

Taxable or Non-Taxable Income?

Generally, most income you receive is considered taxable but there are situations when certain types of income are partially taxed or not taxed at all. To help taxpayers understand the differences between taxable and non-taxable income, the Internal Revenue Service offers these common examples of items not included as taxable income:

Adoption Expense Reimbursements for qualifying expenses

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Child support payments

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Gifts, bequests and inheritances

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Workers' compensation benefits

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Meals and Lodging for the convenience of your employer

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Compensatory Damages awarded for physical injury or physical sickness

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Welfare Benefits

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Cash Rebates from a dealer or manufacturer

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.

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Scholarship or Fellowship Grant If you are a candidate for a degree, you can exclude amounts you receive as a qualified scholarship or fellowship. Amounts used for room and board do not qualify.

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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 fully 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 fully taxable and must be included in your income unless it is specifically excluded by law.

These examples are not all-inclusive. For more information, see Publication 525,