SR, line 2a . . . . -0-
5. Enter the total of any exclusions/ adjustments for:
   - Adoption benefits (Form 8839, line 28),
   - Foreign earned income or housing (Form 2555, lines 45 and 50), and
   - Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico . . . . -0-
6. Combine lines 2, 3, 4, and 5 above . . . 45,500
7. Enter the total of the amounts from Schedule 1 (Form 1040), lines 11 through 20, and 23 and 25 . . . . -0-
8. Is the amount on line 7 less than the amount on line 6?

   No. STOP None of your social security benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b.

   Yes. Subtract line 7 from line 6 45,500
9. If you are:
   - Married filing jointly, enter $32,000; or
   - Single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023, enter $25,000 32,000

   Note. If you are married filing separately and you lived with your spouse at any time in 2023, skip lines 9 through 16, multiply line 8 by 85% (0.85), and enter the result on line 17. Then, go to line 18.
10. Is the amount on line 9 less than the amount on line 8?

    No. STOP None of your benefits are taxable. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you **lived apart** from your spouse for all of 2023, be sure you entered “D” to the right of the word “benefits” on Form 1040 or 1040-SR, line 6a.

    Yes. Subtract line 9 from line 8 13,500
11. Enter $12,000 if married filing jointly; or $9,000 if single, head of household, qualifying surviving spouse, or married filing separately and you **lived apart** from your spouse for all of 2023 12,000
12. Subtract line 11 from line 10. If zero or less, enter -0- 1,500
13. Enter the **smaller** of line 10 or line 11 12,000
14. Multiply line 13 by 50% (0.50) 6,000
15. Enter the **smaller** of line 2 or line 14 . . 5,000
16. Multiply line 12 by 85% (0.85). If line 12 is zero, enter -0- 1,275
17. Add lines 15 and 16 6,275
18. Multiply line 1 by 85% (0.85) 8,500
19. **Taxable benefits.** Enter the **smaller** of line 17 or line 18. Also enter this amount on Form 1040 or 1040-SR, line 6b . . . $6,275

More than 50% of Joe's net benefits are taxable because the income on line 8 of the worksheet ($45,500) is more than $44,000. (See *Maximum taxable part* under *How Much Is Taxable*, earlier.) Joe and Betty enter $10,000 on Form 1040, line 6a; and $6,275 on Form 1040, line 6b.

Deductions Related to Your Benefits

You may be entitled to deduct certain amounts related to the benefits you receive.

Disability payments. You may have received disability payments from your employer or an insurance company that you included as income on your tax return in an earlier year. If you received a lump-sum payment from the SSA or RRB, and you had to repay the employer or insurance company for the disability payments, you can take an itemized deduction for the part of the payments you included in gross income in the earlier year. If the amount you repay is more than $3,000, you may be able to claim a tax credit instead. Claim the deduction or credit in the same way explained under *Repayment of benefits received in an earlier year* under *Repayments More Than Gross Benefits* next.

Repayments More Than Gross Benefits

In some situations, your Form SSA-1099 or RRB-1099 will show that the total benefits you repaid (box 4) are more than the gross benefits (box 3) you received. If this occurred, your net benefits in box 5 will be a negative figure (a figure in parentheses) and none of your benefits will be taxable. Don't use a worksheet in this case. If you receive more than one form, a negative figure in box 5 of one form is used to offset a positive figure in box 5 of another form for that same year.

If you have any questions about this negative figure, contact your local SSA office or your local RRB field office.

Joint return. If you and your spouse file a joint return, and your Form SSA-1099 or RRB-1099 has a negative figure in box 5, but your spouse's doesn't, subtract the amount in box 5 of your form from the amount in box 5 of your spouse's form. You do this to get your net benefits when figuring if your combined benefits are taxable.

Example. John and Mary file a joint return for 2023. John received Form SSA-1099 showing $3,000 in box 5. Mary also received Form SSA-1099 and the amount in box 5 was ($500). John and Mary will use $2,500 ($3,000 minus $500) as the amount of their net benefits when figuring if any of their combined benefits are taxable.

Repayment of benefits received in an earlier year. If the total amount shown in box 5 of all of your Forms SSA-1099 and RRB-1099 is a negative figure, you may be able to deduct part of this negative figure that represents benefits you included in gross income in an earlier year if the figure is more than $3,000. If the figure is $3,000 or less, it is a miscellaneous itemized deduction and can no longer be deducted.

Deduction more than $3,000. If this deduction is more than $3,000, you should figure your tax two ways.

1. Figure your tax for 2023 with the itemized deduction included on Schedule A (Form 1040), line 16.
2. Figure your tax for 2023 in the following steps.
   a. Figure the tax without the itemized deduction included on Schedule A (Form 1040), line 16.
   b. For each year after 1983 for which part of the negative figure represents a repayment of benefits, refigure your taxable benefits as if your total benefits for the year were reduced by that part of the negative figure. Then refigure the tax for that year.
   c. Subtract the total of the refigured tax amounts in (b) from the total of your actual tax amounts.
   d. Subtract the result in (c) from the result in (a).

Compare the tax figured in methods 1 and 2. Your tax for 2023 is the smaller of the two amounts. If method 1 results in less tax, take the itemized deduction on Schedule A (Form 1040), line 16. If method 2 results in less tax, claim a credit for the amount from step 2c above on Schedule 3 (Form 1040), line 13z. Enter "I.R.C. 1341" on the entry line. If both methods produce the same tax, deduct the repayment on Schedule A (Form 1040), line 16.

8.

Other Income

What's New

Temporary allowance of 100% business meal deduction has expired. Section 210 of the Taxpayer Certainty and Disaster Tax Relief Act of 2020 provided for the temporary allowance of a 100% business meal deduction for food or beverages provided by a restaurant and paid or incurred after December 31, 2020, and before January 1, 2023.

Reminders

Unemployment compensation. If you received unemployment compensation but did not receive Form 1099-G, Certain Government Payments, through the mail, you may need to access your information through your state's website to get your electronic Form 1099-G.

Introduction

You must include on your return all items of income you receive in the form of money, property, and services unless the tax law states that you don't include them. Some items, however, are only partly excluded from income. This chapter discusses many kinds of income and explains whether they're taxable or nontaxable.

- Income that's taxable must be reported on your tax return and is subject to tax.
- Income that's nontaxable may have to be shown on your tax return but isn't taxable.

This chapter begins with discussions of the following income items.

- Bartering.
- Canceled debts.
- Sales parties at which you're the host or hostess.
- Life insurance proceeds.
- Partnership income.
- S corporation income.
- Recoveries (including state income tax refunds).
- Rents from personal property.
- Repayments.
- Royalties.
- Unemployment benefits.
- Welfare and other public assistance benefits.

These discussions are followed by brief discussions of other income items.

Useful Items

You may want to see:

Publication

- ❏ **502** Medical and Dental Expenses
- ❏ **504** Divorced or Separated Individuals
- ❏ **523** Selling Your Home
- ❏ **525** Taxable and Nontaxable Income
- ❏ **544** Sales and Other Dispositions of Assets
- ❏ **547** Casualties, Disasters, and Thefts
- ❏ **550** Investment Income and Expenses
- ❏ **4681** Canceled Debts, Foreclosures, Repossessions, and Abandonments

For these and other useful items, go to IRS.gov/Forms.

Bartering

Bartering is an exchange of property or services. You must include in your income, at the time received, the fair market value of property or services you receive in bartering. If you exchange services with another person and you both have agreed ahead of time on the value of the services, that value will be accepted as fair market value unless the value can be shown to be otherwise.

Generally, you report this income on Schedule C (Form 1040), Profit or Loss From Business. However, if the barter involves an exchange of something other than services, such as in Example 3 below, you may have to use another form or schedule instead.

Example 1. You're a self-employed attorney who performs legal services for a client, a small corporation. The corporation gives you shares of its stock as payment for your services. You must include the fair market value of the shares in your income on Schedule C (Form 1040) in the year you receive them.

Example 2. You're self-employed and a member of a barter club. The club uses "credit units" as a means of exchange. It adds credit units to your account for goods or services you provide to members, which you can use to purchase goods or services offered by other members of the barter club. The club subtracts credit units from your account when you receive goods or services from other members. You must include in your income the value of the credit units that are added to your account, even though you may not actually receive goods or services from other members until a later tax year.

Example 3. You own a small apartment building. In return for 6 months rent-free use of an apartment, an artist gives you a work of art she created. You must report as rental income on Schedule E (Form 1040), Supplemental Income and Loss, the fair market value of the artwork, and the artist must report as income on Schedule C (Form 1040) the fair rental value of the apartment.

Form 1099-B from barter exchange. If you exchanged property or services through a barter exchange, Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, or a similar statement from the barter exchange should be sent to you by February 15, 2024. It should show the value of cash, property, services, credits, or scrip you received from exchanges during 2023. The IRS will also receive a copy of Form 1099-B.

Canceled Debts

In most cases, if a debt you owe is canceled or forgiven, other than as a gift or bequest, you must include the canceled amount in your income. You have no income from the canceled debt if it's intended as a gift to you. A debt includes any indebtedness for which you're liable or which attaches to property you hold.

If the debt is a nonbusiness debt, report the canceled amount on Schedule 1 (Form 1040), line 8c. If it's a business debt, report the amount on Schedule C (Form 1040) (or on Schedule F (Form 1040), Profit or Loss From Farming, if the debt is farm debt and you're a farmer).

Form 1099-C. If a federal government agency, financial institution, or credit union cancels or forgives a debt you owe of $600 or more, you will receive a Form 1099-C, Cancellation of Debt. The amount of the canceled debt is shown in box 2.

Interest included in canceled debt. If any interest is forgiven and included in the amount of canceled debt in box 2, the amount of interest will also be shown in box 3. Whether or not you must include the interest portion of the canceled debt in your income depends on whether the interest would be deductible when you paid it. See *Deductible debt* under *Exceptions*, later.

If the interest wouldn't be deductible (such as interest on a personal loan), include in your income the amount from box 2 of Form 1099-C. If the interest would be deductible (such as on a business loan), include in your income the net amount of the canceled debt (the amount shown in box 2 less the interest amount shown in box 3).

Discounted mortgage loan. If your financial institution offers a discount for the early payment of your mortgage loan, the amount of the discount is canceled debt. You must include the canceled amount in your income.

Mortgage relief upon sale or other disposition. If you're personally liable for a mortgage (recourse debt), and you're relieved of the mortgage when you dispose of the property, you may realize gain or loss up to the fair market value of the property. Also, to the extent the mortgage discharge exceeds the fair market value of the property, it's income from discharge of indebtedness unless it qualifies for exclusion under *Excluded debt*, later. Report any income from discharge of indebtedness on nonbusiness debt that doesn't qualify for exclusion as other income on Schedule 1 (Form 1040), line 8c.

If you aren't personally liable for a mortgage (nonrecourse debt), and you're relieved of the mortgage when you dispose of the property (such as through foreclosure), that relief is included in the amount you realize. You may have a taxable gain if the amount you realize exceeds your adjusted basis in the property. Report any gain on nonbusiness property as a capital gain.

See Pub. 4681 for more information.

Stockholder debt. If you're a stockholder in a corporation and the corporation cancels or forgives your debt to it, the canceled debt is a constructive distribution that's generally dividend income to you. For more information, see Pub. 542, Corporations.

If you're a stockholder in a corporation and you cancel a debt owed to you by the corporation, you generally don't realize income. This is because the canceled debt is considered as a contribution to the capital of the corporation equal to the amount of debt principal that you canceled.

Repayment of canceled debt. If you included a canceled amount in your income and later pay the debt, you may be able to file a claim for refund for the year the amount was included in income. You can file a claim on Form 1040-X, Amended U.S. Individual Income Tax Return, if the statute of limitations for filing a claim is still open. The statute of limitations generally doesn't end until 3 years after the due date of your original return.

Exceptions

There are several exceptions to the inclusion of canceled debt in income. These are explained next.

Student loans. Generally, if you are responsible for making loan payments, and the loan is canceled or repaid by someone else, you must include the amount that was canceled or paid on your behalf in your gross income for tax purposes. However, in certain circumstances, you may be able to exclude amounts from gross income as a result of the cancellation or repayment of certain student loans. These exclusions are for:

- Student loan cancellation due to meeting certain work requirements;
- Cancellation of certain loans after December 31, 2020, and before January 1, 2026 (see *Special rule for student loan discharges for 2021 through 2025*); or
- Certain student loan repayment assistance programs.

Exclusion for student loan cancellation due to meeting certain work requirements. If your student loan is canceled in part or in whole in 2023 due to meeting certain work requirements, you may not have to include the canceled debt in your income. To qualify for this work-related exclusion, your loan must have been made by a qualified lender to assist you in attending an eligible educational organization described in section 170(b)(1)(A)(ii). In addition, the cancellation must be pursuant to a provision in the student loan that all or part of the debt will be canceled if you work:

- For a certain period of time,
- In certain professions, and
- For any of a broad class of employers.

CAUTION *The cancellation of your loan won't qualify for tax-free treatment if it was made by an educational organization or tax-exempt section 501(c)(3) organization and was canceled because of the services you performed for either organization. See Exception, later.*

Educational organization described in section 170(b)(1)(A)(ii). This is an educational organization that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

Qualified lenders. These include the following.

1. The United States, or an instrumentality or agency thereof.
2. A state or territory of the United States; or the District of Columbia; or any political subdivision thereof.
3. A public benefit corporation that is tax-exempt under section 501(c)(3); and that has assumed control of a state, county, or municipal hospital; and whose employees are considered public employees under state law.
4. An educational organization described in section 170(b)(1)(A)(ii), if the loan is made:
   a. As part of an agreement with an entity described in (1), (2), or (3) under which the funds to make the loan were provided to the educational organization; or
   b. Under a program of the educational organization that is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs where services provided by the students (or former students) are for or under the direction of a governmental unit or a tax-exempt section 501(c)(3) organization.

Special rule for student loan discharges for 2021 through 2025. The American Rescue Plan Act of 2021 modified the treatment of student loan forgiveness for discharges in 2021 through 2025. Generally, if you are responsible for making loan payments, and the loan is canceled or repaid by someone else, you must include the amount that was canceled or paid on your behalf in your gross income for tax purposes. However, in certain circumstances, you may be able to exclude this amount from gross income if the loan was one of the following.

- A loan for postsecondary educational expenses.
- A private education loan.
- A loan from an educational organization described in section 170(b)(1)(A)(ii).
- A loan from an organization exempt from tax under section 501(a) to refinance a student loan.

See Pub. 4681 and Pub. 970 for more information.

Loan for postsecondary educational expenses. This is any loan provided expressly for postsecondary education, regardless of whether provided through the educational organization or directly to the borrower, if such loan was made, insured, or guaranteed by one of the following.

- The United States, or an instrumentality or agency thereof.
- A state or territory of the United States; or the District of Columbia; or any political subdivision thereof.
- An eligible educational organization.

Eligible educational organization. An eligible educational organization is generally any accredited public, nonprofit, or proprietary (privately owned profit-making) college, university, vocational school, or other postsecondary educational organization. Also, the organization must be eligible to participate in a student aid program administered by the U.S. Department of Education.

An eligible educational organization also includes certain educational organizations located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.

TIP *The educational organization should be able to tell you if it is an eligible educational organization.*

Private education loan. A private education loan is a loan provided by a private educational lender that:

- Is not made, insured, or guaranteed under Title IV of the Higher Education Act of 1965; and
- Is issued expressly for postsecondary educational expenses to a borrower, regardless of whether the loan is provided through the educational organization that the student attends or directly to the borrower from the private educational lender. A private education loan does not include an extension of credit under an open end consumer credit plan, a reverse mortgage transaction, a residential mortgage transaction, or any other loan that is secured by real property or a dwelling.

Private educational lender. A private educational lender is one of the following.

- A financial institution that solicits, makes, or extends private education loans.
- A federal credit union that solicits, makes or extends private education loans.
- Any other person engaged in the business of soliciting, making, or extending private education loans.

CAUTION *The cancellation of your loan won't qualify for tax-free treatment if it is canceled because of services you performed for the private educational lender that made the loan or other organization that provided the funds.*

Loan from an educational organization described in section 170(b)(1)(A)(ii). This is any loan made by the organization if the loan is made:

- As part of an agreement with an entity described earlier under which the funds to make the loan were provided to the educational organization; or
- Under a program of the educational organization that is designed to encourage its students to serve in occupations with unmet needs or in areas with unmet needs where the services provided by the students (or former students) are for or under the direction of a governmental unit or tax-exempt section 501(c)(3) organization.

Educational organization described in section 170(b)(1)(A)(ii). This is an educational organization that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

CAUTION *The cancellation of your loan won't qualify for tax-free treatment if it was made by an educational organization, a tax-exempt section 501(c)(3) organization, or a private education lender (as defined in section 140(a)(7) of the Truth in Lending Act) and was canceled because of the services you performed for either such organization or private education lender. See* *Exception, later.*

Section 501(c)(3) organization. This is any corporation, community chest, fund, or foundation organized and operated exclusively for one or more of the following purposes.

- Charitable.
- Religious.
- Educational.
- Scientific.
- Literary.
- Testing for public safety.
- Fostering national or international amateur sports competition (but only if none of its activities involve providing athletic facilities or equipment).
- The prevention of cruelty to children or animals.

Exception. In most cases, the cancellation of a student loan made by an educational organization because of services you performed for that organization or another organization that provided the funds for the loan must be included in gross income on your tax return.

Refinanced loan. If you refinanced a student loan with another loan from an eligible educational organization or a tax-exempt organization, that loan may also be considered as made by a qualified lender. The refinanced loan is considered made by a qualified lender if it's made under a program of the refinancing organization that is designed to encourage students to serve in occupations with unmet needs or in areas with unmet needs where the services required of the students are for or under the direction of a governmental unit or a tax-exempt section 501(c)(3) organization.

Student loan repayment assistance. Student loan repayments made to you are tax free if you received them for any of the following.

- The National Health Service Corps (NHSC) Loan Repayment Program.
- A state education loan repayment program eligible for funds under the Public Health Service Act.
- 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 (as determined by such a state).

CAUTION *You can't deduct the interest you paid on a student loan to the extent payments were made through your participation in any of the above programs.*

Deductible debt. You don't have income from the cancellation of a debt if your payment of the debt would be deductible. This exception applies only if you use the cash method of accounting. For more information, see chapter 5 of Pub. 334, Tax Guide for Small Business.

