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The Income You May Not Realize Is Income This Tax Filing Season

Plus, what you may think you should report on your return, but shouldn't

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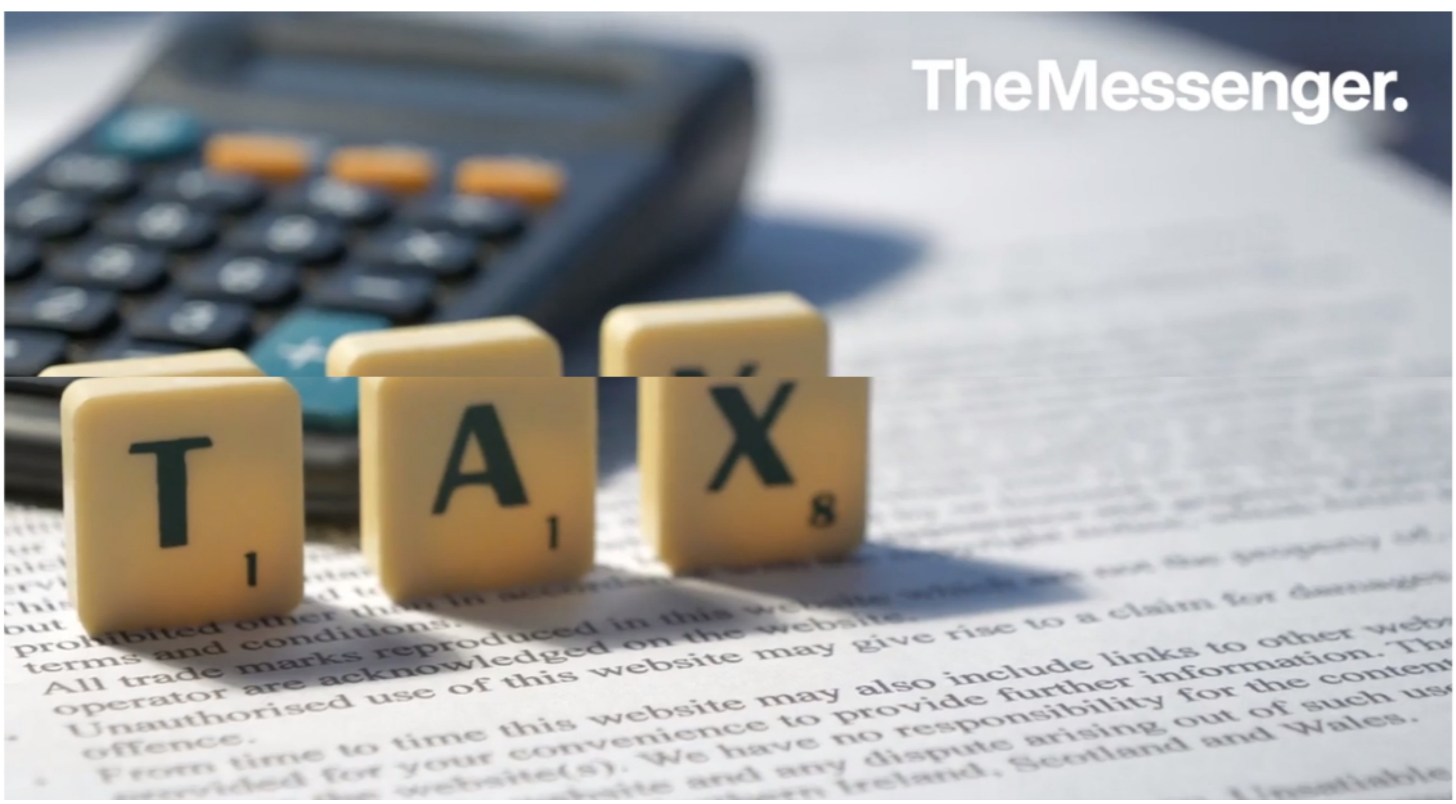

Whether you do it on your own or get professional help, filing your income tax return is stressful enough without surprises. The last thing you want is to be caught off guard — except maybe by an unexpectedly big refund.

