

# Do you know the difference?



Most taxpayers are well aware that their salaries, bonuses, interest, dividends, capital gains and business income are generally taxable. But many are less certain about other types of income. And whether an item of income is taxable can have a significant impact on your tax strategies for the year. Here are some examples that might help clarify the differences between the two forms of income:

Taxable	Nontaxable
Proceeds from surrendering a life insurance policy that are in excess of the policy's cost.	Life insurance proceeds paid to you because of the insured person's death, as long as the policy wasn't turned over to you for a price.
Unemployment benefits.	Workers' compensation (unless it's part of a retirement package).
Disability insurance income if <i>your employer</i> paid the premiums.	Disability insurance income if <i>you</i> paid the premiums.
Income from bartering, based on the fair market value of property or services you receive.	Cash rebates from a dealer or manufacturer.
Punitive damages.	Compensatory damages for physical injury or sickness.
Fringe benefits you receive in connection with performance of your services (unless you pay fair market value for them).	Statutorily excluded fringe benefits, such as group term-life insurance (up to \$50,000), health insurance, parking and employee discounts.
Alimony payments.	Child support payments.
Rents from personal property (such as equipment), if you're operating the rental activity as a business.	Rents from your principal residence or vacation home, as long as you rent it out for fewer than 15 days during the year.
Reimbursements or cash advances for lavish or extravagant travel expenses — unless they're reasonable under the circumstances.	Travel expense reimbursements or cash advances that meet the requirements of an "accountable plan."
Gambling winnings, including winnings from lotteries, raffles, horse and dog races and casinos. The fair market value of prizes, such as cars, trips or other noncash prizes.	Gifts and inheritances.
Cancellation of debt (COD) income.	Debt forgiveness received in connection with a foreclosure or a mortgage workout on a principal residence.

This list is not all-inclusive, and many rules and exceptions apply. Check with your tax advisor for more information.