Price reduced after purchase. In most cases, if the seller reduces the amount of debt you owe for property you purchased, you don't have income from the reduction. The reduction of the debt is treated as a purchase price adjustment and reduces your basis in the property.

Excluded debt. Don't include a canceled debt in your gross income in the following situations.

- The debt is canceled in a bankruptcy case under title 11 of the U.S. Code. See Pub. 908, Bankruptcy Tax Guide.
- The debt is canceled when you're insolvent. However, you can't exclude any amount of canceled debt that's more than the amount by which you're insolvent. See Pub. 908.
- The debt is qualified farm debt and is canceled by a qualified person. See chapter 3 of Pub. 225, Farmer's Tax Guide.
- The debt is qualified real property business debt. See chapter 5 of Pub. 334.
- The cancellation is intended as a gift.
- The debt is qualified principal residence indebtedness.

Forgiveness of Paycheck Protection Program (PPP) loans. The forgiveness of a PPP loan creates tax-exempt income, so although you don't need to report the income from the forgiveness of your PPP loan on Form 1040 or 1040-SR, you do need to report certain information related to your PPP loan.

Rev. Proc. 2021-48, 2021-49 I.R.B. 835, permits taxpayers to treat tax-exempt income resulting from the forgiveness of a PPP loan as received or accrued (1) as, and to the extent that, eligible expenses are paid or incurred; (2) when you apply for forgiveness of the PPP loan; or (3) when forgiveness of the PPP loan is granted. If you have tax-exempt income resulting from the forgiveness of a PPP loan, attach a statement to your return reporting each tax year for which you are applying Rev. Proc. 2021-48, and which section of Rev. Proc. 2021-48 you are applying–

either section 3.01(1), (2), or (3). Any statement should include the following information for each PPP loan.

1. Your name, address, and ITIN or SSN;
2. A statement that you are applying or applied section 3.01(1), (2), or (3) of Rev. Proc. 2021-48, and for what tax year;
3. The amount of tax-exempt income from forgiveness of the PPP loan that you are treating as received or accrued and for what tax year; and
4. Whether forgiveness of the PPP loan has been granted as of the date you file your return.

Write “RP 2021-48” at the top of your attached statement.

Host

If you host a party or event at which sales are made, any gift or gratuity you receive for giving the event is a payment for helping a direct seller make sales. You must report this item as income at its fair market value.

Your out-of-pocket party expenses are subject to the 50% limit for meal expenses. For tax years 2018 and after, no deduction is allowed for any expenses related to activities generally considered entertainment, amusement, or recreation. Taxpayers may continue to deduct 50% of the cost of business meals if the taxpayer (or an employee of the taxpayer) is present and the food or beverages are not considered lavish or extravagant. The meals may be provided to a current or potential business customer, client, consultant, or similar business contact. Food and beverages that are provided during entertainment events will not be considered entertainment if purchased separately from the event.

For more information about the limit for meal expenses, see Pub. 463, Travel, Gift, and Car Expenses.

Life Insurance Proceeds

Life insurance proceeds paid to you because of the death of the insured person aren’t taxable unless the policy was turned over to you for a price. This is true even if the proceeds were paid under an accident or health insurance policy or an endowment contract. However, interest income received as a result of life insurance proceeds may be taxable.

Proceeds not received in installments. If death benefits are paid to you in a lump sum or other than at regular intervals, include in your income only the benefits that are more than the amount payable to you at the time of the insured person's death. If the benefit payable at death isn’t specified, you include in your income the benefit payments that are more than the present value of the payments at the time of death.

Proceeds received in installments. If you receive life insurance proceeds in installments, you can exclude part of each installment from your income.

To determine the excluded part, divide the amount held by the insurance company (generally, the total lump sum payable at the death of the insured person) by the number of installments to be paid. Include anything over this excluded part in your income as interest.

Surviving spouse. If your spouse died before October 23, 1986, and insurance proceeds paid to you because of the death of your spouse are received in installments, you can exclude up to $1,000 a year of the interest included in the installments. If you remarry, you can continue to take the exclusion.

Surrender of policy for cash. If you surrender a life insurance policy for cash, you must include in income any proceeds that are more than the cost of the life insurance policy. In most cases, your cost (or investment in the contract) is the total of premiums that you paid for the life insurance policy, less any refunded premiums, rebates, dividends, or unrepaid loans that weren’t included in your income.

You should receive a Form 1099-R showing the total proceeds and the taxable part. Report these amounts on lines 5a and 5b of Form 1040 or 1040-SR.

More information. For more information, see *Life Insurance Proceeds* in Pub. 525.

Endowment Contract Proceeds

An endowment contract is a policy under which you’re paid a specified amount of money on a certain date unless you die before that date, in which case the money is paid to your designated beneficiary. Endowment proceeds paid in a lump sum to you at maturity are taxable only if the proceeds are more than the cost of the policy. To determine your cost, subtract any amount that you previously received under the contract and excluded from your income from the total premiums (or other consideration) paid for the contract. Include in your income the part of the lump-sum payment that’s more than your cost.

Accelerated Death Benefits

Certain amounts paid as accelerated death benefits under a life insurance contract or viatical settlement before the insured's death are excluded from income if the insured is terminally or chronically ill.

Viatical settlement. This is the sale or assignment of any part of the death benefit under a life insurance contract to a viatical settlement provider. A viatical settlement provider is a person who regularly engages in the business of buying or taking assignment of life insurance contracts on the lives of insured individuals who are terminally or chronically ill and who meets the requirements of section 101(g)(2)(B) of the Internal Revenue Code.

Exclusion for terminal illness. Accelerated death benefits are fully excludable if the insured is a terminally ill individual. This is a person who has been certified by a physician as having an illness or physical condition that can reasonably be expected to result in death within 24 months from the date of the certification.

Exclusion for chronic illness. If the insured is a chronically ill individual who’s not terminally ill, accelerated death benefits paid on the basis of costs incurred for qualified long-term care services are fully excludable. Accelerated death benefits paid on a per diem or other periodic basis are excludable up to a limit. For 2023, this limit is $420. It applies to the total of the accelerated death benefits and any periodic payments received from long-term care insurance contracts. For information on the limit and the definitions of chronically ill individual, qualified long-term care services, and long-term care insurance contracts, see *Long-Term Care Insurance Contracts* under *Sickness and Injury Benefits* in Pub. 525.

Exception. The exclusion doesn’t apply to any amount paid to a person (other than the insured) who has an insurable interest in the life of the insured because the insured:

- Is a director, officer, or employee of the person; or
- Has a financial interest in the person's business.

Form 8853. To claim an exclusion for accelerated death benefits made on a per diem or other periodic basis, you must file Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, with your return. You don’t have to file Form 8853 to exclude accelerated death benefits paid on the basis of actual expenses incurred.

Public Safety Officer Killed or Injured in the Line of Duty

A spouse, former spouse, and child of a public safety officer killed in the line of duty can exclude from gross income survivor benefits received from a governmental section 401(a) plan attributable to the officer’s service. See section 101(h).

A public safety officer who’s permanently and totally disabled or killed in the line of duty and a surviving spouse or child can exclude from income death or disability benefits received from the federal Bureau of Justice Assistance or death benefits paid by a state program. See section 104(a)(6).

For this purpose, the term “public safety officer” includes law enforcement officers, firefighters, chaplains, and rescue squad and ambulance crew members. For more information, see Pub. 559, Survivors, Executors, and Administrators.

Partnership Income

A partnership generally isn’t a taxable entity. The income, gains, losses, deductions, and credits of a partnership are passed through to the partners based on each partner's distributive share of these items.

Schedule K-1 (Form 1065). Although a partnership generally pays no tax, it must file an information return on Form 1065, U.S. Return of

Partnership Income, and send Schedule K-1 (Form 1065) to each partner. In addition, the partnership will send each partner a copy of the Partner's Instructions for Schedule K-1 (Form 1065) to help each partner report his or her share of the partnership's income, deductions, credits, and tax preference items.

RECORDS Keep Schedule K-1 (Form 1065) for your records. Don't attach it to your Form 1040 or 1040-SR, unless you're specifically required to do so.

For more information on partnerships, see Pub. 541, Partnerships.

Qualified joint venture. If you and your spouse each materially participate as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make a joint election to be treated as a qualified joint venture instead of a partnership. To make this election, you must divide all items of income, gain, loss, deduction, and credit attributable to the business between you and your spouse in accordance with your respective interests in the venture. For further information on how to make the election and which schedule(s) to file, see the instructions for your individual tax return.

S Corporation Income

In most cases, an S corporation doesn't pay tax on its income. Instead, the income, losses, deductions, and credits of the corporation are passed through to the shareholders based on each shareholder's pro rata share.

Schedule K-1 (Form 1120-S). An S corporation must file a return on Form 1120-S, U.S. Income Tax Return for an S Corporation, and send Schedule K-1 (Form 1120-S) to each shareholder. In addition, the S corporation will send each shareholder a copy of the Shareholder's Instructions for Schedule K-1 (Form 1120-S) to help each shareholder report her or his share of the S corporation's income, losses, credits, and deductions.

RECORDS Keep Schedule K-1 (Form 1120-S) for your records. Don't attach it to your Form 1040 or 1040-SR, unless you're specifically required to do so.

For more information on S corporations and their shareholders, see the Instructions for Form 1120-S.

Recoveries

A recovery is a return of an amount you deducted or took a credit for in an earlier year. The most common recoveries are refunds, reimbursements, and rebates of deductions itemized on Schedule A (Form 1040). You may also have recoveries of nonitemized deductions (such as payments on previously deducted bad debts) and recoveries of items for which you previously claimed a tax credit.

Tax benefit rule. You must include a recovery in your income in the year you receive it up to the amount by which the deduction or credit you took for the recovered amount reduced your tax in the earlier year. For this purpose, any increase to an amount carried over to the current year that resulted from the deduction or credit is considered to have reduced your tax in the earlier year. For more information, see Pub. 525.

Federal income tax refund. Refunds of federal income taxes aren't included in your income because they're never allowed as a deduction from income.

State tax refund. If you received a state or local income tax refund (or credit or offset) in 2023, you must generally include it in income if you deducted the tax in an earlier year. The payer should send Form 1099-G to you by January 31, 2024. The IRS will also receive a copy of the Form 1099-G. If you file Form 1040 or 1040-SR, use the State and Local Income Tax Refund Worksheet in the 2023 instructions for Schedule 1 (Form 1040) to figure the amount (if any) to include in your income. See Pub. 525 for when you must use another worksheet.

If you could choose to deduct for a tax year either:

- State and local income taxes, or
- State and local general sales taxes, then

the maximum refund that you may have to include in income is limited to the excess of the tax you chose to deduct for that year over the tax you didn't choose to deduct for that year. For examples, see Pub. 525.

Mortgage interest refund. If you received a refund or credit in 2023 of mortgage interest paid in an earlier year, the amount should be shown in Form 1098, box 4, Mortgage Interest Statement. Don't subtract the refund amount from the interest you paid in 2023. You may have to include it in your income under the rules explained in the following discussions.

Interest on recovery. Interest on any of the amounts you recover must be reported as interest income in the year received. For example, report any interest you received on state or local income tax refunds on Form 1040, 1040-SR, or 1040-NR, line 2b.

Recovery and expense in same year. If the refund or other recovery and the expense occur in the same year, the recovery reduces the deduction or credit and isn't reported as income.

Recovery for 2 or more years. If you receive a refund or other recovery that's for amounts you paid in 2 or more separate years, you must allocate, on a pro rata basis, the recovered amount between the years in which you paid it. This allocation is necessary to determine the amount of recovery from any earlier years and to determine the amount, if any, of your allowable deduction for this item for the current year. For information on how to figure the allocation, see *Recoveries* in Pub. 525.

Itemized Deduction Recoveries

If you recover any amount that you deducted in an earlier year on Schedule A (Form 1040), you must generally include the full amount of the recovery in your income in the year you receive it.

Where to report. Enter your state or local income tax refund on Schedule 1 (Form 1040), line 1, and the total of all other recoveries as other income on Schedule 1 (Form 1040), line 8z.

Standard deduction limit. You are generally allowed to claim the standard deduction if you don't itemize your deductions. Only your itemized deductions that are more than your standard deduction are subject to the recovery rule (unless you're required to itemize your deductions). If your total deductions on the earlier year return weren't more than your income for that year, include in your income this year the lesser of:

- Your recoveries, or
- The amount by which your itemized deductions exceeded the standard deduction.

Example. For 2022, you filed a joint return. Your taxable income was $60,000 and you weren't entitled to any tax credits. Your standard deduction was $25,900, and you had itemized deductions of $27,400. In 2023, you received the following recoveries for amounts deducted on your 2022 return.

Medical expenses	$200
State and local income tax refund	400
Refund of mortgage interest	325
Total recoveries	$925

None of the recoveries were more than the deductions taken for 2022. The difference between the state and local income tax you deducted and your local general sales tax was more than $400.

Your total recoveries are less than the amount by which your itemized deductions exceeded the standard deduction ($27,400 – $25,900 = $1,500), so you must include your total recoveries in your income for 2023. Report the state and local income tax refund of $400 on Schedule 1 (Form 1040), line 1, and the balance of your recoveries, $525, on Schedule 1 (Form 1040), line 8z.

Standard deduction for earlier years. To determine if amounts recovered in the current year must be included in your income, you must know the standard deduction for your filing status for the year the deduction was claimed. Look in the instructions for your tax return from prior years to locate the standard deduction for the filing status for that prior year. If you filed Form 1040-NR, you couldn't claim the standard deduction except for certain nonresident aliens from India (see Pub. 519).

Example. You filed a joint return on Form 1040 for 2022 with taxable income of $45,000. Your itemized deductions were $26,150. The standard deduction that you could have claimed was $25,900. In 2023, you recovered $2,100 of your 2022 itemized deductions. None of the recoveries were more than the actual deductions for 2022. Include $250 of the recoveries in your 2023 income. This is the smaller of your recoveries ($2,100) or the amount by which your itemized deductions were more than the standard deduction ($26,150 – $25,900 = $250).

Recovery limited to deduction. You don't include in your income any amount of your recovery that's more than the amount you deducted in the earlier year. The amount you include in your income is limited to the smaller of:

- The amount deducted on Schedule A (Form 1040), or
- The amount recovered.

Example. During 2022, you paid $1,700 for medical expenses. Of this amount, you deducted $200 on your 2022 Schedule A (Form 1040). In 2023, you received a $500 reimbursement from your medical insurance for your 2022 expenses. The only amount of the $500 reimbursement that must be included in your income for 2023 is $200—the amount actually deducted.

Other recoveries. See *Recoveries* in Pub. 525 if:

- You have recoveries of items other than itemized deductions, or
- You received a recovery for an item for which you claimed a tax credit (other than investment credit or foreign tax credit) in a prior year.

Rents From Personal Property

If you rent out personal property, such as equipment or vehicles, how you report your income and expenses is in most cases determined by:

- Whether or not the rental activity is a business, and
- Whether or not the rental activity is conducted for profit.

In most cases, if your primary purpose is income or profit and you're involved in the rental activity with continuity and regularity, your rental activity is a business.

Reporting business income and expenses. If you're in the business of renting personal property, report your income and expenses on Schedule C (Form 1040). The form instructions have information on how to complete them.

Reporting nonbusiness income. If you aren't in the business of renting personal property, report your rental income on Schedule 1 (Form 1040), line 8l.

Reporting nonbusiness expenses. If you rent personal property for profit, include your rental expenses in the total amount you enter on Schedule 1 (Form 1040), line 24b, and see the instructions there.

If you don't rent personal property for profit, your deductions are limited and you can't report a loss to offset other income. See *Activity not for profit* under *Other Income*, later.

Repayments

If you had to repay an amount that you included in your income in an earlier year, you may be able to deduct the amount repaid from your income for the year in which you repaid it. Or, if the amount you repaid is more than $3,000, you may be able to take a credit against your tax for the year in which you repaid it. Generally, you can claim a deduction or credit only if the repayment qualifies as an expense or loss incurred in your trade or business or in a for-profit transaction.

Type of deduction. The type of deduction you're allowed in the year of repayment depends on the type of income you included in the earlier year. You generally deduct the repayment on the same form or schedule on which you previously reported it as income. For example, if you reported it as self-employment income, deduct it as a business expense on Schedule C (Form 1040) or Schedule F (Form 1040). If you reported it as a capital gain, deduct it as a capital loss as explained in the Instructions for Schedule D (Form 1040). If you reported it as wages, unemployment compensation, or other nonbusiness income, you may be able to deduct it as an other itemized deduction if the amount repaid is over $3,000.

CAUTION *Beginning in 2018, you can no longer claim any miscellaneous itemized deductions, so if the amount repaid was $3,000 or less, you are not able to deduct it from your income in the year you repaid it.*

Repaid social security benefits. If you repaid social security benefits or equivalent railroad retirement benefits, see *Repayment of benefits.* in chapter 7.

Repayment over $3,000. If the amount you repaid was more than $3,000, you can deduct the repayment as an other itemized deduction on Schedule A (Form 1040), line 16, if you included the income under a claim of right. This means that at the time you included the income, it appeared that you had an unrestricted right to it. However, you can choose to take a credit for the year of repayment. Figure your tax under both methods and compare the results. Use the method (deduction or credit) that results in less tax.

CAUTION *When determining whether the amount you repaid was more or less than $3,000, consider the total amount being repaid on the return. Each instance of repayment isn't considered separately.*

Method 1. Figure your tax for 2023 claiming a deduction for the repaid amount. If you deduct it as an other itemized deduction, enter it on Schedule A (Form 1040), line 16.

Method 2. Figure your tax for 2023 claiming a credit for the repaid amount. Follow these steps.

1. Figure your tax for 2023 without deducting the repaid amount.
2. Refigure your tax from the earlier year without including in income the amount you repaid in 2023.
3. Subtract the tax in (2) from the tax shown on your return for the earlier year. This is the credit.
4. Subtract the answer in (3) from the tax for 2023 figured without the deduction (step 1).

If method 1 results in less tax, deduct the amount repaid. If method 2 results in less tax, claim the credit figured in (3) above on Schedule 3 (Form 1040), line 13b, by adding the amount of the credit to any other credits on this line, and see the instructions there.

