

Taxable and Non-taxable Income

Most income is taxable, whether you earn it or are paid as a return on your investment. Also, you generally have to pay tax on income when you sell something for more than your basis (usually the amount you paid for something).

If a type of income is taxable, it doesn't matter if you receive payment in cash, by check or electronic payment, or in the form of goods or services. You still pay tax on it.

Common Types of Taxable Income

- **Alimony.** Alimony you received under a court decree prior to January 1, 2019 is taxable income.
- **Barter income.** Barter income is taxable. For example, say you build a deck for your dentist, and he fixes your teeth. You must pay tax on the fair market value of the dental services you receive.
- **Bonus from employer.** If you receive a bonus, you must pay tax on it. The amount should already be included on your Form W-2.
- **Cash income.** If you do odd jobs and get paid "under the table," you still owe tax on the income. It doesn't matter if you receive a check or actual cash.
- **Court awards and damages.** Awards you receive for lost pay, punitive damages, business damages, and so on are taxable. Damages you receive for physical injury or sickness, or for emotional distress are not taxable.
- **Gambling income.** Gambling income is taxable.
- **Hobby income.** Hobby income is taxable.
- **Interest and dividends.** Most interest and dividends are taxable. However, interest on certain government obligations, such as municipal bond interest, are not taxable by the federal government.
- **Jury duty pay.** Jury duty pay is taxable as miscellaneous income.
- **Social Security benefits.** Social Security benefits can be taxable (up to 85%) if your income is above certain levels.
- **Traditional retirement plan withdrawals.** You pay tax on withdrawals from traditional IRAs and other retirement accounts.
- **Unemployment benefits.** You must pay income tax on unemployment benefits you receive.

Certain types of income are excluded from tax. This generally includes income you or someone else has already paid tax on, or income from special situations, such as combat pay.

Common Types of Non-Taxable Items

- **Alimony.** Alimony you received under a court decree after January 1, 2019 is not taxable income.
- **Child Support.** Money you receive that is designated as child support is not taxable.
- **Combat pay.** Combat pay is not subject to income tax.
- **Court awards and damages.** Damages you receive for physical injury or sickness, or for emotional distress are not taxable. Awards you receive for lost pay, punitive damages, business damages, and so on are taxable.

- **Disability benefits.** If you paid the premiums yourself, the benefits are not taxable. You generally do not pay tax on disability connected to government service. (You generally pay tax on disability benefits if your employer paid the disability insurance premiums.)
- **Gain from the sale of a home.** If you sell your home at a gain, you may not have to pay tax on the first \$250,000 of gain (\$500,000 if filing jointly) if you owned and lived in the home for two of the last five years. You must not have taken this exclusion in the two-year period before the sale of the home. If you don't meet the qualifications to exclude any gain from the sale of your home, you may owe capital gains tax.
- **Garage sale proceeds.** Most garage sale items are sold for less than the seller's basis in them. In that case, you have no taxable gain, and you cannot take a loss on the sale of personal items. If you sell an item at a gain, you may owe capital gains tax on the sale.
- **Gifts received.** You do not owe income tax on gifts you receive from family members and friends.
- **Inheritance received.** Your inheritance is not taxable. The person's estate pays estate and inheritance taxes before it pays any heirs.
- **Interest and dividends.** Interest on certain government obligations, such as municipal bond interest, are not taxable by the federal government. (But most interest are taxable.)
- **Dividends** are not taxable when they are a return of capital. In other words, you don't pay tax when you are receiving back part of your investment, because it is not a share of profits. (But most dividends are taxable.)
- **Roth IRA or Roth 401(k) plan withdrawals.** You can take qualified withdrawals from a Roth IRA or Roth 401(k) plan without paying income tax.
- **Social Security benefits.** Social Security benefits are not taxable if you have little to no other income. (However, if your income is above certain levels, up to 85% of your Social Security benefits may be included in your income.)