As tax season approaches (you can start filing your federal returns this year on Jan. 29), we asked Mark Steber, chief tax information officer at the tax preparation chain Jackson Hewitt, which types of taxable income customers most often overlook, and which ones may be especially pertinent this year.

“We see a lot of these surprise ‘yes, it's taxable’ discussions at the desk — some bigger than others, some more unique than others,” Steber said.

Here’s what you should make sure to include on your 1040 return, according to Steber, along with a few things you might think you need to report when you don’t. The amount of taxable income you have is key to how much tax you owe the government, so you want it to include what’s required, and nothing else.

Report Unemployment Income

If you fell on hard times and had to collect unemployment benefits last year, you may not realize you have to pay tax on that income and that it’s not automatically withheld.

It may be even more unexpected if the last time you were out of a job was 2020, when the onset of the pandemic triggered widespread layoffs. That year, because of a special one-time provision, most people were able to exclude up to $10,200 in unemployment compensation from their taxable income. But that was just for 2020.

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“We're seeing lots of questions on that as people get ready and start to say, ‘What do I need to bring in?’” Steber said. “It's turning out to be a pretty difficult economic year.”

The answer: Form 1099-G, which the government will issue to you if you’ve received unemployment.

Report Canceled Debt

It’s a dire situation, but some people get so behind on their credit card payments or other debts that lenders would rather cancel — or forgive — some of the debt than not get paid at all. In a debt settlement plan, for instance, a lender may erase some of the balance if they get a lump sum payment up front.

As odd as it may seem, that canceled debt usually counts as income. So if you’ve had part of your balance canceled, be prepared to pay taxes on it in most instances. Major exceptions include college loan debt forgiven between 2021 and 2025 (per a special provision in The American Rescue Plan Act of 2021,) debt canceled in a Chapter 11 bankruptcy case, and mortgage loan debt that’s waived during a foreclosure.

“Forgiveness of debt is a big one that catches people off guard. Many people are shocked,” Steber said. “That one we're seeing more because people are getting in a hard jam.”

If a lender has canceled part of your debt balance, they will issue you Form 1099-C.

Your taxable income is key to how much you owe the federal government. damircudic/Getty Images

Report Retirement Plan Withdrawals

If you tapped into your (401)k in order to cover a sudden or otherwise unmanageable expense last year, you weren't alone. More and more people resorted to dipping into their retirement accounts as relentless inflation, rising interest rates and the end of pandemic subsidies stretched budgets.

But many people are caught off guard by the tax bill, according to Steber. If you're not 59½ years old, you'll most likely have to pay a 10% tax penalty plus your ordinary tax rate on the withdrawn amount, depending on the reasons for the withdrawal. (At one point, the 10% penalty was waived for up to $100,000 if it was withdrawn because of hardships related to COVID-19, but that reprieve has long since ended.)

"We see that a lot more — people get in a jam and they borrow from their 401(k) or they cash in their IRA," Steber said. "And we see that not only in hard times, but when people work for a big company and then they go to another company. Rather than transition over they just close out their 401(k) and take that money."

If you have a retirement account distribution, keep your eye out for Form 1099-R.

Report Gains and Losses From Cryptocurrencies

Income from investing in digital assets is taxable in more instances than most people realize, whether it feels like income or not, Steber said.

In addition to reporting when you sell your Bitcoin, Ethereum or Dogecoin for a cash gain or loss, like you would with stocks, you must also report whenever you trade crypto, including for property or services or vice versa, or acquire new crypto from mining or in an airdrop.

In other words, if you sell something to someone for crypto, pay for something in crypto, get paid for work with crypto, or convert one type to another (including in a fork), you'll have to pay tax on anything you earned from those transactions — using the fair market value to determine that. Conversely, losses on those moves (including if your crypto exchange goes bankrupt) would reduce your taxable income.