An example of this computation can be found in Pub. 525.

Repaid wages subject to social security and Medicare taxes. If you had to repay an amount that you included in your wages or compensation in an earlier year on which social security, Medicare, or tier 1 RRTA taxes were paid, ask your employer to refund the excess amount to you. If the employer refuses to refund the taxes, ask for a statement indicating the amount of the overcollection to support your claim. File a claim for refund using Form 843, Claim for Refund and Request for Abatement.

Repaid wages subject to Additional Medicare Tax. Employers can't make an adjustment or file a claim for refund for Additional Medicare Tax withholding when there is a repayment of wages received by an employee in a prior year because the employee determines liability for Additional Medicare Tax on the employee's income tax return for the prior year. If you had to repay an amount that you included in your wages or compensation in an earlier year, and on which Additional Medicare Tax was paid, you may be able to recover the Additional Medicare Tax paid on the amount. To recover Additional Medicare Tax on the repaid wages or compensation, you must file Form 1040-X for the prior year in which the wages or compensation was originally received. See the Instructions for Form 1040-X.

Royalties

Royalties from copyrights, patents, and oil, gas, and mineral properties are taxable as ordinary income.

In most cases, you report royalties in Part I of Schedule E (Form 1040). However, if you hold an operating oil, gas, or mineral interest or are in business as a self-employed writer, inventor, artist, etc., report your income and expenses on Schedule C (Form 1040).

Copyrights and patents. Royalties from copyrights on literary, musical, or artistic works, and similar property, or from patents on inventions, are amounts paid to you for the right to use your work over a specified period of time. Royalties are generally based on the number of units sold, such as the number of books, tickets to a performance, or machines sold.

Oil, gas, and minerals. Royalty income from oil, gas, and mineral properties is the amount you receive when natural resources are extracted from your property. The royalties are based on units, such as barrels, tons, etc., and are paid to you by a person or company that leases the property from you.

Depletion. If you're the owner of an economic interest in mineral deposits or oil and gas wells, you can recover your investment through the depletion allowance.

Coal and iron ore. Under certain circumstances, you can treat amounts you receive from the disposal of coal and iron ore as payments from the sale of a capital asset, rather than as royalty income. For information about gain or loss from the sale of coal and iron ore, see chapter 2 of Pub. 544.

Sale of property interest. If you sell your complete interest in oil, gas, or mineral rights, the amount you receive is considered payment for the sale of property used in a trade or business under section 1231, not royalty income. Under certain circumstances, the sale is subject to capital gain or loss treatment as explained in the Instructions for Schedule D (Form 1040). For more information on selling section 1231 property, see chapter 3 of Pub. 544.

If you retain a royalty, an overriding royalty, or a net profit interest in a mineral property for the life of the property, you have made a lease or a sublease, and any cash you receive for the assignment of other interests in the property is ordinary income subject to a depletion allowance.

Part of future production sold. If you own mineral property but sell part of the future production, in most cases you treat the money you receive from the buyer at the time of the sale as a loan from the buyer. Don't include it in your income or take depletion based on it.

When production begins, you include all the proceeds in your income, deduct all the production expenses, and deduct depletion from that amount to arrive at your taxable income from the property.

Unemployment Benefits

The tax treatment of unemployment benefits you receive depends on the type of program paying the benefits.

Unemployment compensation. You must include in income all unemployment compensation you receive. You should receive a Form 1099-G showing in box 1 the total unemployment compensation paid to you. In most cases, you enter unemployment compensation on Schedule 1 (Form 1040), line 7.

CAUTION *If you received unemployment compensation but did not receive Form 1099-G through the mail, you may need to access your information through your state's website to get your electronic Form 1099-G.*

Types of unemployment compensation. Unemployment compensation generally includes any amount received under an unemployment compensation law of the United States or of a state. It includes the following benefits.

- Benefits paid by a state or the District of Columbia from the Federal Unemployment Trust Fund.
- State unemployment insurance benefits.
- Railroad unemployment compensation benefits.
- Disability payments from a government program paid as a substitute for unemployment compensation. (Amounts received as workers' compensation for injuries or illness aren't unemployment compensation. See chapter 5 for more information.)
- Trade readjustment allowances under the Trade Act of 1974.
- Unemployment assistance under the Disaster Relief and Emergency Assistance Act.
- Unemployment assistance under the Airline Deregulation Act of 1978 Program.

Governmental program. If you contribute to a governmental unemployment compensation program and your contributions aren't deductible, amounts you receive under the program aren't included as unemployment compensation until you recover your contributions. If you deducted all of your contributions to the program, the entire amount you receive under the program is included in your income.

Repayment of unemployment compensation. If you repaid in 2023 unemployment compensation you received in 2023, subtract the amount you repaid from the total amount you received and enter the difference on Schedule 1 (Form 1040), line 7. On the dotted line next to your entry, enter "Repaid" and the amount you repaid. If you repaid unemployment compensation in 2023 that you included in income in an earlier year, you can deduct the amount repaid on Schedule A (Form 1040), line 16, if you itemize deductions and the amount is more than $3,000. See *Repayments*, earlier.

Tax withholding. You can choose to have federal income tax withheld from your unemployment compensation. To make this choice, complete Form W-4V, Voluntary Withholding Request, and give it to the paying office. Tax will be withheld at 10% of your payment.

CAUTION *If you don't choose to have tax withheld from your unemployment compensation, you may be liable for estimated tax. If you don't pay enough tax, either through withholding or estimated tax, or a combination of both, you may have to pay a penalty. For more information on estimated tax, see chapter 4.*

Supplemental unemployment benefits. Benefits received from an employer-financed fund (to which the employees didn't contribute) aren't unemployment compensation. They are taxable as wages. For more information, see *Supplemental Unemployment Benefits* in section 5 of Pub. 15-A, Employer's Supplemental Tax Guide. Report these payments on line 1a of Form 1040 or 1040-SR.

Repayment of benefits. You may have to repay some of your supplemental unemployment benefits to qualify for trade readjustment allowances under the Trade Act of 1974. If you repay supplemental unemployment benefits in the same year you receive them, reduce the total benefits by the amount you repay. If you repay the benefits in a later year, you must include the full amount of the benefits received in your income for the year you received them.

Deduct the repayment in the later year as an adjustment to gross income on Form 1040 or 1040-SR. Include the repayment on Schedule 1 (Form 1040), line 24e, and see the instructions there. If the amount you repay in a later year is more than $3,000, you may be able to take a credit against your tax for the later year instead of deducting the amount repaid. For more information on this, see *Repayments*, earlier.

Private unemployment fund. Unemployment benefit payments from a private (nonunion) fund to which you voluntarily contribute are taxable only if the amounts you receive are more than your total payments into the fund. Report the taxable amount on Schedule 1 (Form 1040), line 8z.

Payments by a union. Benefits paid to you as an unemployed member of a union from regular union dues are included in your income on Schedule 1 (Form 1040), line 8z. However, if you contribute to a special union fund and your payments to the fund aren't deductible, the unemployment benefits you receive from the fund are includible in your income only to the extent they're more than your contributions.

Guaranteed annual wage. Payments you receive from your employer during periods of unemployment, under a union agreement that guarantees you full pay during the year, are taxable as wages. Include them on line 1a of Form 1040 or 1040-SR.

State employees. Payments similar to a state's unemployment compensation may be made by the state to its employees who aren't covered by the state's unemployment compensation law. Although the payments are fully taxable, don't report them as unemployment compensation. Report these payments on Schedule 1 (Form 1040), line 8z.

Welfare and Other Public Assistance Benefits

Don't include in your income governmental benefit payments from a public welfare fund based upon need, such as payments to blind individuals under a state public assistance law. Payments from a state fund for the victims of crime shouldn't be included in the victims' incomes if they're in the nature of welfare payments. Don't deduct medical expenses that are reimbursed by such a fund. You must include in your income any welfare payments that are compensation for services or that are obtained fraudulently.

Reemployment Trade Adjustment Assistance (RTAA) payments. RTAA payments received from a state must be included in your income. The state must send you Form 1099-G to advise you of the amount you should include in income. The amount should be reported on Schedule 1 (Form 1040), line 8z.

Persons with disabilities. If you have a disability, you must include in income compensation you receive for services you perform unless the compensation is otherwise excluded. However, you don't include in income the value of goods, services, and cash that you receive, not in return for your services, but for your training and rehabilitation because you have a disability. Excludable amounts include payments for transportation and attendant care, such as interpreter services for the deaf, reader services for the blind, and services to help individuals with an intellectual disability do their work.

Disaster relief grants. Don't include post-disaster grants received under the Robert T. Stafford Disaster Relief and Emergency Assistance Act in your income if the grant payments are made to help you meet necessary expenses or serious needs for medical, dental, housing, personal property, transportation, childcare, or funeral expenses. Don't deduct casualty losses or medical expenses that are specifically reimbursed by these disaster relief grants. If you have deducted a casualty loss for the loss of your personal residence and you later receive a disaster relief grant for the loss of the same residence, you may have to include part or all of the grant in your taxable income. See *Recoveries*, earlier. Unemployment assistance payments under the Act are taxable unemployment compensation. See *Unemployment compensation* under *Unemployment Benefits*, earlier.

Disaster relief payments. You can exclude from income any amount you receive that's a qualified disaster relief payment. A qualified disaster relief payment is an amount paid to you:

1. To reimburse or pay reasonable and necessary personal, family, living, or funeral expenses that result from a qualified disaster;
2. To reimburse or pay reasonable and necessary expenses incurred for the repair or rehabilitation of your home or repair or replacement of its contents to the extent it's due to a qualified disaster;
3. By a person engaged in the furnishing or sale of transportation as a common carrier because of the death or personal physical injuries incurred as a result of a qualified disaster; or
4. By a federal, state, or local government; agency; or instrumentality in connection with a qualified disaster in order to promote the general welfare.

You can exclude this amount only to the extent any expense it pays for isn't paid for by insurance or otherwise. The exclusion doesn't apply if you were a participant or conspirator in a terrorist action or a representative of one.

A qualified disaster is:

- A disaster which results from a terrorist or military action;
- A federally declared disaster; or
- A disaster which results from an accident involving a common carrier, or from any other event, which is determined to be catastrophic by the Secretary of the Treasury or his or her delegate.

For amounts paid under item (4) above, a disaster is qualified if it's determined by an applicable federal, state, or local authority to warrant assistance from the federal, state, or local government, agency, or instrumentality.

Disaster mitigation payments. You can exclude from income any amount you receive that's a qualified disaster mitigation payment. Qualified disaster mitigation payments are most commonly paid to you in the period immediately following damage to property as a result of a natural disaster. However, disaster mitigation payments are used to mitigate (reduce the severity of) potential damage from future natural disasters. They're paid to you through state and local governments based on the provisions of the Robert T. Stafford Disaster Relief and Emergency Assistance Act or the National Flood Insurance Act.

You can't increase the basis or adjusted basis of your property for improvements made with nontaxable disaster mitigation payments.

Home Affordable Modification Program (HAMP). If you benefit from Pay-for-Performance Success Payments under HAMP, the payments aren't taxable.

Mortgage assistance payments under section 235 of the National Housing Act. Payments made under section 235 of the National Housing Act for mortgage assistance aren't included in the homeowner's income. Interest paid for the homeowner under the mortgage assistance program can't be deducted.

Medicare. Medicare benefits received under title XVIII of the Social Security Act aren't includible in the gross income of the individuals for whom they're paid. This includes basic (Part A (Hospital Insurance Benefits for the Aged)) and supplementary (Part B (Supplementary Medical Insurance Benefits for the Aged)).

Social security benefits (including lump-sum payments attributable to prior years), Supplemental Security Income (SSI) benefits, and lump-sum death benefits. The Social Security Administration (SSA) provides benefits such as old-age benefits, benefits to disabled workers, and benefits to spouses and dependents. These benefits may be subject to federal income tax depending on your filing status and other income. See chapter 7 in this publication and Pub. 915, Social Security and Equivalent Railroad Retirement Benefits, for more information. An individual originally denied benefits, but later approved, may receive a lump-sum payment for the period when benefits were denied (which may be prior years). See Pub. 915 for information on how to make a lump-sum election, which may reduce your tax liability. There are also other types of benefits paid by the SSA. However, SSI benefits and lump-sum death benefits (one-time payment to spouse and children of deceased) aren't subject to federal income tax. For more information on these benefits, go to *SSA.gov*.

Nutrition Program for the Elderly. Food benefits you receive under the Nutrition Program for the Elderly aren't taxable. If you prepare and serve free meals for the program, include in your income as wages the cash pay you receive, even if you're also eligible for food benefits.

Payments to reduce cost of winter energy. Payments made by a state to qualified people to reduce their cost of winter energy use aren't taxable.

Other Income

The following brief discussions are arranged in alphabetical order. Other income items briefly discussed below are referenced to publications which provide more topical information.

Activity not for profit. You must include on your return income from an activity from which you don't expect to make a profit. An example of this type of activity is a hobby or a farm you operate mostly for recreation and pleasure. Enter this income on Schedule 1 (Form 1040), line 8j. Deductions for expenses related to the activity are limited. They can't total more than the income you report and can be taken only if you itemize deductions on Schedule A (Form 1040).

Alaska Permanent Fund dividend. If you received a payment from Alaska's mineral income fund (Alaska Permanent Fund dividend), report it as income on Schedule 1 (Form 1040), line 8g. The state of Alaska sends each recipient a document that shows the amount of the payment with the check. The amount is also reported to the IRS.

Alimony. Include in your income on Schedule 1 (Form 1040), line 2a, any taxable alimony payments you receive. Amounts you receive for child support aren't income to you. Alimony and child support payments are discussed in Pub. 504.

CAUTION *Don't include alimony payments you receive under a divorce or separation agreement (1) executed after 2018, or (2) executed before 2019 but later modified if the modification expressly states the repeal of the deduction for alimony payments applies to the modification.*

Bribes. If you receive a bribe, include it in your income.

Campaign contributions. These contributions aren't income to a candidate unless they're diverted to her or his personal use. To be nontaxable, the contributions must be spent for campaign purposes or kept in a fund for use in future campaigns. However, interest earned on bank deposits, dividends received on contributed securities, and net gains realized on sales of contributed securities are taxable and must be reported on Form 1120-POL, U.S. Income Tax Return for Certain Political Organizations. Excess campaign funds transferred to an office account must be included in the officeholder's income on Schedule 1 (Form 1040), line 8z, in the year transferred.

Carpools. Don't include in your income amounts you receive from the passengers for driving a car in a carpool to and from work. These amounts are considered reimbursement for your expenses. However, this rule doesn't apply if you have developed carpool arrangements into a profit-making business of transporting workers for hire.

Cash rebates. A cash rebate you receive from a dealer or manufacturer of an item you buy isn't income, but you must reduce your basis by the amount of the rebate.

Example. You buy a new car for $24,000 cash and receive a $2,000 rebate check from the manufacturer. The $2,000 isn't income to you. Your basis in the car is $22,000. This is the basis on which you figure gain or loss if you sell the car and depreciation if you use it for business.

Casualty insurance and other reimbursements. You generally shouldn't report these reimbursements on your return unless you're figuring gain or loss from the casualty or theft. See Pub. 547 for more information.

Child support payments. You shouldn't report these payments on your return. See Pub. 504 for more information.

Court awards and damages. To determine if settlement amounts you receive by compromise or judgment must be included in your income, you must consider the item that the settlement replaces. The character of the income as ordinary income or capital gain depends on the nature of the underlying claim. Include the following as ordinary income.

1. Interest on any award.
2. Compensation for lost wages or lost profits in most cases.
3. Punitive damages, in most cases. It doesn't matter if they relate to a physical injury or physical sickness.
4. Amounts received in settlement of pension rights (if you didn't contribute to the plan).
5. Damages for:
   a. Patent or copyright infringement,
   b. Breach of contract, or
   c. Interference with business operations.
6. Back pay and damages for emotional distress received to satisfy a claim under title VII of the Civil Rights Act of 1964.
7. Attorney fees and costs (including contingent fees) where the underlying recovery is included in gross income.
8. Attorney fees and costs relating to whistleblower awards where the underlying recovery is included in gross income.

Don't include in your income compensatory damages for personal physical injury or physical sickness (whether received in a lump sum or installments).

Emotional distress. Emotional distress itself isn't a physical injury or physical sickness, but damages you receive for emotional distress due to a physical injury or sickness are treated as received for the physical injury or sickness. Don't include them in your income.

If the emotional distress is due to a personal injury that isn't due to a physical injury or sickness (for example, employment discrimination or injury to reputation), you must include the damages in your income, except for any damages that aren't more than amounts paid for medical care due to that emotional distress. Emotional distress includes physical symptoms that result from emotional distress, such as headaches, insomnia, and stomach disorders.

Credit card insurance. In most cases, if you receive benefits under a credit card disability or unemployment insurance plan, the benefits are taxable to you. These plans make the minimum monthly payment on your credit card account if you can't make the payment due to injury, illness, disability, or unemployment. Report on Schedule 1 (Form 1040), line 8z, the amount of benefits you received during the year that's more than the amount of the premiums you paid during the year.

Down payment assistance. If you purchase a home and receive assistance from a nonprofit corporation to make the down payment, that assistance isn't included in your income. If the corporation qualifies as a tax-exempt charitable organization, the assistance is treated as a gift and is included in your basis of the house. If the corporation doesn't qualify, the assistance is treated as a rebate or reduction of the purchase price and isn't included in your basis.

Employment agency fees. If you get a job through an employment agency, and the fee is paid by your employer, the fee isn't includible in your income if you aren't liable for it. However, if you pay it and your employer reimburses you for it, it's includible in your income.

Energy conservation subsidies. You can exclude from gross income any subsidy provided, either directly or indirectly, by public utilities for the purchase or installation of an energy conservation measure for a dwelling unit.

Energy conservation measure. This includes installations or modifications that are primarily designed to reduce consumption of electricity or natural gas, or improve the management of energy demand.

Dwelling unit. This includes a house, apartment, condominium, mobile home, boat, or similar property. If a building or structure contains both dwelling and other units, any subsidy must be properly allocated.

