

IS IT TAXABLE OR NON-TAXABLE INCOME?

Generally, almost all income you receive is considered taxable income, but there are some situations when some types of income is partially taxed or not taxed at all.

To help you, our clients understand the differences between taxable and non-taxable income, the Internal Revenue Service has offered these common examples of items that may not included in your taxable income: The main Internal Revenue Service code section that applies to income is §61.

- Adoption Expense Reimbursements for qualifying expenses - §36
- Child support payments - §71
- Gifts, bequests and inheritances - To many code sections to cite
- Workers' compensation benefits - §104
- Meals and Lodging for the convenience of your employer and on their jobsite -- §119
- Compensatory Damages awarded for physical injury or physical sickness - §104
- Welfare Benefits §419
- Cash Rebates from a dealer or manufacturer - §61

Some income may be taxable under certain circumstances, but not taxable in other situations. Examples of items that may or may not be included in your taxable income are:

- **Life Insurance** 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. Life insurance proceeds, which were paid to you because of the insured person's death, are not taxable unless the policy was turned over to you for a price. Interest and dividends that, over the years, you have taxes upon would increase your value (basis) in the policy and are therefore not usually taxable income.
- **SCHOLARSHIPS, GRANTS AND FELLOWSHIPS** If you are a candidate for a degree, you can exclude amounts you receive as a qualified scholarship or fellowship. However, amounts used for room and board and other non-educational expenses do not qualify and are therefore taxable income.
- **NON-CASH INCOME** Taxable income may be in a form other than cash. One example of this is bartering, which is an exchange of property or services. The fair market value of goods and services exchanged is taxable and must be included as income on Form 1040 of both parties.

All other items—including income such as wages, salaries, tips and unemployment compensation — are taxable and must be included in your income unless it is specifically excluded by law.

As always, our focus is to inform and assist our client's to file complete and accurate tax returns. If you have further questions, please call our office for an appointment.