



# What is Included in Gross Income?

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From Commissioner v. Glenshaw Glass, 348 US 426:

“All accession to wealth, clearly realized, and over which the taxpayers have complete dominion.

Haig-Simons definition of income:

The sum of the taxpayers expenditures

PLUS

The increase in the taxpayer’s total wealth.

(Both are very broad definitions of income)

# Gross Income as Defined by the IRC

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## § 61. Gross income defined.

(a) General definition. Except as otherwise provided in this subtitle [[26 USCS §§ 1](#) et seq.], gross income means all income *from whatever source derived*, including (but not limited to) the following items:

(1) Compensation for services, including fees, commissions, fringe benefits, and similar items;

(2) Gross income derived from business;

(3) Gains derived from dealings in property;

(4) Interest;

(5) Rents;

(6) Royalties;

(7) Dividends;

(8) Alimony and separate maintenance payments;

(9) Annuities;

(10) Income from life insurance and endowment contracts;

(11) Pensions;

(12) Income from discharge of indebtedness;

(13) Distributive share of partnership gross income;

(14) Income in respect of a decedent; and

(15) Income from an interest in an estate or trust.



# Items Specifically Excluded from Gross Income

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There is a long list of income sources excluded from gross income in sections 101-140 of the IRC. Some of these are:

- Most life insurance death benefits
- Gifts and inheritances
- Compensation for injuries or illnesses
- Amounts received from health insurance for injuries or medical bills
- Rental value of parsonages
- Income from discharge of indebtedness (e.g., in a bankruptcy case)
- Certain types of personal injury settlements
- Etc.



# Fringe Benefits of Employment - Meals and Lodging

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The following is not considered gross income:

- Employer provided meals and lodging to the taxpayer of his/her family. This must be provided for the convenience of the employer and on the employer's premises.

  - Meal vouchers and the like that don't fit these criteria ARE income to the employee.

- Lodging, under similar conditions to those of the meals, discussed above. Obviously, a hotel the employee stays in to be near a business meeting qualifies. Even though it's not at the employer's premises, it's in the location that the employer needs the employee to be.



# Fringe Benefits of Employment- Insurance

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The following Benefits are also not considered income of the employee:

- Employer provided medical expenses and health insurance. However, to qualify, the employer must offer the same insurance to low paid employees as well as to high paid employees.
- Term life insurance for employees, if bought for the group of employees as a whole (and again, cannot discriminate based on salary).
- Accident insurance.



# Other Fringe Benefits of Employment

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Section 132 also excludes all of the following from gross income:

- “no additional cost” services (e.g., reciprocal agreements)
- qualified employee discounts
- “working condition” fringe benefits
- “de minimis” fringe benefits
- qualified transportation benefits
- qualified moving expenses
- qualified retirement plan services
- qualified military base realignment and closure benefits



## Note on “Imputed Income”

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“Imputed income” means the “income” a person “earns” by doing things him or herself; i.e., the money that is saved in that manner.

There is NO imputed income rule under the IRC. i.e., there is no income tax in imputed income.



# Windfalls

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As discussed earlier, the general rule is that ALL income is taxable, even if is unearned and unanticipated. Gifts and inheritances are exceptions only because they're spelled out in the IRC.

Thus, the following cases *are* considered income:

- Lottery and raffle winnings
- Prizes
- Punitive damages, Comm. v. Glenshaw Glass Co, 348 U.S. 426 (1955)
- Money found hidden in a purchased piano, Cesarini v. United States, 296 F. Supp. 3 (N.D. Ohio 1969)





# Scholarships

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- Section 117 excludes from gross income scholarships for “degree candidates,” which includes primary, secondary, undergraduate or graduate school.
- However, the exception does not apply to a scholarship that’s received in exchange for work done, such as teaching, work-study, etc.
- Attending the school must be a condition of the scholarship for the value of the scholarship to be excluded from gross income.