Estate and trust income. An estate or trust, unlike a partnership, may have to pay federal income tax. If you're a beneficiary of an estate or trust, you may be taxed on your share of its income distributed or required to be distributed to you. However, there is never a double tax. Estates and trusts file their returns on Form 1041, U.S. Income Tax Return for Estates and Trusts, and your share of the income is reported to you on Schedule K-1 (Form 1041).

Current income required to be distributed. If you're the beneficiary of an estate or trust that must distribute all of its current income, you must report your share of the distributable net income, whether or not you actually received it.

Current income not required to be distributed. If you're the beneficiary of an estate or trust and the fiduciary has the choice of whether to distribute all or part of the current income, you must report:

- All income that's required to be distributed to you, whether or not it's actually distributed, plus
- All other amounts actually paid or credited to you,

up to the amount of your share of distributable net income.

How to report. Treat each item of income the same way that the estate or trust would treat it. For example, if a trust's dividend income is distributed to you, you report the distribution as dividend income on your return. The same rule applies to distributions of tax-exempt interest and capital gains.

The fiduciary of the estate or trust must tell you the type of items making up your share of the estate or trust income and any credits you're allowed on your individual income tax return.

Losses. Losses of estates and trusts generally aren't deductible by the beneficiaries.

Grantor trust. Income earned by a grantor trust is taxable to the grantor, not the beneficiary, if the grantor keeps certain control over the trust. (The grantor is the one who transferred property to the trust.) This rule applies if the property (or income from the property) put into the trust will or may revert (be returned) to the grantor or the grantor's spouse.

Generally, a trust is a grantor trust if the grantor has a reversionary interest valued (at the date of transfer) at more than 5% of the value of the transferred property.

Expenses paid by another. If your personal expenses are paid for by another person, such as a corporation, the payment may be taxable to you depending upon your relationship with that person and the nature of the payment. But if the payment makes up for a loss caused by that person, and only restores you to the position you were in before the loss, the payment isn't includible in your income.

Fees for services. Include all fees for your services in your income. Examples of these fees are amounts you receive for services you perform as:

- A corporate director;
- An executor, administrator, or personal representative of an estate;
- A manager of a trade or business you operated before declaring chapter 11 bankruptcy;
- A notary public; or
- An election precinct official.

Nonemployee compensation. If you aren't an employee and the fees for your services from a single payer in the course of the payer's trade or business total $600 or more for the year, the payer should send you a Form 1099-NEC. You may need to report your fees as self-employment income. See *Self-Employed Persons* in chapter 1 for a discussion of when you're considered self-employed.

Corporate director. Corporate director fees are self-employment income. Report these payments on Schedule C (Form 1040).

Personal representatives. All personal representatives must include in their gross income fees paid to them from an estate. If you aren't in the trade or business of being an executor (for instance, you're the executor of a friend's or relative's estate), report these fees on Schedule 1 (Form 1040), line 8z. If you're in the trade or business of being an executor, report these fees as self-employment income on Schedule C (Form 1040). The fee isn't includible in income if it's waived.

Manager of trade or business for bankruptcy estate. Include in your income all payments received from your bankruptcy estate for managing or operating a trade or business that you operated before you filed for bankruptcy. Report this income on Schedule 1 (Form 1040), line 8z.

Notary public. Report payments for these services on Schedule C (Form 1040). These payments aren't subject to self-employment tax. See the separate Instructions for Schedule SE (Form 1040) for details.

Election precinct official. You should receive a Form W-2 showing payments for services performed as an election official or election worker. Report these payments on line 1a of Form 1040 or 1040-SR.

Foster care providers. Generally, payment you receive from a state, a political subdivision, or a qualified foster care placement agency for caring for a qualified foster individual in your home is excluded from your income. However, you must include in your income payment to the extent it's received for the care of more than five qualified foster individuals age 19 years or older.

A qualified foster individual is a person who:

1. Is living in a foster family home; and
2. Was placed there by:
   a. An agency of a state or one of its political subdivisions, or
   b. A qualified foster care placement agency.

Difficulty-of-care payments. These are payments that are designated by the payer as compensation for providing the additional care that's required for physically, mentally, or emotionally handicapped qualified foster individuals. A state must determine that this compensation is needed, and the care for which the payments are made must be provided in the foster care provider's home in which the qualified foster individual was placed.

Certain Medicaid waiver payments are treated as difficulty-of-care payments when received by an individual care provider for caring for an eligible individual living in the provider's home. See Notice 2014-7, available at *IRS.gov/irb/2014-04_IRB#NOT-2014-7*, and related questions and answers, available at *IRS.gov/Individuals/Certain-Medicaid-Waiver-Payments-May-Be-Excludable-From-Income*, for more information.

You must include in your income difficulty-of-care payments to the extent they're received for more than:

- 10 qualified foster individuals under age 19, or
- 5 qualified foster individuals age 19 or older.

Maintaining space in home. If you're paid to maintain space in your home for emergency foster care, you must include the payment in your income.

Reporting taxable payments. If you receive payments that you must include in your income and you're in business as a foster care provider, report the payments on Schedule C (Form 1040). See Pub. 587, Business Use of Your Home, to help you determine the amount you can deduct for the use of your home.

Found property. If you find and keep property that doesn't belong to you that has been lost or abandoned (treasure trove), it's taxable to you at its fair market value in the first year it's your undisputed possession.

Free tour. If you received a free tour from a travel agency for organizing a group of tourists, you must include its value in your income. Report the fair market value of the tour on Schedule 1 (Form 1040), line 8z, if you aren't in the trade or business of organizing tours. You can't deduct your expenses in serving as the voluntary leader of the group at the group's request. If you organize tours as a trade or business, report the tour's value on Schedule C (Form 1040).

Gambling winnings. You must include your gambling winnings in income on Schedule 1 (Form 1040), line 8b. Winnings from fantasy sports leagues are gambling winnings. If you itemize your deductions on Schedule A (Form 1040), you can deduct gambling losses you had during the year, but only up to the amount of your winnings. If you're in the trade or business of gambling, use Schedule C (Form 1040).

Lotteries and raffles. Winnings from lotteries and raffles are gambling winnings. In addition to cash winnings, you must include in your income the fair market value of bonds, cars, houses, and other noncash prizes.

TIP *If you win a state lottery prize payable in installments, see Pub. 525 for more information.*

Form W-2G. You may have received a Form W-2G, Certain Gambling Winnings, showing the amount of your gambling winnings and any tax taken out of them. Include the amount from box 1 on Schedule 1 (Form 1040), line 8b. Include the amount shown in box 4 on Form 1040 or 1040-SR, line 25c, as federal income tax withheld.

Reporting winnings and recordkeeping. For more information on reporting gambling winnings and recordkeeping, see *Gambling Losses up to the Amount of Gambling Winnings* in chapter 12.

Gifts and inheritances. In most cases, property you receive as a gift, bequest, or inheritance isn't included in your income. However, if property you receive this way later produces income such as interest, dividends, or rents, that income is taxable to you. If property is given to a trust and the income from it is paid, credited, or distributed to you, that income is also taxable to you. If the gift, bequest, or inheritance is the income from the property, that income is taxable to you.

Inherited pension or individual retirement arrangement (IRA). If you inherited a pension or an IRA, you may have to include part of the inherited amount in your income. See *Survivors and Beneficiaries* in Pub. 575 if you inherited a pension. See *What if You Inherit an IRA?* in Pubs. 590-A and 590-B if you inherited an IRA.

Hobby losses. Losses from a hobby aren't deductible from other income. A hobby is an activity from which you don't expect to make a profit. See *Activity not for profit*, earlier.

CAUTION *If you collect stamps, coins, or other items as a hobby for recreation and pleasure, and you sell any of the items, your gain is taxable as a capital gain. (See Pub. 550.) However, if you sell items from your collection at a loss, you can't deduct the loss.*

Illegal activities. Income from illegal activities, such as money from dealing illegal drugs, must be included in your income on Schedule 1 (Form 1040), line 8z, or on Schedule C (Form 1040) if from your self-employment activity.

Indian fishing rights. If you're a member of a qualified Indian tribe that has fishing rights secured by treaty, Executive order, or an Act of Congress as of March 17, 1988, don't include in your income amounts you receive from activities related to those fishing rights. The income isn't subject to income tax, self-employment tax, or employment taxes.

Interest on frozen deposits. In general, you exclude from your income the amount of interest earned on a frozen deposit. See *Interest income on frozen deposits* in chapter 6.

Interest on qualified savings bonds. You may be able to exclude from income the interest from qualified U.S. savings bonds you redeem if you pay qualified higher education expenses in the same year. For more information on this exclusion, see *Education Savings Bond Program* under *U.S. Savings Bonds* in chapter 6.

Job interview expenses. If a prospective employer asks you to appear for an interview and either pays you an allowance or reimburses you for your transportation and other travel expenses, the amount you receive is generally not taxable. You include in income only the amount you receive that's more than your actual expenses.

Jury duty. Jury duty pay you receive must be included in your income on Schedule 1 (Form 1040), line 8h. If you gave any of your jury duty pay to your employer because your employer continued to pay you while you served jury duty, include the amount you gave your employer as an income adjustment on Schedule 1 (Form 1040), line 24a, and see the instructions there.

Kickbacks. You must include kickbacks, side commissions, push money, or similar payments you receive in your income on Schedule 1 (Form 1040), line 8z, or on Schedule C (Form 1040) if from your self-employment activity.

Example. You sell cars and help arrange car insurance for buyers. Insurance brokers pay back part of their commissions to you for referring customers to them. You must include the kickbacks in your income.

Medical savings accounts (Archer MSAs and Medicare Advantage MSAs). In most cases, you don't include in income amounts you withdraw from your Archer MSA or Medicare Advantage MSA if you use the money to pay for qualified medical expenses. Generally, qualified medical expenses are those you can deduct on Schedule A (Form 1040). For more information about qualified medical expenses, see Pub. 502. For more information about Archer MSAs or Medicare Advantage MSAs, see Pub. 969, Health Savings Accounts and Other Tax-Favored Health Plans.

Prizes and awards. If you win a prize in a lucky number drawing, television or radio quiz program, beauty contest, or other event, you must include it in your income. For example, if you win a $50 prize in a photography contest, you must report this income on Schedule 1 (Form 1040), line 8i. If you refuse to accept a prize, don't include its value in your income.

Prizes and awards in goods or services must be included in your income at their fair market value.

Employee awards or bonuses. Cash awards or bonuses given to you by your employer for good work or suggestions must generally be included in your income as wages. However, certain noncash employee achievement awards can be excluded from income. See *Bonuses and awards* in chapter 5.

Pulitzer, Nobel, and similar prizes. If you were awarded a prize in recognition of accomplishments in religious, charitable, scientific, artistic, educational, literary, or civic fields, you must generally include the value of the prize in your income. However, you don't include this prize in your income if you meet all of the following requirements.

- You were selected without any action on your part to enter the contest or proceeding.
- You aren't required to perform substantial future services as a condition to receiving the prize or award.
- The prize or award is transferred by the payer directly to a governmental unit or tax-exempt charitable organization as designated by you.

See Pub. 525 for more information about the conditions that apply to the transfer.

Qualified Opportunity Fund (QOF). Effective December 22, 2017, Code section 1400Z-2 provides a temporary deferral on inclusion in gross income for capital gains invested in QOFs, and permanent exclusion of capital gains from the sale or exchange of an investment in the QOF if the investment is held for at least 10 years. See the Instructions for Form 8949 on how to report your election to defer eligible gains invested in a QOF. See the instructions for Form 8997, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments, for reporting information. For additional information, see Opportunity Zones Frequently Asked Questions at *IRS.gov/Newsroom/Opportunity-Zones-Frequently-Asked-Questions*.

Qualified tuition programs (QTPs). A QTP (also known as a 529 program) is a program set up to allow you to either prepay or contribute to an account established for paying a student's qualified higher education expenses at an eligible educational institution. A program can be established and maintained by a state, an agency or instrumentality of a state, or an eligible educational institution.

The part of a distribution representing the amount paid or contributed to a QTP isn't included in income. This is a return of the investment in the program.

In most cases, the beneficiary doesn't include in income any earnings distributed from a QTP if the total distribution is less than or equal to adjusted qualified higher education expenses. See Pub. 970 for more information.

Railroad retirement annuities. The following types of payments are treated as pension or annuity income and are taxable under the rules explained in Pub. 575, Pension and Annuity Income.

- Tier 1 railroad retirement benefits that are more than the social security equivalent benefit.
- Tier 2 benefits.
- Vested dual benefits.

Rewards. If you receive a reward for providing information, include it in your income.

Sale of home. You may be able to exclude from income all or part of any gain from the sale or exchange of your main home. See Pub. 523.

Sale of personal items. If you sold an item you owned for personal use, such as a car, refrigerator, furniture, stereo, jewelry, or silverware, your gain is taxable as a capital gain. Report it as explained in the Instructions for Schedule D (Form 1040). You can't deduct a loss.

However, if you sold an item you held for investment, such as gold or silver bullion, coins, or gems, any gain is taxable as a capital gain and any loss is deductible as a capital loss.

Example. You sold a painting on an online auction website for $100. You bought the painting for $20 at a garage sale years ago. Report your gain as a capital gain as explained in the Instructions for Schedule D (Form 1040).

Scholarships and fellowships. A candidate for a degree can exclude amounts received as a qualified scholarship or fellowship. A qualified scholarship or fellowship is any amount you receive that's for:

- Tuition and fees to enroll at or attend an educational institution; or
- Fees, books, supplies, and equipment required for courses at the educational institution.

Amounts used for room and board don't qualify for the exclusion. See Pub. 970 for more information on qualified scholarships and fellowship grants.

Payment for services. In most cases, you must include in income the part of any scholarship or fellowship that represents payment for past, present, or future teaching, research, or other services. This applies even if all candidates for a degree must perform the services to receive the degree.

For information about the rules that apply to a tax-free qualified tuition reduction provided to employees and their families by an educational institution, see Pub. 970.

Department of Veterans Affairs (VA) payments. Allowances paid by the VA aren't included in your income. These allowances aren't considered scholarship or fellowship grants.

Prizes. Scholarship prizes won in a contest aren't scholarships or fellowships if you don't have to use the prizes for educational purposes. You must include these amounts in your income on Schedule 1 (Form 1040), line 8i, whether or not you use the amounts for educational purposes.

Sharing/gig economy. A sharing economy is one in which assets are shared between individuals for a fee, usually through the internet. For example, you rent out your car when you don't need it, or you share your wi-fi account for a fee.

A gig economy is one in which a short-term contract or freelance work is the norm, as opposed to a permanent job. For example, you drive for a ride-sharing service, or work as a fitness trainer, babysitter, or tutor.

Generally, if you have income from sharing economy transactions, or you did gig work, you must include all income received whether you received a Form 1099-K, Payment Card and Third-Party Network Transactions, or not. See the Instructions for Schedule C (Form 1040) and the Instructions for Schedule SE (Form 1040).

State tax payments. Do not include payments on your tax return made by states under legislatively provided social benefit programs for the promotion of the general welfare. To qualify for the general welfare exclusion, state payments must be paid from a governmental fund, be for the promotion of general welfare (that is, based on the need of the individual or family receiving such payments), and not represent compensation for services.

Spillover payments under certain 2022 state tax payment programs. In 2022, some states implemented programs to provide state payments to certain individuals residing in their states. Many of these programs were related to the various consequences of the COVID-19 pandemic. Some of those 2022 programs provided for payments to be made in early 2023. For special tax refunds or payments that were excluded from federal income in 2022, the same tax treatment applies to the special tax refund or payments received in 2023. This means taxpayers who didn't get a payment under the program during 2022 may exclude from federal income a state payment provided under the 2022 program even if they actually received the payment in 2023. See IRS News Release IR-2023-158 at *IRS.gov/Newsroom/IRS-Issues-Guidance-On-State-Tax-Payments* for more information.

Stolen property. If you steal property, you must report its fair market value in your income in the year you steal it unless you return it to its rightful owner in the same year.

Transporting school children. Don't include in your income a school board mileage allowance for taking children to and from school if you aren't in the business of taking children to school. You can't deduct expenses for providing this transportation.

Union benefits and dues. Amounts deducted from your pay for union dues, assessments, contributions, or other payments to a union can't be excluded from your income.

Strike and lockout benefits. Benefits paid to you by a union as strike or lockout benefits, including both cash and the fair market value of other property, are usually included in your income as compensation. You can exclude these benefits from your income only when the facts clearly show that the union intended them as gifts to you.

Utility rebates. If you're a customer of an electric utility company and you participate in the utility's energy conservation program, you may receive on your monthly electric bill either:

- A reduction in the purchase price of electricity furnished to you (rate reduction), or
- A nonrefundable credit against the purchase price of the electricity.

The amount of the rate reduction or nonrefundable credit isn't included in your income.

9. Individual Retirement Arrangements (IRAs)

What's New

IRA contribution limit increased. Beginning in 2023, the IRA contribution limit is increased to $6,500 ($7,500 for individuals age 50 or older) from $6,000 ($7,000 for individuals age 50 or older).

Increase in required minimum distribution age. Individuals who reach age 72 after December 31, 2022, may delay receiving their required minimum distributions until April 1 of the year following the year in which they turn age 73.

Disaster tax relief. The special rules that provide for tax-favored withdrawals and repayments now apply to disasters that occur on or after January 26, 2021. See *Disaster-Related Relief* in Pub. 590-B for more information.

Distributions to terminally ill individuals. The exception to the 10% additional tax for early distributions is expanded to apply to distributions made after December 29, 2022, to an individual who has been certified by a physician as having a terminal illness. See Pub. 590-B for more information.

Certain corrective distributions not subject to 10% early distribution tax. Beginning with distributions made on December 29, 2022, and after, the 10% additional tax on early distributions will not apply to the income attributed to a corrective IRA distribution, as long as the corrective distribution is made on or before the due date (including extensions) of the income tax return.

Modified adjusted gross income (AGI) limit for traditional IRA contributions. For 2023, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:

- More than $116,000 but less than $136,000 for a married couple filing a joint return or a qualifying surviving spouse,
- More than $73,000 but less than $83,000 for a single individual or head of household, or
- Less than $10,000 for a married individual filing a separate return.

If you either live with your spouse or file a joint return, and your spouse is covered by a retirement plan at work but you aren't, your deduction is phased out if your modified AGI is more than $218,000 but less than $228,000. If your modified AGI is $228,000 or more, you can't take a deduction for contributions to a traditional IRA. See *How Much Can You Deduct*, later.

