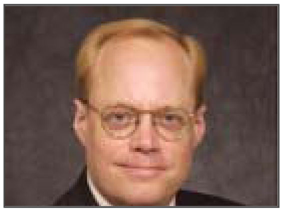
Forbes



Robert W. Wood
THE TAX LAWYER

TAXES 1/22/2015

10 Surprising Items IRS Says To Report On Your Taxes

This time of year, the IRS likes to remind us that just about everything is taxed. It isn't just your paychecks that get tallied on a W-2 and end up on your tax return. Income means income from *all* sources. So as you start getting organized for the annual drudgery of filing taxes this year, don't forget about some of the odder one

1. If you sell unwanted clothes, cars, furniture, even family heirlooms, are they taxed? You bet. If you sell something for $100 you bought for $50, that's a $50 gain. But in many cases you may not know what your tax basis is. If you can't prove your basis, IRS will view the whole $100 as income. Maybe its capital gain, but it's still income.

2. If you get paid to baby sit for your neighbor, take a friend to the airport or water your uncle's garden, it's income. Suppose you trade favors and don't swap cash? IRS says *each* of you is taxed at the market value of the goods or services. Barters and trades are taxed.

3. Ticket scalping? Taxed. Even swapping tickets of even value can trigger tax. Selling for cash certainly does. And the fact that scalping is *illegal* is no excuse for failing to report it. Same for any other illegal activity. Income is income. Remember, they got Al Capone for tax evasion, not murder.

4. Gambling winnings are taxed too. If you hit the jackpot or win the lottery, it's all taxed. Taxes are one of the main reasons some people choose to take annual payments when they have that choice. A lump-sum payout can generate a big tax bill.

5. Prizes and awards are taxed, even if you win a Nobel. They are taxed even if you don't win cash. If you buy raffle tickets and win a car, the cash value of the car is taxed.

6. Tips on the job? IRS taxes tips just like everything else.

7. Many fringes from your employer aren't taxed, but some are. Small value benefits in the workplace aren't taxed. This includes coffee and pastries, occasional photocopying, occasional entertainment or sports tickets, occasional meal transportation money for working overtime. But these days the IRS is looking hard at benefits it thinks are too big to let go. Silicon Valley meal benefits could be next.

8. Cancellation of debt is a strange one. When you borrow money, you don't have income because it's not yours, you have to pay it back. But if the lender forgives it, you pay tax. COD is short for

"cancellation of debt." When a debt you owe is canceled or discharged, in many cases the tax code treats the wiped out debt as cash income to you. If you owe $500,000 to the bank, but the bank forgives it, it's as if the bank just handed you $500,000 and Uncle Sam wants his cut.

9. Lawsuit recoveries are usually taxed. It may seem like you are just getting damages so aren't being enriched, but they are usually taxed. One big exception is physical injury recoveries. But even there, punitive damages and interest are taxed. Sometimes, if you win a lawsuit, you have to pay the IRS—even on your attorney's fees.

10. Treasure trove sounds like something from a pirate movie, but it's a term used by the IRS. Cash or valuables you find are taxed. In *Cesarini v. United States*, a man bought a used piano for $15 and found $5,000 in cash inside. When the IRS said it was taxable, Mr. Cesarini went to court. He lost, and the treasure trove tax hit happens to others too. In 2013, an anonymous couple found $10 million in rare gold coins buried in cans on their property. It was the biggest and best coin discovery in U.S. history. And it was taxed.

For alerts to future tax articles, follow me on Forbes.com. Email me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.