What Is Income?

8508. What is gross income?

Gross income is the starting point in the computation of taxable income upon which individuals are subject to income tax. Gross income is a broad concept that includes all income (whether derived from labor or capital) *excluding* those items that are specifically excluded; and, thus, not taxable. For example, gross income includes salary, fees, commissions, business profits, interest and dividends, rents, alimony received, and gains from the sale of property–but not the mere return of capital expended by the taxpayer to purchase or improve the property.[[1]](#footnote-1)

The following is a non-exhaustive list of items that are *excluded* from gross income and received tax-free by an individual taxpayer:

1. gifts and inheritances;[[2]](#footnote-2)
2. gain (within limits) from the sale of a personal residence (see Q 8565);
3. 50 percent of gain (within limits) from the sale of certain qualified small business stock held for more than five years (see Q 8546);
4. interest on many bonds of a state, city or other political subdivision;
5. Social Security and railroad retirement benefits (within limits–see Q 8532 to Q 8534); veterans’ benefits (but retirement pay is taxable);[[3]](#footnote-3)
6. Workers’ Compensation Act payments (within limits);[[4]](#footnote-4)
7. death proceeds of life insurance and, as to death proceeds of insurance on the life of an insured who died before October 23, 1986, up to $1,000 annually of interest received under a life income or installment option by a surviving spouse;[[5]](#footnote-5)
8. amounts paid or expenses incurred by an employer for qualified adoption expenses in connection with the adoption of a child by an employee if the amounts are furnished pursuant to an adoption assistance program;[[6]](#footnote-6)
9. contributions to a “Medicare Advantage MSA” by the Department of Health and Human Services;[[7]](#footnote-7)
10. exempt-interest dividends from mutual funds;
11. interest on certain U.S. savings bonds purchased after 1989 and used to pay higher education expenses (within limits);[[8]](#footnote-8)
12. contributions paid by an employer to Health Savings Accounts ;[[9]](#footnote-9)
13. distributions from Health Savings Accounts (HSAs) used to pay qualified medical expenses;[[10]](#footnote-10) and
14. federal subsidies for prescription drug plans.[[11]](#footnote-11)

1. . IRC Sec. 61(a). [↑](#footnote-ref-1)
2. . IRC Sec. 102. [↑](#footnote-ref-2)
3. . IRC Sec. 104(a)(4). [↑](#footnote-ref-3)
4. . IRC Sec. 104(a)(1). [↑](#footnote-ref-4)
5. . IRC Secs. 101(a), 101(d). [↑](#footnote-ref-5)
6. . IRC Sec. 137. [↑](#footnote-ref-6)
7. . IRC Sec. 138. [↑](#footnote-ref-7)
8. . See IRC Sec. 135. [↑](#footnote-ref-8)
9. . IRC Sec. 106(d). [↑](#footnote-ref-9)
10. . IRC Sec. 223(f)(1). [↑](#footnote-ref-10)
11. . IRC Sec. 139A. [↑](#footnote-ref-11)