Modified AGI limit for Roth IRA contributions. For 2023, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying surviving spouse and your modified AGI is at least $218,000. You can't make a Roth IRA contribution if your modified AGI is $228,000 or more.
- Your filing status is single, head of household, or married filing separately and you didn't live with your spouse at any time in 2023 and your modified AGI is at least $138,000. You can't make a Roth IRA contribution if your modified AGI is $153,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than zero. You can't make a Roth IRA contribution if your modified AGI is $10,000 or more.

See *Can You Contribute to a Roth IRA*, later.

2024 modified AGI limits. You can find information about the 2024 contribution and AGI limits in Pub. 590-A.

Reminders

Maximum age for making traditional IRA contributions repealed. For tax years beginning after 2019, there is no age limit on making contributions to your traditional IRA. For more information, see Pub. 590-A.

Contributions to both traditional and Roth IRAs. For information on your combined contribution limit if you contribute to both traditional and Roth IRAs, see *Roth IRAs and traditional IRAs*, later.

Statement of required minimum distribution. If a minimum distribution from your IRA is required, the trustee, custodian, or issuer that held the IRA at the end of the preceding year must either report the amount of the required minimum distribution to you, or offer to figure it for you. The report or offer must include the date by which the amount must be distributed. The report is due January 31 of the year in which the minimum distribution is required. It can be provided with the year-end fair market value statement that you normally get each year. No report is required for IRAs of owners who have died.

IRA interest. Although interest earned from your IRA is generally not taxed in the year earned, it isn't tax-exempt interest. Tax on your traditional IRA is generally deferred until you take a distribution. Don't report this interest on your tax return as tax-exempt interest.

Net Investment Income Tax (NIIT). For purposes of the NIIT, net investment income doesn't include distributions from a qualified retirement plan including IRAs (for example, 401(a), 403(a), 403(b), 408, 408A, or 457(b) plans). However, these distributions are taken into account when determining the modified AGI threshold. Distributions from a nonqualified retirement plan are included in net investment income. See Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions for more information.

Form 8606. To designate contributions as nondeductible, you must file Form 8606.

TIP *The term "50 or older" is used several times in this chapter. It refers to an IRA owner who is age 50 or older by the end of the tax year.*

Introduction

An IRA is a personal savings plan that gives you tax advantages for setting aside money for your retirement.

This chapter discusses the following topics.

- The rules for a traditional IRA (any IRA that isn't a Roth or SIMPLE IRA).
- The Roth IRA, which features nondeductible contributions and tax-free distributions.

Simplified Employee Pensions (SEPs) and Savings Incentive Match Plans for Employees (SIMPLE) plans aren't discussed in this chapter. For more information on these plans and employees' SEP IRAs and SIMPLE IRAs that are part of these plans, see Pub. 560.

For information about contributions, deductions, withdrawals, transfers, rollovers, and other transactions, see Pub. 590-A and Pub. 590-B.

Useful Items

You may want to see:

Publication

- ❏ **560** Retirement Plans for Small Business
- ❏ **575** Pension and Annuity Income
- ❏ **590-A** Contributions to Individual Retirement Arrangements (IRAs)
- ❏ **590-B** Distributions from Individual Retirement Arrangements (IRAs)

Form (and Instructions)

- ❏ **5329** Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
- ❏ **8606** Nondeductible IRAs
- ❏ **8915-F** Qualified Disaster Retirement Plan Distributions and Repayments

For these and other useful items, go to *IRS.gov/Forms*.

Traditional IRAs

In this chapter, the original IRA (sometimes called an ordinary or regular IRA) is referred to as a "traditional IRA." A traditional IRA is any IRA that isn't a Roth IRA or a SIMPLE IRA. Two advantages of a traditional IRA are:

- You may be able to deduct some or all of your contributions to it, depending on your circumstances; and
- Generally, amounts in your IRA, including earnings and gains, aren't taxed until they are distributed.

Who Can Open a Traditional IRA?

You can open and make contributions to a traditional IRA if you (or, if you file a joint return, your spouse) received taxable compensation during the year.

TIP *For tax years beginning after 2019, there is no age limit on making contributions to your traditional IRA. For more information, see Pub. 590-A.*

What is compensation? Generally, compensation is what you earn from working. Compensation includes wages, salaries, tips, professional fees, bonuses, and other amounts you receive for providing personal services. The IRS treats as compensation any amount properly shown in box 1 (Wages, tips, other compensation) of Form W-2, Wage and Tax Statement, provided that this amount is reduced by any amount properly shown in box 11 (Nonqualified plans).

Scholarship or fellowship payments are generally compensation for this purpose only if reported in box 1 of your Form W-2. However, for tax years beginning after 2019, certain non-tuition fellowship and stipend payments not reported to you on Form W-2 are treated as taxable compensation for IRA purposes. These amounts include taxable non-tuition fellowship and stipend payments made to aid you in the pursuit of graduate or postdoctoral study and included in your gross income under the rules discussed in chapter 1 of Pub. 970, Tax Benefits for Education.

Compensation also includes commissions and taxable alimony and separate maintenance payments.

Self-employment income. If you are self-employed (a sole proprietor or a partner), compensation is the net earnings from your trade or business (provided your personal services are a material income-producing factor) reduced by the total of:

- The deduction for contributions made on your behalf to retirement plans, and
- The deductible part of your self-employment tax.

Compensation includes earnings from self-employment even if they aren't subject to self-employment tax because of your religious beliefs.

Nontaxable combat pay. For IRA purposes, if you were a member of the U.S. Armed Forces, your compensation includes any nontaxable combat pay you receive.

What isn't compensation? Compensation doesn't include any of the following items.

- Earnings and profits from property, such as rental income, interest income, and dividend income.
- Pension or annuity income.
- Deferred compensation received (compensation payments postponed from a past year).
- Income from a partnership for which you don't provide services that are a material income-producing factor.
- Conservation Reserve Program (CRP) payments reported on Schedule SE (Form 1040), line 1b.
- Any amounts (other than combat pay) you exclude from income, such as foreign earned income and housing costs.

When and How Can a Traditional IRA Be Opened?

You can open a traditional IRA at any time. However, the time for making contributions for any year is limited. See *When Can Contributions Be Made*, later.

You can open different kinds of IRAs with a variety of organizations. You can open an IRA at a bank or other financial institution or with a mutual fund or life insurance company. You can also open an IRA through your stockbroker. Any IRA must meet Internal Revenue Code requirements.

Kinds of traditional IRAs. Your traditional IRA can be an individual retirement account or annuity. It can be part of either a SEP or an employer or employee association trust account.

How Much Can Be Contributed?

There are limits and other rules that affect the amount that can be contributed to a traditional IRA. These limits and other rules are explained below.

Community property laws. Except as discussed later under *Kay Bailey Hutchison Spousal IRA limit*, each spouse figures their limit separately, using their own compensation. This is the rule even in states with community property laws.

Brokers' commissions. Brokers' commissions paid in connection with your traditional IRA are subject to the contribution limit.

Trustees' fees. Trustees' administrative fees aren't subject to the contribution limit.

Qualified reservist repayments. If you are (or were) a member of a reserve component and you were ordered or called to active duty after September 11, 2001, you may be able to contribute (repay) to an IRA amounts equal to any qualified reservist distributions you received. You can make these repayment contributions even if they would cause your total contributions to the IRA to be more than the general limit on contributions. To be eligible to make these repayment contributions, you must have received a qualified reservist distribution from an IRA or from a section 401(k) or 403(b) plan or similar arrangement.

For more information, see *Qualified reservist repayments* under *How Much Can Be Contributed?* in chapter 1 of Pub. 590-A.

CAUTION *Contributions on your behalf to a traditional IRA reduce your limit for contributions to a Roth IRA. (See Roth IRAs, later.)*

General limit. For 2023, the most that can be contributed to your traditional IRA is generally the smaller of the following amounts.

- $6,500 ($7,500 if you are 50 or older).
- Your taxable compensation (defined earlier) for the year.

This is the most that can be contributed regardless of whether the contributions are to one or more traditional IRAs or whether all or part of the contributions are nondeductible. (See *Nondeductible Contributions*, later.) Qualified reservist repayments don't affect this limit.

Example 1. You are 34 years old and single and earned $24,000 in 2023. Your IRA contributions for 2023 are limited to $6,500.

Example 2. You are an unmarried college student working part time and earned $3,500 in 2023. Your IRA contributions for 2023 are limited to $3,500, the amount of your compensation.

Kay Bailey Hutchison Spousal IRA limit. For 2023, if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following amounts.

1. $6,500 ($7,500 if you are 50 or older).
2. The total compensation includible in the gross income of both you and your spouse for the year, reduced by the following two amounts.
   a. Your spouse's IRA contribution for the year to a traditional IRA.
   b. Any contribution for the year to a Roth IRA on behalf of your spouse.

This means that the total combined contributions that can be made for the year to your IRA and your spouse's IRA can be as much as

$13,000 ($14,000 if only one of you is 50 or older, or $15,000 if both of you are 50 or older).

When Can Contributions Be Made?

As soon as you open your traditional IRA, contributions can be made to it through your chosen sponsor (trustee or other administrator). Contributions must be in the form of money (cash, check, or money order). Property can't be contributed.

Contributions must be made by due date. Contributions can be made to your traditional IRA for a year at any time during the year or by the due date for filing your return for that year, not including extensions.

Designating year for which contribution is made. If an amount is contributed to your traditional IRA between January 1 and April 15, you should tell the sponsor which year (the current year or the previous year) the contribution is for. If you don't tell the sponsor which year it is for, the sponsor can assume, and report to the IRS, that the contribution is for the current year (the year the sponsor received it).

Filing before a contribution is made. You can file your return claiming a traditional IRA contribution before the contribution is actually made. Generally, the contribution must be made by the due date of your return, not including extensions.

Contributions not required. You don't have to contribute to your traditional IRA for every tax year, even if you can.

How Much Can You Deduct?

Generally, you can deduct the lesser of:

- The contributions to your traditional IRA for the year, or
- The general limit (or the Kay Bailey Hutchison Spousal IRA limit, if it applies).

However, if you or your spouse was covered by an employer retirement plan, you may not be able to deduct this amount. See *Limit if Covered by Employer Plan*, later.

TIP *You may be able to claim a credit for contributions to your traditional IRA. For more information, see chapter 3 of Pub. 590-A.*

Trustees' fees. Trustees' administrative fees that are billed separately and paid in connection with your traditional IRA aren't deductible as IRA contributions. You are also not able to deduct these fees as an itemized deduction.

Brokers' commissions. Brokers' commissions are part of your IRA contribution and, as such, are deductible subject to the limits.

Full deduction. If neither you nor your spouse was covered for any part of the year by an employer retirement plan, you can take a deduction for total contributions to one or more traditional IRAs of up to the lesser of:

- $6,500 ($7,500 if you are 50 or older in 2023), or
- 100% of your compensation.

This limit is reduced by any contributions made to a 501(c)(18) plan on your behalf.

Kay Bailey Hutchison Spousal IRA. In the case of a married couple with unequal compensation who file a joint return, the deduction for contributions to the traditional IRA of the spouse with less compensation is limited to the lesser of the following amounts.

1. $6,500 ($7,500 if the spouse with the lower compensation is 50 or older in 2023).
2. The total compensation includible in the gross income of both spouses for the year reduced by the following three amounts.
   a. The IRA deduction for the year of the spouse with the greater compensation.
   b. Any designated nondeductible contribution for the year made on behalf of the spouse with the greater compensation.
   c. Any contributions for the year to a Roth IRA on behalf of the spouse with the greater compensation.

This limit is reduced by any contributions to a 501(c)(18) plan on behalf of the spouse with the lesser compensation.

Note. If you were divorced or legally separated (and didn't remarry) before the end of the year, you can't deduct any contributions to your spouse's IRA. After a divorce or legal separation, you can deduct only contributions to your own IRA. Your deductions are subject to the rules for single individuals.

Covered by an employer retirement plan. If you or your spouse was covered by an employer retirement plan at any time during the year for which contributions were made, your deduction may be further limited. This is discussed later under *Limit if Covered by Employer Plan*. Limits on the amount you can deduct don't affect the amount that can be contributed. See *Nondeductible Contributions*, later.

Are You Covered by an Employer Plan?

The Form W-2 you receive from your employer has a box used to indicate whether you were covered for the year. The “Retirement plan” box should be checked if you were covered.

Reservists and volunteer firefighters should also see *Situations in Which You Aren’t Covered*, later.

If you aren't certain whether you were covered by your employer's retirement plan, you should ask your employer.

Federal judges. For purposes of the IRA deduction, federal judges are covered by an employer retirement plan.

For Which Year(s) Are You Covered?

Special rules apply to determine the tax years for which you are covered by an employer plan. These rules differ depending on whether the plan is a defined contribution plan or a defined benefit plan.

Tax year. Your tax year is the annual accounting period you use to keep records and report income and expenses on your income tax return. For almost all people, the tax year is the calendar year.

Defined contribution plan. Generally, you are covered by a defined contribution plan for a tax year if amounts are contributed or allocated to your account for the plan year that ends with or within that tax year.

A defined contribution plan is a plan that provides for a separate account for each person covered by the plan. Types of defined contribution plans include profit-sharing plans, stock bonus plans, and money purchase pension plans. For additional information, see Pub. 590-A.

Defined benefit plan. If you are eligible to participate in your employer's defined benefit plan for the plan year that ends within your tax year, you are covered by the plan. This rule applies even if you:

- Declined to participate in the plan,
- Didn't make a required contribution, or
- Didn't perform the minimum service required to accrue a benefit for the year.

A defined benefit plan is any plan that isn't a defined contribution plan. In a defined benefit plan, the level of benefits to be provided to each participant is spelled out in the plan. The plan administrator figures the amount needed to provide those benefits, and those amounts are contributed to the plan. Defined benefit plans include pension plans and annuity plans.

No vested interest. If you accrue a benefit for a plan year, you are covered by that plan even if you have no vested interest in (legal right to) the accrual.

Situations in Which You Aren’t Covered

Unless you are covered under another employer plan, you aren't covered by an employer plan if you are in one of the situations described below.

Social security or railroad retirement. Coverage under social security or railroad retirement isn't coverage under an employer retirement plan.

Benefits from a previous employer's plan. If you receive retirement benefits from a previous employer's plan, you aren't covered by that plan.

Reservists. If the only reason you participate in a plan is because you are a member of a reserve unit of the U.S. Armed Forces, you may not be covered by the plan. You aren't covered by the plan if both of the following conditions are met.

1. The plan you participate in is established for its employees by:

Table 9-1. **Effect of Modified AGI[1] on Deduction if You Are Covered by Retirement Plan at Work**

If you are covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

IF your filing status is...	AND your modified AGI is...	THEN you can take...
Single	$73,000 or less	a full deduction.
or	more than $73,000 but less than $83,000	a partial deduction.
Head of household	$83,000 or more	no deduction.
Married filing jointly	$116,000 or less	a full deduction.
or	more than $116,000 but less than $136,000	a partial deduction.
Qualifying surviving spouse	$136,000 or more	no deduction.
Married filing separately[2]	less than $10,000	a partial deduction.
	$10,000 or more	no deduction.

[1] Modified AGI (adjusted gross income). See *Modified AGI*, later.

[2] If you didn't live with your spouse at any time during the year, your filing status is considered Single for this purpose (therefore, your IRA deduction is determined under the "Single" column).

Table 9-2. **Effect of Modified AGI[1] on Deduction if You Aren't Covered by Retirement Plan at Work**

If you aren't covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

IF your filing status is...	AND your modified AGI is...	THEN you can take...
Single, **Head of household,** or **Qualifying surviving spouse**	any amount	a full deduction.
Married filing jointly or **separately** with a spouse who ***isn't*** covered by a plan at work	any amount	a full deduction.
Married filing jointly with a spouse who ***is*** covered by a plan at work	$218,000 or less	a full deduction.
	more than $218,000 but less than $228,000	a partial deduction.
	$228,000 or more	no deduction.
Married filing separately with a spouse who ***is*** covered by a plan at work[2]	less than $10,000	a partial deduction.
	$10,000 or more	no deduction.

[1] Modified AGI (adjusted gross income). See *Modified AGI*, later.

[2] You are entitled to the full deduction if you didn't live with your spouse at any time during the year.

   a. The United States,

   b. A state or political subdivision of a state, or

   c. An instrumentality of either (a) or (b) above.

2. You didn't serve more than 90 days on active duty during the year (not counting duty for training).

Volunteer firefighters. If the only reason you participate in a plan is because you are a volunteer firefighter, you may not be covered by the plan. You aren't covered by the plan if both of the following conditions are met.

1. The plan you participate in is established for its employees by:
   a. The United States,
   b. A state or political subdivision of a state, or
   c. An instrumentality of either (a) or (b) above.
2. Your accrued retirement benefits at the beginning of the year won't provide more than $1,800 per year at retirement.

Limit if Covered by Employer Plan

If either you or your spouse was covered by an employer retirement plan, you may be entitled to only a partial (reduced) deduction or no deduction at all, depending on your income and your filing status.

Your deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. These amounts vary depending on your filing status.

To determine if your deduction is subject to phaseout, you must determine your modified AGI and your filing status. See *Filing status* and *Modified AGI*, later. Then use Table 9-1 or Table 9-2 to determine if the phaseout applies.

Social security recipients. Instead of using Table 9-1 or Table 9-2, use the worksheets in *Appendix B* of Pub. 590-A if, for the year, all of the following apply.

- You received social security benefits.
- You received taxable compensation.
- Contributions were made to your traditional IRA.
- You or your spouse was covered by an employer retirement plan.

Use those worksheets to figure your IRA deduction, your nondeductible contribution, and the taxable portion, if any, of your social security benefits.

Deduction phaseout. If you are covered by an employer retirement plan and you didn't receive any social security retirement benefits, your IRA deduction may be reduced or eliminated depending on your filing status and modified AGI as shown in Table 9-1.

If your spouse is covered. If you aren't covered by an employer retirement plan, but your spouse is, and you didn't receive any social security benefits, your IRA deduction may be reduced or eliminated entirely depending on your filing status and modified AGI as shown in Table 9-2.