"With cryptocurrency, it's all about the transaction," said Steber. "That's taxable, whether you cash out or not."

Generally speaking, the only time there aren't tax implications is when you've bought digital assets or simply held on to them. But the IRS website has a long list of answers to frequently asked questions to help investors navigate.

As for the forms you'll need, it depends. If you sold or transferred crypto, your brokerage or exchange may issue you a Form 1099-B or Form 1099-K and you should use Form 8949 to calculate your gain or loss and then report it on Schedule D. If you were paid in digital assets, you will receive a Form 1099-NEC or W-2 and should report it on Schedule C.

(Starting in 2026, for the 2025 tax year, brokers and crypto exchanges may be required to issue a new type of form that's intended to crack down on tax cheats but would also make it easier for taxpayers to determine their gains and losses.)

Report Interest Income

If you had savings parked in a certificate of deposit (CD), high-yield savings account or money market account last year, you may have earned some real money from interest for the first time in a long while. Because the Federal Reserve raised its benchmark interest rate so much in 2022 and 2023, last year was the first calendar year since 2007 that the rate was higher than 4% all year. By December, the best high-yield accounts were earning 5% or more.

While that's good news, interest income is taxable, and could amount to hundreds of dollars, depending on the size of your savings.

"I don't think this is as big an issue as some other issues," Steber said. "Savings are down below pre-pandemic amounts. People have drained those surplus war chests of cash."

People with a higher net worth are the most likely to have a big tax bill from interest income, but they are also more used to managing passive income, he said.

"It just kind of depends on your demographic," Steber said. "The moderate-income taxpayer — our taxpayer to a large degree — they are not having this problem."

Most types of interest income are taxable, including interest on CDs that have not yet matured. Any bank that paid you more than $10 last year should send you a Form 1099-INT, though technically you have to report all interest income.

Report Income from Side Gigs

Many people are caught off guard when they hear they have to report their hobby income, according to Steber.

They often don't consider their side gig selling fresh eggs or making gift baskets "a real business," so they don't realize that the money they bring in has to be reported, he said.

"You earn money selling on eBay or Etsy, you got to put that on," he said.

The businesses you work with may send you forms including a Form 1099-K, Form 1099-MISC or Form 1099-NEC to report payments made to you, but you will want to keep track of sales receipts to report any payments not on a 1099 or W-2.

Don't Report Gifts, Inheritance Money, or Credit Card Rewards

While there are many things that people don't realize they have to report as income, there are also things that show up on tax returns when they shouldn't, Steber said. If you mistakenly put certain types of income on your return, you will have to go to the trouble of amending your return — and know that you should amend it — in order to get them off.

"The IRS does not monitor that, or back that out or fix that," Steber said. "You put that on your tax return, and it's not taxable, it stays on your tax return."

The recipient of a gift or inheritance doesn't have to pay taxes on it, so if you get a gift from your parents or inherit money when your aunt passes away, don't report it. Nor do you pay taxes on credit card rewards or life insurance proceeds.

One issue that's particularly obscure is rental income. If you rent something for no more than 14 days in a year, the money you collect is not taxable, no matter what you charge, Steber said. So if you have a house near a football stadium or the site of a big golf tournament, whether you rent it out for $100 a day or $10,000 a day, it's tax-free as long as it's for only 14 days, he said.

Don't Forget Life Changes

Even after reading the list above, filing your taxes can feel daunting, particularly with seemingly constant tax code changes. But Steber suggests the most important way to limit surprises is to focus on yourself.

"Life changes drive more surprises — frankly, mistakes — than tax law changes ever will," he said.

And life changes go beyond getting married or divorced or having a child, which you will almost certainly realize is going to impact your tax return. The ones you may not think about ahead of time, he said, are things like starting to take care of a dependent parent, embarking on a side business, or going back to school.

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