Filing status. Your filing status depends primarily on your marital status. For this purpose, you need to know if your filing status is single, head of household, married filing jointly, qualifying surviving spouse, or married filing separately. If you need more information on filing status, see chapter 2.

Lived apart from spouse. If you didn't live with your spouse at any time during the year and you file a separate return, your filing status, for this purpose, is single.

Modified AGI. You may be able to use Worksheet 9-1 to figure your modified AGI. However, if you made contributions to your IRA for 2023 and received a distribution from your IRA in 2023, see Pub. 590-A.

CAUTION

Don't assume that your modified AGI is the same as your compensation. Your modified AGI may include income in addition to your compensation (discussed earlier), such as interest, dividends, and income from IRA distributions.

When filing Form 1040 or 1040-SR, refigure the AGI amount on line 11 without taking into account any of the following amounts.

- IRA deduction.
- Student loan interest deduction.

- Foreign earned income exclusion.
- Foreign housing exclusion or deduction.
- Exclusion of qualified savings bond interest shown on Form 8815, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989.
- Exclusion of employer-provided adoption benefits shown on Form 8839, Qualified Adoption Expenses.

This is your modified AGI.

Worksheet 9-1. **Figuring Your Modified AGI**

Keep for Your Records

Use this worksheet to figure your modified AGI for traditional IRA purposes.

1.	Enter your AGI from Form 1040 or 1040-SR, line 11, figured without taking into account the amount from Schedule 1 (Form 1040), line 20	**1.**
2.	Enter any student loan interest deduction from Schedule 1 (Form 1040), line 21	**2.**
3.	Enter any foreign earned income and/or housing exclusion from Form 2555, line 45	**3.**
4.	Enter any foreign housing deduction from Form 2555, line 50	**4.**
5.	Enter any excludable savings bond interest from Form 8815, line 14	**5.**
6.	Enter any excluded employer-provided adoption benefits from Form 8839, line 28	**6.**
7.	Add lines 1 through 6. This is your **modified AGI** for traditional IRA purposes	**7.**

Both contributions for 2023 and distributions in 2023. If all three of the following apply, any IRA distributions you received in 2023 may be partly tax free and partly taxable.

- You received distributions in 2023 from one or more traditional IRAs.
- You made contributions to a traditional IRA for 2023.
- Some of those contributions may be nondeductible contributions.

If this is your situation, you must figure the taxable part of the traditional IRA distribution before you can figure your modified AGI. To do this, you can use Worksheet 1-1 in Pub. 590-B.

If at least one of the above doesn't apply, figure your modified AGI using Worksheet 9-1.

How to figure your reduced IRA deduction. You can figure your reduced IRA deduction for Form 1040 or 1040-SR by using the worksheets in chapter 1 of Pub. 590-A. Also, the Instructions for Form 1040 include similar worksheets that you may be able to use instead.

Reporting Deductible Contributions

When filing Form 1040 or 1040-SR, enter your IRA deduction on Schedule 1 (Form 1040), line 20.

Nondeductible Contributions

Although your deduction for IRA contributions may be reduced or eliminated, contributions can be made to your IRA up to the general limit or, if it applies, the Kay Bailey Hutchison Spousal IRA limit. The difference between your total permitted contributions and your IRA deduction, if any, is your nondeductible contribution.

Example. You are 30 years old and single. In 2023, you were covered by a retirement plan at work. Your salary was $67,000. Your modified AGI was $85,000. You made a $6,500 IRA contribution for 2023. Because you were covered by a retirement plan and your modified AGI was over $83,000, you can't deduct the $6,500 IRA contribution. You must designate this contribution as a nondeductible contribution by reporting it on Form 8606, as explained next.

Form 8606. To designate contributions as nondeductible, you must file Form 8606.

You don't have to designate a contribution as nondeductible until you file your tax return. When you file, you can even designate otherwise deductible contributions as nondeductible.

You must file Form 8606 to report nondeductible contributions even if you don't have to file a tax return for the year.

CAUTION *A Form 8606 isn't used for the year that you make a rollover from a qualified retirement plan to a traditional IRA and the rollover includes nontaxable amounts. In those situations, a Form 8606 is completed for the year you take a distribution from that IRA. See Form 8606 under* Distributions Fully or Partly Taxable*, later.*

Failure to report nondeductible contributions. If you don't report nondeductible contributions, all of the contributions to your traditional IRA will be treated as deductible contributions when withdrawn. All distributions from your IRA will be taxed unless you can show, with satisfactory evidence, that nondeductible contributions were made.

Penalty for overstatement. If you overstate the amount of nondeductible contributions on your Form 8606 for any tax year, you must pay a penalty of $100 for each overstatement, unless it was due to reasonable cause.

Penalty for failure to file Form 8606. You will have to pay a $50 penalty if you don't file a required Form 8606, unless you can prove that the failure was due to reasonable cause.

Tax on earnings on nondeductible contributions. As long as contributions are within the contribution limits, none of the earnings or gains on contributions (deductible or nondeductible) will be taxed until they are distributed. See *When Can You Withdraw or Use IRA Assets*, later.

Cost basis. You will have a cost basis in your traditional IRA if you made any nondeductible contributions. Your cost basis is the sum of the nondeductible contributions to your IRA minus any withdrawals or distributions of nondeductible contributions.

Inherited IRAs

If you inherit a traditional IRA, you are called a beneficiary. A beneficiary can be any person or entity the owner chooses to receive the benefits of the IRA after the owner dies. Beneficiaries of a traditional IRA must include in their gross income any taxable distributions they receive.

Inherited from spouse. If you inherit a traditional IRA from your spouse, you generally have the following three choices.

1. Treat it as your own IRA by designating yourself as the account owner.
2. Treat it as your own by rolling it over into your IRA, or to the extent it is taxable, into a:
   a. Qualified employer plan,
   b. Qualified employee annuity plan (section 403(a) plan),
   c. Tax-sheltered annuity plan (section 403(b) plan), or
   d. Deferred compensation plan of a state or local government (section 457 plan).
3. Treat yourself as the beneficiary rather than treating the IRA as your own.

Treating it as your own. You will be considered to have chosen to treat the IRA as your own if:

- Contributions (including rollover contributions) are made to the inherited IRA, or
- You don't take the required minimum distribution for a year as a beneficiary of the IRA.

You will only be considered to have chosen to treat the IRA as your own if:

- You are the sole beneficiary of the IRA, and
- You have an unlimited right to withdraw amounts from it.

However, if you receive a distribution from your deceased spouse's IRA, you can roll that distribution over into your own IRA within the 60-day time limit, as long as the distribution isn't a required distribution, even if you aren't the sole beneficiary of your deceased spouse's IRA.

Inherited from someone other than spouse. If you inherit a traditional IRA from anyone other than your deceased spouse, you can't treat the inherited IRA as your own. This means that you can't make any contributions to the IRA. It also means you can't roll over any amounts into or out of the inherited IRA. However, you can make a trustee-to-trustee transfer as long as the IRA into which amounts are being moved is set up and maintained in the name of the deceased IRA owner for the benefit of you as beneficiary.

For more information, see *Inherited IRAs* under *Rollover From One IRA Into Another*, later.

Can You Move Retirement Plan Assets?

You can transfer, tax free, assets (money or property) from other retirement plans (including traditional IRAs) to a traditional IRA. You can make the following kinds of transfers.

- Transfers from one trustee to another.
- Rollovers.
- Transfers incident to a divorce.

Transfers to Roth IRAs. Under certain conditions, you can move assets from a traditional IRA or from a designated Roth account to a Roth IRA. You can also move assets from a qualified retirement plan to a Roth IRA. See *Can You Move Amounts Into a Roth IRA?* under *Roth IRAs,* later.

Trustee-to-Trustee Transfer

A transfer of funds in your traditional IRA from one trustee directly to another, either at your request or at the trustee's request, isn't a rollover. This includes the situation where the current trustee issues a check to the new trustee, but gives it to you to deposit. Because there is no distribution to you, the transfer is tax free. Because it isn't a rollover, it isn't affected by the 1-year waiting period required between rollovers, discussed later under *Rollover From One IRA Into Another*. For information about direct transfers to IRAs from retirement plans other than IRAs, see *Can You Move Retirement Plan Assets?* in chapter 1 and *Can You Move Amounts Into a Roth IRA?* in chapter 2 of Pub. 590-A.

Rollovers

Generally, a rollover is a tax-free distribution to you of cash or other assets from one retirement plan that you contribute (roll over) to another retirement plan. The contribution to the second retirement plan is called a rollover contribution.

Note. An amount rolled over tax free from one retirement plan to another is generally includible in income when it is distributed from the second plan.

Kinds of rollovers to a traditional IRA. You can roll over amounts from the following plans into a traditional IRA.

- A traditional IRA.
- An employer's qualified retirement plan for its employees.
- A deferred compensation plan of a state or local government (section 457 plan).
- A tax-sheltered annuity plan (section 403(b) plan).

Treatment of rollovers. You can't deduct a rollover contribution, but you must report the rollover distribution on your tax return as discussed later under *Reporting rollovers from IRAs* and *Reporting rollovers from employer plans*.

Rollover notice. A written explanation of rollover treatment must be given to you by the plan (other than an IRA) making the distribution. See *Written explanation to recipients* in Pub. 590-A.

Kinds of rollovers from a traditional IRA. You may be able to roll over, tax free, a distribution from your traditional IRA into a qualified plan. These plans include the federal Thrift Savings Plan (for federal employees), deferred compensation plans of state or local governments (section 457 plans), and tax-sheltered annuity plans (section 403(b) plans). The part of the distribution that you can roll over is the part that would otherwise be taxable (includible in your income). Qualified plans may, but aren't required to, accept such rollovers.

Time limit for making a rollover contribution. You must generally make the rollover contribution by the 60th day after the day you receive the distribution from your traditional IRA or your employer's plan.

The IRS may waive the 60-day requirement where the failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control. For more information, see *Can You Move Retirement Plan Assets?* in chapter 1 of Pub. 590-A.

Extension of rollover period. If an amount distributed to you from a traditional IRA or a qualified employer retirement plan is a frozen deposit at any time during the 60-day period allowed for a rollover, special rules extend the rollover period. For more information, see *Can You Move Retirement Plan Assets?* in chapter 1 of Pub. 590-A.

Rollover From One IRA Into Another

You can withdraw, tax free, all or part of the assets from one traditional IRA if you reinvest them within 60 days in the same or another traditional IRA. Because this is a rollover, you can't deduct the amount that you reinvest in an IRA.

Waiting period between rollovers. Generally, if you make a tax-free rollover of any part of a distribution from a traditional IRA, you can't, within a 1-year period, make a tax-free rollover of any later distribution from that same IRA. You also can't make a tax-free rollover of any amount distributed, within the same 1-year period, from the IRA into which you made the tax-free rollover.

The 1-year period begins on the date you receive the IRA distribution, not on the date you roll it over into an IRA. Rules apply to the number of rollovers you can have with your traditional IRAs. See *Application of one-rollover limitation* next.

Application of one-rollover limitation. You can make only one rollover from an IRA to another (or the same) IRA in any 1-year period, regardless of the number of IRAs you own. The limit applies by aggregating all of an individual's IRAs, including SEP and SIMPLE IRAs, as well as traditional and Roth IRAs, effectively treating them as one IRA for purposes of the limit. However, trustee-to-trustee transfers between IRAs aren't limited and rollovers from traditional IRAs to Roth IRAs (conversions) aren't limited.

Example. You have three traditional IRAs: IRA-1, IRA-2, and IRA-3. You didn't take any distributions from your IRAs in 2023. On January 1, 2024, you took a distribution from IRA-1 and rolled it over into IRA-2 on the same day. For 2024, you can't roll over any other 2023 IRA distribution, including a rollover distribution involving IRA-3. This wouldn't apply to a trustee-to-trustee transfer or a Roth IRA conversion.

Partial rollovers. If you withdraw assets from a traditional IRA, you can roll over part of the withdrawal tax free and keep the rest of it. The amount you keep will generally be taxable (except for the part that is a return of nondeductible contributions). The amount you keep may be subject to the 10% additional tax on early distributions, discussed later under *What Acts Result in Penalties or Additional Taxes*.

Required distributions. Amounts that must be distributed during a particular year under the required minimum distribution rules (discussed later) aren't eligible for rollover treatment.

Inherited IRAs. If you inherit a traditional IRA from your spouse, you can generally roll it over, or you can choose to make the inherited IRA your own. See *Treating it as your own*, earlier.

Not inherited from spouse. If you inherit a traditional IRA from someone other than your spouse, you can't roll it over or allow it to receive a rollover contribution. You must withdraw the IRA assets within a certain period. For more information, see *When Must You Withdraw Assets? (Required Minimum Distributions)* in chapter 1 of Pub. 590-B.

Reporting rollovers from IRAs. Report any rollover from one traditional IRA to the same or another traditional IRA on Form 1040 or 1040-SR as follows.

Enter the total amount of the distribution on Form 1040 or 1040-SR, line 4a. If the total amount on Form 1040 or 1040-SR, line 4a, was rolled over, enter zero on Form 1040 or 1040-SR, line 4b. If the total distribution wasn't rolled over, enter the taxable portion of the part that wasn't rolled over on Form 1040 or 1040-SR, line 4b. Enter “Rollover” next to Form 1040 or 1040-SR, line 4b. For more information, see the Instructions for Form 1040.

If you rolled over the distribution into a qualified plan (other than an IRA) or you make the rollover in 2024, attach a statement explaining what you did.

Rollover From Employer's Plan Into an IRA

You can roll over into a traditional IRA all or part of an eligible rollover distribution you receive from your (or your deceased spouse's):

- Employer's qualified pension, profit-sharing, or stock bonus plan;
- Annuity plan;
- Tax-sheltered annuity plan (section 403(b) plan); or
- Governmental deferred compensation plan (section 457 plan).

A qualified plan is one that meets the requirements of the Internal Revenue Code.

Eligible rollover distribution. Generally, an eligible rollover distribution is any distribution of all or part of the balance to your credit in a qualified retirement plan except the following.

1. A required minimum distribution (explained later under *When Must You Withdraw IRA Assets? (Required Minimum Distributions)*).
2. A hardship distribution.
3. Any of a series of substantially equal periodic distributions paid at least once a year over:
   a. Your lifetime or life expectancy,
   b. The lifetimes or life expectancies of you and your beneficiary, or
   c. A period of 10 years or more.
4. Corrective distributions of excess contributions or excess deferrals, and any income allocable to the excess, or of excess annual additions and any allocable gains.
5. A loan treated as a distribution because it doesn't satisfy certain requirements either when made or later (such as upon default), unless the participant's accrued benefits are reduced (offset) to repay the loan. For more information, see *Plan loan offsets* under *Time Limit for Making a Rollover Contribution* in Pub. 590-A.
6. Dividends on employer securities.
7. The cost of life insurance coverage.

Your rollover into a traditional IRA may include both amounts that would be taxable and amounts that wouldn't be taxable if they were distributed to you but not rolled over. To the extent the distribution is rolled over into a traditional IRA, it isn't includible in your income.

TIP *Any nontaxable amounts that you roll over into your traditional IRA become part of your basis (cost) in your IRAs. To recover your basis when you take distributions from your IRA, you must complete Form 8606 for the year of the distribution. See* Form 8606 *under* Distributions Fully or Partly Taxable*, later.*

Rollover by nonspouse beneficiary. A direct transfer from a deceased employee's qualified pension, profit-sharing, or stock bonus plan; annuity plan; tax-sheltered annuity (section 403(b)) plan; or governmental deferred compensation (section 457) plan to an IRA set up to receive the distribution on your behalf can be treated as an eligible rollover distribution if you are the designated beneficiary of the plan and not the employee's spouse. The IRA is treated as an inherited IRA. For more information about inherited IRAs, see *Inherited IRAs*, earlier.

Reporting rollovers from employer plans. Enter the total distribution (before income tax or other deductions were withheld) on Form 1040 or 1040-SR, line 4a. This amount should be shown in box 1 of Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. From this amount, subtract any contributions (usually shown in box 5 of Form 1099-R) that were taxable to you when made. From that result, subtract the amount that was rolled over either directly or within 60 days of receiving the distribution. Enter the remaining amount, even if zero, on Form 1040 or 1040-SR, line 4b. Also, enter "Rollover" next to Form 1040 or 1040-SR, line 4b.

Transfers Incident to Divorce

If an interest in a traditional IRA is transferred from your spouse or former spouse to you by a divorce or separate maintenance decree or a written document related to such a decree, the interest in the IRA, starting from the date of the transfer, is treated as your IRA. The transfer is tax free. For detailed information, see *Distributions under divorce or similar proceedings (alternate payees)* under *Rollover From Employer's Plan Into an IRA* in Pub. 590-A.

Converting From Any Traditional IRA to a Roth IRA

Allowable conversions. You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly (and timely) rolled over, the 10% additional tax on early distributions won't apply. However, a part or all of the conversion contribution from your traditional IRA is included in your gross income.

Required distributions. You can't convert amounts that must be distributed from your traditional IRA for a particular year (including the calendar year in which you reach age 72 under the required minimum distribution rules (discussed later)).

Income. You must include in your gross income distributions from a traditional IRA that you would have had to include in income if you hadn't converted them into a Roth IRA. These amounts are normally included in income on your return for the year that you converted them from a traditional IRA to a Roth IRA.

You don't include in gross income any part of a distribution from a traditional IRA that is a return of your basis, as discussed later.

You must file Form 8606 to report 2023 conversions from traditional, SEP, or SIMPLE IRAs to a Roth IRA in 2023 (unless you recharacterized the entire amount) and to figure the amount to include in income.

If you must include any amount in your gross income, you may have to increase your withholding or make estimated tax payments. See chapter 4.

Recharacterizations

You may be able to treat a contribution made to one type of IRA as having been made to a different type of IRA. This is called recharacterizing the contribution. See *Can You Move Retirement Plan Assets?* in chapter 1 of Pub. 590-A for more detailed information.

How to recharacterize a contribution. To recharacterize a contribution, you must generally have the contribution transferred from the first IRA (the one to which it was made) to the second IRA in a trustee-to-trustee transfer. If the transfer is made by the due date (including extensions) for your tax return for the year during which the contribution was made, you can elect to treat the contribution as having been originally made to the second IRA instead of to the first IRA. If you recharacterize your contribution, you must do all three of the following.

- Include in the transfer any net income allocable to the contribution. If there was a loss, the net income you must transfer may be a negative amount.
- Report the recharacterization on your tax return for the year during which the contribution was made.
- Treat the contribution as having been made to the second IRA on the date that it was actually made to the first IRA.

No recharacterizations of conversions made in 2018 or later. A conversion of a traditional IRA to a Roth IRA, and a rollover from any other eligible retirement plan to a Roth IRA, made in tax years beginning after tax year 2017, can't be recharacterized as having been made to a traditional IRA. If you made a conversion in the 2017 tax year, you had until the due date (including extensions) for filing the return for that tax year to recharacterize it.

No deduction allowed. You can't deduct the contribution to the first IRA. Any net income you transfer with the recharacterized contribution is treated as earned in the second IRA.

How do you recharacterize a contribution? To recharacterize a contribution, you must notify both the trustee of the first IRA (the one to which the contribution was actually made) and the trustee of the second IRA (the one to which the contribution is being moved) that you have elected to treat the contribution as having been made to the second IRA rather than the first. You must make the notifications by the date of the transfer. Only one notification is required if both IRAs are maintained by the same trustee. The notification(s) must include all of the following information.

- The type and amount of the contribution to the first IRA that is to be recharacterized.
- The date on which the contribution was made to the first IRA and the year for which it was made.
- A direction to the trustee of the first IRA to transfer in a trustee-to-trustee transfer the

amount of the contribution and any net income (or loss) allocable to the contribution to the trustee of the second IRA.

- The name of the trustee of the first IRA and the name of the trustee of the second IRA.
- Any additional information needed to make the transfer.

Reporting a recharacterization. If you elect to recharacterize a contribution to one IRA as a contribution to another IRA, you must report the recharacterization on your tax return as directed by Form 8606 and its instructions. You must treat the contribution as having been made to the second IRA.

When Can You Withdraw or Use IRA Assets?

There are rules limiting use of your IRA assets and distributions from it. Violation of the rules generally results in additional taxes in the year of violation. See *What Acts Result in Penalties or Additional Taxes*, later.

Contributions returned before the due date of return. If you made IRA contributions in 2023, you can withdraw them tax free by the due date of your return. If you have an extension of time to file your return, you can withdraw them tax free by the extended due date. You can do this if, for each contribution you withdraw, both of the following conditions apply.

- You didn't take a deduction for the contribution.
- You withdraw any interest or other income earned on the contribution. You can take into account any loss on the contribution while it was in the IRA when figuring the amount that must be withdrawn. If there was a loss, the net income earned on the contribution may be a negative amount.

Note. To figure the amount you must withdraw, see Worksheet 1-4 under *When Can You Withdraw or Use Assets?* in chapter 1 of Pub. 590-A.

Earnings includible in income. You must include in income any earnings on the contributions you withdraw. Include the earnings in income for the year in which you made the contributions, not in the year in which you withdraw them.

CAUTION *Generally, except for any part of a withdrawal that is a return of nondeductible contributions (basis), any withdrawal of your contributions after the due date (or extended due date) of your return will be treated as a taxable distribution. Excess contributions can also be recovered tax free as discussed under* What Acts Result in Penalties or Additional Taxes*, later.*

Early distributions tax. The 10% additional tax on distributions made before you reach age $59^1/_2$ doesn't apply to these tax-free withdrawals of your contributions. However, the distribution of interest or other income must be reported on Form 5329 and, unless the distribution qualifies as an exception to the age $59^1/_2$ rule, it will be subject to this tax. See *Early Distributions* under *What Acts Result in Penalties or Additional Taxes?* in Pub. 590-B.

When Must You Withdraw IRA Assets? (Required Minimum Distributions)

You can't keep funds in a traditional IRA indefinitely. Eventually, they must be distributed. If there are no distributions, or if the distributions aren't large enough, you may have to pay a 25% excise tax on the amount not distributed as required. See *Excess Accumulations (Insufficient Distributions)*, later. The requirements for distributing IRA funds differ depending on whether you are the IRA owner or the beneficiary of a decedent's IRA.

Required minimum distribution. The amount that must be distributed each year is referred to as the “required minimum distribution.”

Distributions not eligible for rollover. Amounts that must be distributed (required minimum distributions) during a particular year aren't eligible for rollover treatment.

IRA owners. If you are the owner of a traditional IRA, you must generally start receiving distributions from your IRA by April 1 of the year following the year in which you reach age 72. April 1 of the year following the year in which you reach age 72 is referred to as the “required beginning date.”

Distributions by the required beginning date. You must receive at least a minimum amount for each year starting with the year you reach age 72. If you don't (or didn't) receive that minimum amount in the year you become age 72, then you must receive distributions for the year you become age 72 by April 1 of the next year.

If an IRA owner dies after reaching age 72 but before April 1 of the next year, no minimum distribution is required because death occurred before the required beginning date.

TIP *Individuals who reach age 72 after December 31, 2022, may delay receiving their required minimum distributions until April 1 of the year following the year in which they reach age 73.*

CAUTION *Even if you begin receiving distributions before you attain age 72, you must begin figuring and receiving required minimum distributions by your required beginning date.*

Distributions after the required beginning date. The required minimum distribution for any year after the year you turn age 72 must be made by December 31 of that later year.

Beneficiaries. If you are the beneficiary of a decedent's traditional IRA, the requirements for distributions from that IRA generally depend on whether the IRA owner died before or after the required beginning date for distributions.

More information. For more information, including how to figure your required minimum distribution each year and how to figure your required distribution if you are a beneficiary of a decedent's IRA, see *When Must You Withdraw Assets? (Required Minimum Distributions)* in chapter 1 of Pub. 590-B.

Are Distributions Taxable?

In general, distributions from a traditional IRA are taxable in the year you receive them.

Exceptions. Exceptions to distributions from traditional IRAs being taxable in the year you receive them are:

- Rollovers;
- Qualified charitable distributions (QCDs), discussed later;
- Tax-free withdrawals of contributions, discussed earlier; and
- The return of nondeductible contributions, discussed later under *Distributions Fully or Partly Taxable*.

CAUTION *Although a conversion of a traditional IRA is considered a rollover for Roth IRA purposes, it isn't an exception to the rule that distributions from a traditional IRA are taxable in the year you receive them. Conversion distributions are includible in your gross income subject to this rule and the special rules for conversions explained in* Converting From Any Traditional IRA Into a Roth IRA *under* Can You Move Retirement Plan Assets? *in chapter 1 of Pub. 590-A.*

Qualified charitable distributions (QCDs). A QCD is generally a nontaxable distribution made directly by the trustee of your IRA to an organization eligible to receive tax deductible contributions. See *Qualified Charitable Distributions* in Pub. 590-B for more information.

TIP *A QCD will count towards your required minimum distribution. See* Qualified charitable distributions *under* Are Distributions Taxable? *in chapter 1 of Pub. 590-B for more information.*

Ordinary income. Distributions from traditional IRAs that you include in income are taxed as ordinary income.

No special treatment. In figuring your tax, you can't use the 10-year tax option or capital gain treatment that applies to lump-sum distributions from qualified retirement plans.

Distributions Fully or Partly Taxable

Distributions from your traditional IRA may be fully or partly taxable, depending on whether your IRA includes any nondeductible contributions.

Fully taxable. If only deductible contributions were made to your traditional IRA (or IRAs, if you have more than one), you have no basis in your IRA. Because you have no basis in your IRA, any distributions are fully taxable when received. See *Reporting taxable distributions on your return*, later.

Partly taxable. If you made nondeductible contributions or rolled over any after-tax amounts to any of your traditional IRAs, you have a cost basis (investment in the contract) equal to the amount of those contributions. These nondeductible contributions aren't taxed when they are distributed to you. They are a return of your investment in your IRA.

Only the part of the distribution that represents nondeductible contributions and rolled over after-tax amounts (your cost basis) is tax free. If nondeductible contributions have been made or after-tax amounts have been rolled over to your IRA, distributions consist partly of nondeductible contributions (basis) and partly of deductible contributions, earnings, and gains (if there are any). Until all of your basis has been distributed, each distribution is partly nontaxable and partly taxable.

Form 8606. You must complete Form 8606 and attach it to your return if you receive a distribution from a traditional IRA and have ever made nondeductible contributions or rolled over after-tax amounts to any of your traditional IRAs. Using the form, you will figure the nontaxable distributions for 2023 and your total IRA basis for 2023 and earlier years.

Note. If you are required to file Form 8606 but you aren't required to file an income tax return, you must still file Form 8606. Send it to the IRS at the time and place you would otherwise file an income tax return.

Distributions reported on Form 1099-R. If you receive a distribution from your traditional IRA, you will receive Form 1099-R, or a similar statement. IRA distributions are shown in boxes 1 and 2a of Form 1099-R. The number or letter codes in box 7 tell you what type of distribution you received from your IRA.

Withholding. Federal income tax is withheld from distributions from traditional IRAs unless you choose not to have tax withheld. See chapter 4.

IRA distributions delivered outside the United States. In general, if you are a U.S. citizen or resident alien and your home address is outside the United States or its territories, you can't choose exemption from withholding on distributions from your traditional IRA.

Reporting taxable distributions on your return. Report fully taxable distributions, including early distributions, on Form 1040 or 1040-SR, line 4b (no entry is required on Form 1040 or 1040-SR, line 4a). If only part of the distribution is taxable, enter the total amount on Form 1040 or 1040-SR, line 4a, and the taxable part on Form 1040 or 1040-SR, line 4b.

What Acts Result in Penalties or Additional Taxes?

The tax advantages of using traditional IRAs for retirement savings can be offset by additional taxes and penalties if you don't follow the rules.

There are additions to the regular tax for using your IRA funds in prohibited transactions. There are also additional taxes for the following activities.

- Investing in collectibles.
- Having unrelated business income; see Pub. 590-B.
- Making excess contributions.
- Taking early distributions.
- Allowing excess amounts to accumulate (failing to take required distributions).

There are penalties for overstating the amount of nondeductible contributions and for failure to file a Form 8606, if required.

Prohibited Transactions

Generally, a prohibited transaction is any improper use of your traditional IRA by you, your beneficiary, or any disqualified person.

Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendent, and any spouse of a lineal descendent).

The following are examples of prohibited transactions with a traditional IRA.

- Borrowing money from it; see Pub. 590-B.
- Selling property to it.
- Using it as security for a loan.
- Buying property for personal use (present or future) with IRA funds.

Effect on an IRA account. Generally, if you or your beneficiary engages in a prohibited transaction in connection with your traditional IRA account at any time during the year, the account stops being an IRA as of the first day of that year.

Effect on you or your beneficiary. If your account stops being an IRA because you or your beneficiary engaged in a prohibited transaction, the account is treated as distributing all its assets to you at their fair market values on the first day of the year. If the total of those values is more than your basis in the IRA, you will have a taxable gain that is includible in your income. For information on figuring your gain and reporting it in income, see *Are Distributions Taxable*, earlier. The distribution may be subject to additional taxes or penalties.

Taxes on prohibited transactions. If someone other than the owner or beneficiary of a traditional IRA engages in a prohibited transaction, that person may be liable for certain taxes. In general, there is a 15% tax on the amount of the prohibited transaction and a 100% additional tax if the transaction isn't corrected.

More information. For more information on prohibited transactions, see *What Acts Result in Penalties or Additional Taxes?* in chapter 1 of Pub. 590-A.

Investment in Collectibles

If your traditional IRA invests in collectibles, the amount invested is considered distributed to you in the year invested. You may have to pay the 10% additional tax on early distributions, discussed later.

Collectibles. These include:

- Artworks,
- Rugs,
- Antiques,
- Metals,
- Gems,
- Stamps,
- Coins,
- Alcoholic beverages, and
- Certain other tangible personal property.

Exception. Your IRA can invest in one-, one-half-, one-quarter-, or one-tenth-ounce U.S. gold coins, or one-ounce silver coins minted by the Treasury Department. It can also invest in certain platinum coins and certain gold, silver, palladium, and platinum bullion.

Excess Contributions

Generally, an excess contribution is the amount contributed to your traditional IRA(s) for the year that is more than the smaller of:

- The maximum deductible amount for the year (for 2023, this is $6,500 ($7,500 if you are 50 or older)); or
- Your taxable compensation for the year.

An excess contribution could be the result of your contribution, your spouse's contribution, your employer's contribution, or an improper rollover contribution. If your employer makes contributions on your behalf to a SEP IRA, see chapter 2 of Pub. 560.

Tax on excess contributions. In general, if the excess contributions for a year aren't withdrawn by the date your return for the year is due (including extensions), you are subject to a 6% tax. You must pay the 6% tax each year on excess amounts that remain in your traditional IRA at the end of your tax year. The tax can't be more than 6% of the combined value of all your IRAs as of the end of your tax year. The additional tax is figured on Form 5329.

Excess contributions withdrawn by due date of return. You won't have to pay the 6% tax if you withdraw an excess contribution made during a tax year and you also withdraw interest or other income earned on the excess contribution. You must complete your withdrawal by the date your tax return for that year is due, including extensions.

How to treat withdrawn contributions. Don't include in your gross income an excess contribution that you withdraw from your traditional IRA before your tax return is due if both the following conditions are met.

- No deduction was allowed for the excess contribution.
- You withdraw the interest or other income earned on the excess contribution.

You can take into account any loss on the contribution while it was in the IRA when figuring the amount that must be withdrawn. If there was a loss, the net income you must withdraw may be a negative amount.

How to treat withdrawn interest or other income. You must include in your gross income the interest or other income that was earned on the excess contribution. Report it on your return for the year in which the excess contribution was made. Your withdrawal of interest or other income may be subject to an additional 10% tax on early distributions, discussed later.

Beginning on or after December 29, 2022, the 10% additional tax will not apply to your withdrawal of interest or other income, if withdrawn on or before the due date (including extensions) of the income tax return. See Pub. 590-B for more information.

Excess contributions withdrawn after due date of return. In general, you must include all distributions (withdrawals) from your traditional IRA in your gross income. However, if the following conditions are met, you can withdraw excess contributions from your IRA and not include the amount withdrawn in your gross income.

- Total contributions (other than rollover contributions) for 2023 to your IRA weren't more than $6,500 ($7,500 if you are 50 or older).
- You didn't take a deduction for the excess contribution being withdrawn.

The withdrawal can take place at any time, even after the due date, including extensions, for filing your tax return for the year.

Excess contribution deducted in an earlier year. If you deducted an excess contribution in an earlier year for which the total contributions weren't more than the maximum deductible amount for that year (see the following table), you can still remove the excess from your traditional IRA and not include it in your gross income. To do this, file Form 1040-X for that year and don't deduct the excess contribution on the amended return. Generally, you can file an amended return within 3 years after you filed your return or 2 years from the time the tax was paid, whichever is later.

Year(s)	Contribution limit	Contribution limit if 50 or older at the end of the year
2023	$6,500	$7,500
2019 through 2022	$6,000	$7,000
2013 through 2018	$5,500	$6,500
2008 through 2012	$5,000	$6,000
2006 or 2007	$4,000	$5,000
2005	$4,000	$4,500
2002 through 2004	$3,000	$3,500
1997 through 2001	$2,000	—
before 1997	$2,250	—

Excess due to incorrect rollover information. If an excess contribution in your traditional IRA is the result of a rollover and the excess occurred because the information the plan was required to give you was incorrect, you can withdraw the excess contribution. The limits mentioned above are increased by the amount of the excess that is due to the incorrect information. You will have to amend your return for the year in which the excess occurred to correct the reporting of the rollover amounts in that year. Don't include in your gross income the part of the excess contribution caused by the incorrect information. For more information, see *Excess Contributions* under *What Acts Result in Penalties or Additional Taxes?* in Pub. 590-A.

Early Distributions

You must include early distributions of taxable amounts from your traditional IRA in your gross income. Early distributions are also subject to an additional 10% tax. See the discussion of Form 5329 under *Reporting Additional Taxes*, later, to figure and report the tax.

Early distributions defined. Early distributions are generally amounts distributed from your traditional IRA account or annuity before you are age $59^{1}/_{2}$.

Age $59^{1}/_{2}$ rule. Generally, if you are under age $59^{1}/_{2}$, you must pay a 10% additional tax on the distribution of any assets (money or other property) from your traditional IRA. Distributions before you are age $59^{1}/_{2}$ are called early distributions.

The 10% additional tax applies to the part of the distribution that you have to include in gross income. It is in addition to any regular income tax on that amount.

After age $59^{1}/_{2}$ and before age 72. After you reach age $59^{1}/_{2}$, you can receive distributions without having to pay the 10% additional tax. Even though you can receive distributions after you reach age $59^{1}/_{2}$, distributions aren't required until you reach age 72. See *When Must You Withdraw IRA Assets? (Required Minimum Distributions)*, earlier.

Exceptions. There are several exceptions to the age $59^{1}/_{2}$ rule. Even if you receive a distribution before you are age $59^{1}/_{2}$, you may not have to pay the 10% additional tax if you are in one of the following situations.

- You have unreimbursed medical expenses that are more than 7.5% of your AGI.
- The distribution is for the cost of your medical insurance due to a period of unemployment.
- You are totally and permanently disabled.
- You have been certified as having a terminal illness.
- You are the beneficiary of a deceased IRA owner.
- You are receiving distributions in the form of a series of substantially equal periodic payments.
- The distribution is income on a corrective distribution.
- The distribution is for your qualified higher education expenses.
- You use the distributions to buy, build, or rebuild a first home.
- The distribution is due to an IRS levy of the IRA or retirement plan.
- The distribution is a qualified reservist distribution.

Most of these exceptions are explained under *Early Distributions* under *What Acts Result in Penalties or Additional Taxes?* in chapter 1 of Pub. 590-B.

Note. Distributions that are timely and properly rolled over, as discussed earlier, aren't subject to either regular income tax or the 10% additional tax. Certain withdrawals of excess contributions after the due date of your return are also tax free and therefore not subject to the 10% additional tax. (See *Excess contributions withdrawn after due date of return*, earlier.) This also applies to transfers incident to divorce, as discussed earlier.

Receivership distributions. Early distributions (with or without your consent) from savings institutions placed in receivership are subject to this tax unless one of the exceptions listed earlier applies. This is true even if the distribution is from a receiver that is a state agency.

Additional 10% tax. The additional tax on early distributions is 10% of the amount of the early distribution that you must include in your gross income. This tax is in addition to any regular income tax resulting from including the distribution in income.

Nondeductible contributions. The tax on early distributions doesn't apply to the part of a distribution that represents a return of your nondeductible contributions (basis).

More information. For more information on early distributions, see *What Acts Result in Penalties or Additional Taxes?* in chapter 1 of Pub. 590-B.

Excess Accumulations (Insufficient Distributions)

You can't keep amounts in your traditional IRA indefinitely. Generally, you must begin receiving distributions by April 1 of the year following the year in which you reach age 72. The required minimum distribution for any year after the year in which you reach age 72 must be made by December 31 of that later year.

TIP *Individuals who reach age 72 after December 31, 2022, may delay receiving their required minimum distributions until April 1 of the year following the year in which they reach age 73.*

Tax on excess. If distributions are less than the required minimum distribution for the year, you may have to pay a 25% excise tax for that year on the amount not distributed as required.

TIP *The excise tax on distributions that are less than the required minimum distribution amount is reduced to 25% for tax years beginning after December 29, 2022. Also, there is an additional reduction to 10% for taxpayers meeting additional requirements. See Pub. 590-B for more information.*

Request to waive the tax. If the excess accumulation is due to reasonable error, and you have taken, or are taking, steps to remedy the insufficient distribution, you can request that the tax be waived. If you believe you qualify for this relief, attach a statement of explanation and complete Form 5329 as instructed under *Waiver of tax for reasonable cause* in the Instructions for Form 5329.

Exemption from tax. If you are unable to take required distributions because you have a traditional IRA invested in a contract issued by an insurance company that is in state insurer delinquency proceedings, the 25% excise tax doesn't apply if the conditions and requirements of Revenue Procedure 92-10 are satisfied.

More information. For more information on excess accumulations, see *What Acts Result in Penalties or Additional Taxes?* in chapter 1 of Pub. 590-B.

Reporting Additional Taxes

Generally, you must use Form 5329 to report the tax on excess contributions, early distributions, and excess accumulations.

Filing a tax return. If you must file an individual income tax return, complete Form 5329 and attach it to your Form 1040 or 1040-SR. Enter the total additional taxes due on Schedule 2 (Form 1040), line 8.

Not filing a tax return. If you don't have to file a tax return but do have to pay one of the additional taxes mentioned earlier, file the completed Form 5329 with the IRS at the time and place you would have filed your Form 1040 or 1040-SR. Be sure to include your address on page 1 and your signature and date on page 2. Enclose, but don't attach, a check or money order made payable to "United States Treasury" for the tax you owe, as shown on Form 5329. Enter your social security number and "2023 Form 5329" on your check or money order.

Form 5329 not required. You don't have to use Form 5329 if any of the following situations exists.

- Distribution code 1 (early distribution) is correctly shown in box 7 of all your Forms 1099-R. If you don't owe any other additional tax on a distribution, multiply the taxable part of the early distribution by 10% (0.10) and enter the result on Schedule 2 (Form 1040), line 8. Enter "No" to the left of the line to indicate that you don't have to file Form 5329. However, if you owe this tax and also owe any other additional tax on a distribution, don't enter this 10% additional tax directly on your Form 1040 or 1040-SR. You must file Form 5329 to report your additional taxes.
- If you rolled over part or all of a distribution from a qualified retirement plan, the part rolled over isn't subject to the tax on early distributions.
- If you have a qualified disaster distribution.

Roth IRAs

Regardless of your age, you may be able to establish and make nondeductible contributions to a retirement plan called a Roth IRA.

Contributions not reported. You don't report Roth IRA contributions on your return.

What Is a Roth IRA?

A Roth IRA is an individual retirement plan that, except as explained in this chapter, is subject to the rules that apply to a traditional IRA (defined earlier). It can be either an account or an annuity. Individual retirement accounts and annuities are described under *How Can a Traditional IRA Be Opened?* in chapter 1 of Pub. 590-A.

To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is opened. A deemed IRA can be a Roth IRA. Beginning in tax year 2023, both a SEP or SIMPLE IRA can be designated as a Roth IRA.

Unlike a traditional IRA, you can't deduct contributions to a Roth IRA. But, if you satisfy the requirements, qualified distributions (discussed later) are tax free. You can leave amounts in your Roth IRA as long as you live.

When Can a Roth IRA Be Opened?

You can open a Roth IRA at any time. However, the time for making contributions for any year is limited. See *When Can You Make Contributions* under *Can You Contribute to a Roth IRA?* next.

Can You Contribute to a Roth IRA?

Generally, you can contribute to a Roth IRA if you have taxable compensation (defined later) and your modified AGI (defined later) is less than:

- $228,000 for married filing jointly or qualifying surviving spouse;
- $153,000 for single, head of household, or married filing separately and you didn't live with your spouse at any time during the year; or
- $10,000 for married filing separately and you lived with your spouse at any time during the year.

TIP *You may be eligible to claim a credit for contributions to your Roth IRA. For more information, see chapter 3 of Pub. 590-A.*

Is there an age limit for contributions? Contributions can be made to your Roth IRA regardless of your age.

Can you contribute to a Roth IRA for your spouse? You can contribute to a Roth IRA for your spouse provided the contributions satisfy the Kay Bailey Hutchison Spousal IRA limit (discussed under *How Much Can Be Contributed*, earlier, under *Traditional IRAs*), you file jointly, and your modified AGI is less than $228,000.

Compensation. Compensation includes wages, salaries, tips, professional fees, bonuses, and other amounts received for providing personal services. It also includes commissions, self-employment income, nontaxable combat pay, military differential pay, taxable alimony and separate maintenance payments, and taxable non-tuition fellowship and stipend payments.

See *What is compensation*, earlier, for more information.

Modified AGI. Your modified AGI for Roth IRA purposes is your AGI as shown on your return with some adjustments. Use Worksheet 9-2 to determine your modified AGI.

Worksheet 9-2. **Modified AGI for Roth IRA Purposes** *Keep for Your Records*

Use this worksheet to figure your modified AGI for Roth IRA purposes.

1.	Enter your AGI from Form 1040 or 1040-SR, line 11	**1.**	______
2.	Enter any income resulting from the conversion of an IRA (other than a Roth IRA) to a Roth IRA (included on Form 1040 or 1040-SR, line 4b) and a rollover from a qualified retirement plan to a Roth IRA (included on Form 1040 or 1040-SR, line 5b)	**2.**	______
3.	Subtract line 2 from line 1	**3.**	______
4.	Enter any traditional IRA deduction from Schedule 1 (Form 1040), line 20	**4.**	______
5.	Enter any student loan interest deduction from Schedule 1 (Form 1040), line 21	**5.**	______
6.	Enter any foreign earned income and/or housing exclusion from Form 2555, line 45 . . .	**6.**	______
7.	Enter any foreign housing deduction from Form 2555, line 50	**7.**	______
8.	Enter any excludable savings bond interest from Form 8815, line 14	**8.**	______
9.	Enter any excluded employer-provided adoption benefits from Form 8839, line 28	**9.**	______
10.	Add the amounts on lines 3 through 9	**10.**	______
11.	Enter: • $228,000 if married filing jointly or qualifying surviving spouse, • $10,000 if married filing separately and you lived with your spouse at any time during the year, or • $153,000 for all others	**11.**	______

Is the amount on line 10 more than the amount on line 11?
If yes, then see the ***Note*** below.
If no, then the amount on line 10 is your **modified AGI** for Roth IRA purposes.

Note. If the amount on line 10 is more than the amount on line 11 and you have other income or loss items, such as social security income or passive activity losses, that are subject to AGI-based phaseouts, you can refigure your AGI solely for the purpose of figuring your modified AGI for Roth IRA purposes. (If you receive social security benefits, use Worksheet 1 in *Appendix B* of Pub. 590-A to refigure your AGI.) Then, go to line 3 above in this Worksheet 9-2 to refigure your modified AGI. If you don't have other income or loss items subject to AGI-based phaseouts, your modified AGI for Roth IRA purposes is the amount on line 10.

How Much Can Be Contributed?

The contribution limit for Roth IRAs generally depends on whether contributions are made only to Roth IRAs or to both traditional IRAs and Roth IRAs.

Roth IRAs only. If contributions are made only to Roth IRAs, your contribution limit is generally the lesser of the following amounts.

- $6,500 ($7,500 if you are 50 or older in 2023).
- Your taxable compensation.

However, if your modified AGI is above a certain amount, your contribution limit may be reduced, as explained later under *Contribution limit reduced*.

Roth IRAs and traditional IRAs. If contributions are made to both Roth IRAs and traditional IRAs established for your benefit, your contribution limit for Roth IRAs is generally the same as your limit would be if contributions were made only to Roth IRAs, but then reduced by all contributions for the year to all IRAs other than Roth IRAs. Employer contributions under a SEP or SIMPLE IRA plan don't affect this limit.

This means that your contribution limit is generally the lesser of the following amounts.

- $6,500 ($7,500 if you are 50 or older in 2023) minus all contributions (other than employer contributions under a SEP or SIMPLE IRA plan) for the year to all IRAs other than Roth IRAs.
- Your taxable compensation minus all contributions (other than employer contributions under a SEP or SIMPLE IRA plan) for the year to all IRAs other than Roth IRAs.

However, if your modified AGI is above a certain amount, your contribution limit may be reduced, as explained next under *Contribution limit reduced*.

Contribution limit reduced. If your modified AGI is above a certain amount, your contribution limit is gradually reduced. Use Table 9-3 to determine if this reduction applies to you.

Table 9-3. **Effect of Modified AGI on Roth IRA Contribution**

This table shows whether your contribution to a Roth IRA is affected by the amount of your modified AGI.

IF you have taxable compensation and your filing status is...	**AND your modified AGI is...**	**THEN...**
Married filing jointly or **Qualifying surviving spouse**	less than $218,000	you can contribute up to $6,500 ($7,500 if you are 50 or older in 2023).
	at least $218,000 but less than $228,000	the amount you can contribute is reduced as explained under *Contribution limit reduced* in chapter 2 of Pub. 590-A.
	$228,000 or more	you can't contribute to a Roth IRA.
Married filing separately and you lived with your spouse at any time during the year	zero (-0-)	you can contribute up to $6,500 ($7,500 if you are 50 or older in 2023).
	more than zero (-0-) but less than $10,000	the amount you can contribute is reduced as explained under *Contribution limit reduced* in chapter 2 of Pub. 590-A.
	$10,000 or more	you can't contribute to a Roth IRA.
Single, Head of household, or **Married filing separately** and you didn't live with your spouse at any time during the year	less than $138,000	you can contribute up to $6,500 ($7,500 if you are 50 or older in 2023).
	at least $138,000 but less than $153,000	the amount you can contribute is reduced as explained under *Contribution limit reduced* in chapter 2 of Pub. 590-A.
	$153,000 or more	you can't contribute to a Roth IRA.

Figuring the reduction. If the amount you can contribute to your Roth IRA is reduced, see Worksheet 2-2 under *Can You Contribute to a Roth IRA?* in chapter 2 of Pub. 590-A for how to figure the reduction.

When Can You Make Contributions?

You can make contributions to a Roth IRA for a year at any time during the year or by the due date of your return for that year (not including extensions).

TIP *You can make contributions for 2023 by the due date (not including extensions) for filing your 2023 tax return.*

What if You Contribute Too Much?

A 6% excise tax applies to any excess contribution to a Roth IRA.

Excess contributions. These are the contributions to your Roth IRAs for a year that equal the total of:

1. Amounts contributed for the tax year to your Roth IRAs (other than amounts properly and timely rolled over from a Roth IRA or properly converted from a traditional IRA or rolled over from a qualified retirement plan, as described later) that are more than your contribution limit for the year; plus
2. Any excess contributions for the preceding year, reduced by the total of:
   a. Any distributions out of your Roth IRAs for the year, plus
   b. Your contribution limit for the year minus your contributions to all your IRAs for the year.

Withdrawal of excess contributions. For purposes of determining excess contributions, any contribution that is withdrawn on or before the due date (including extensions) for filing your tax return for the year is treated as an amount not contributed. This treatment applies only if any earnings on the contributions are also withdrawn. The earnings are considered to have been earned and received in the year the excess contribution was made.

Applying excess contributions. If contributions to your Roth IRA for a year were more than the limit, you can apply the excess contribution in one year to a later year if the contributions for that later year are less than the maximum allowed for that year.

Can You Move Amounts Into a Roth IRA?

You may be able to convert amounts from either a traditional, SEP, or SIMPLE IRA into a Roth IRA. You may be able to roll amounts over from a qualified retirement plan to a Roth IRA. You may be able to recharacterize contributions made to one IRA as having been made directly to a different IRA. You can roll amounts over from a designated Roth account or from one Roth IRA to another Roth IRA.

Conversions

You can convert a traditional IRA to a Roth IRA. The conversion is treated as a rollover, regardless of the conversion method used. Most of the rules for rollovers, described earlier under *Rollover From One IRA Into Another* under *Traditional IRAs*, apply to these rollovers. However, the 1-year waiting period doesn't apply.

Conversion methods. You can convert amounts from a traditional IRA to a Roth IRA in any of the following ways.

- ***Rollover***. You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days after the distribution.
- ***Trustee-to-trustee transfer***. You can direct the trustee of the traditional IRA to transfer an amount from the traditional IRA to the trustee of the Roth IRA.
- ***Same trustee transfer***. If the trustee of the traditional IRA also maintains the Roth IRA, you can direct the trustee to transfer an amount from the traditional IRA to the Roth IRA.

Same trustee. Conversions made with the same trustee can be made by redesignating the traditional IRA as a Roth IRA, rather than opening a new account or issuing a new contract.

Rollover from a qualified retirement plan into a Roth IRA. You can roll over into a Roth IRA all or part of an eligible rollover distribution you receive from your (or your deceased spouse's):

- Employer's qualified pension, profit-sharing, or stock bonus plan;
- Annuity plan;
- Tax-sheltered annuity plan (section 403(b) plan); or
- Governmental deferred compensation plan (section 457 plan).

Any amount rolled over is subject to the same rules as those for converting a traditional IRA into a Roth IRA. Also, the rollover contribution must meet the rollover requirements that apply to the specific type of retirement plan.

Income. You must include in your gross income distributions from a qualified retirement plan that you would have had to include in income if you hadn't rolled them over into a Roth IRA. You don't include in gross income any part of a distribution from a qualified retirement plan that is a return of basis (after-tax contributions) to the plan that was taxable to you when paid. These amounts are normally included in income on your return for the year of the rollover from the qualified employer plan to a Roth IRA.

CAUTION *If you must include any amount in your gross income, you may have to increase your withholding or make estimated tax payments. See Pub. 505, Tax Withholding and Estimated Tax.*

For more information, see *Rollover From Employer's Plan Into a Roth IRA* in chapter 2 of Pub. 590-A.

Converting from a SIMPLE IRA. Generally, you can convert an amount in your SIMPLE IRA to a Roth IRA under the same rules explained earlier under *Converting From Any Traditional IRA to a Roth IRA* under *Traditional IRAs*.

However, you can't convert any amount distributed from the SIMPLE IRA plan during the 2-year period beginning on the date you first participated in any SIMPLE IRA plan maintained by your employer.

More information. For more detailed information on conversions, see *Can You Move Amounts Into a Roth IRA?* in chapter 2 of Pub. 590-A.

Rollover From a Roth IRA

You can withdraw, tax free, all or part of the assets from one Roth IRA if you contribute them within 60 days to another Roth IRA. Most of the rules for rollovers, explained earlier under *Rollover From One IRA Into Another* under *Traditional IRAs*, apply to these rollovers.

Rollover from designated Roth account. A rollover from a designated Roth account can only be made to another designated Roth account or to a Roth IRA. For more information about designated Roth accounts, see *Designated Roth accounts* under *Rollovers* in Pub. 575.

Are Distributions Taxable?

You don't include in your gross income qualified distributions or distributions that are a return of your regular contributions from your Roth IRA(s). You also don't include distributions from your Roth IRA that you roll over tax free into another Roth IRA. You may have to include part of other distributions in your income. See *Ordering rules for distributions*, later.

What are qualified distributions? A qualified distribution is any payment or distribution from your Roth IRA that meets the following requirements.

1. It is made after the 5-year period beginning with the first tax year for which a contribution was made to a Roth IRA set up for your benefit.
2. The payment or distribution is:
   a. Made on or after the date you reach age 59½,
   b. Made because you are disabled,
   c. Made to a beneficiary or to your estate after your death, or
   d. To pay up to $10,000 (lifetime limit) of certain qualified first-time homebuyer amounts. See *First home* under *What Acts Result in Penalties or Additional Taxes?* in chapter 1 of Pub. 590-B for more information.

Additional tax on distributions of conversion and certain rollover contributions within 5-year period. If, within the 5-year period starting with the first day of your tax year in which you convert an amount from a traditional IRA or roll over an amount from a qualified retirement plan to a Roth IRA, you take a distribution from a Roth IRA, you may have to pay the 10% additional tax on early distributions. You must generally pay the 10% additional tax on any amount attributable to the part of the amount converted or rolled over (the conversion or rollover contribution) that you had to include in income. A separate 5-year period applies to each conversion and rollover. See *Ordering rules for distributions*, later, to determine the amount, if any, of the distribution that is attributable to the part of the conversion or rollover contribution that you had to include in income.

Additional tax on other early distributions. Unless an exception applies, you must pay the 10% additional tax on the taxable part of any distributions that aren't qualified distributions. See Pub. 590-B for more information.

Ordering rules for distributions. If you receive a distribution from your Roth IRA that isn't a qualified distribution, part of it may be taxable. There is a set order in which contributions (including conversion contributions and rollover contributions from qualified retirement plans) and earnings are considered to be distributed from your Roth IRA. Regular contributions are distributed first. See *Ordering Rules for Distributions* under *Are Distributions Taxable?* in chapter 2 of Pub. 590-B for more information.

Must you withdraw or use Roth IRA assets? You aren't required to take distributions from your Roth IRA at any age. The minimum distribution rules that apply to traditional IRAs don't apply to Roth IRAs while the owner is alive. However, after the death of a Roth IRA owner, certain minimum distribution rules that apply to traditional IRAs also apply to Roth IRAs.

More information. For more detailed information on Roth IRAs, see chapter 2 of Pub. 590-A and Pub. 590-B.