



Department
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Internal
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Your Federal Income Tax

For Individuals

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2023 Returns

TAX GUIDE 2023



FOR INDIVIDUALS

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reduction, and reimbursements of your medical care expenses, in most cases, aren't included in your income.

Note. Health FSAs are subject to a limit on salary reduction contributions for plan years beginning after 2012. For tax years beginning in 2023, the dollar limitation (as indexed for inflation) on voluntary employee salary reductions for contributions to health FSAs is \$3,050.

Health reimbursement arrangement (HRA). If your employer provides an HRA that qualifies as an accident or health plan, coverage and reimbursements of your medical care expenses generally aren't included in your income.

Health savings account (HSA). If you're an eligible individual, you and any other person, including your employer or a family member, can make contributions to your HSA. Contributions, other than employer contributions, are deductible on your return whether or not you itemize deductions. Contributions made by your employer aren't included in your income. Distributions from your HSA that are used to pay qualified medical expenses aren't included in your income. Distributions not used for qualified medical expenses are included in your income. See Pub. 969 for the requirements of an HSA.

Contributions by a partnership to a bona fide partner's HSA aren't contributions by an employer. The contributions are treated as a distribution of money and aren't included in the partner's gross income. Contributions by a partnership to a partner's HSA for services rendered are treated as guaranteed payments that are includible in the partner's gross income. In both situations, the partner can deduct the contribution made to the partner's HSA.

Contributions by an S corporation to a 2% shareholder-employee's HSA for services rendered are treated as guaranteed payments and are includible in the shareholder-employee's gross income. The shareholder-employee can deduct the contribution made to the shareholder-employee's HSA.

Qualified HSA funding distribution. You can make a one-time distribution from your individual retirement account (IRA) to an HSA and you generally won't include any of the distribution in your income.

Adoption Assistance

You may be able to exclude from your income amounts paid or expenses incurred by your employer for qualified adoption expenses in connection with your adoption of an eligible child. See the Instructions for Form 8839, Qualified Adoption Expenses, for more information.

Adoption benefits are reported by your employer in Form W-2, box 12, with code T. They are also included as social security and Medicare wages in boxes 3 and 5. However, they aren't included as wages in box 1. To determine the taxable and nontaxable amounts, you must complete Part III of Form 8839. File the form with your return.

De Minimis (Minimal) Benefits

If your employer provides you with a product or service and the cost of it is so small that it would be unreasonable for the employer to account for

it, you generally don't include its value in your income. In most cases, don't include in your income the value of discounts at company cafeterias, cab fares home when working overtime, and company picnics.

Holiday gifts. If your employer gives you a turkey, ham, or other item of nominal value at Christmas or other holidays, don't include the value of the gift in your income. However, if your employer gives you cash or a cash equivalent, you must include it in your income.

Educational Assistance

You can exclude from your income up to \$5,250 of qualified employer-provided educational assistance. For more information, see Pub. 970, Tax Benefits for Education.

Group-Term Life Insurance

In most cases, the cost of up to \$50,000 of group-term life insurance coverage provided to you by your employer (or former employer) isn't included in your income. However, you must include in income the cost of employer-provided insurance that is more than the cost of \$50,000 of coverage reduced by any amount you pay toward the purchase of the insurance.

For exceptions, see [Entire cost excluded](#) and [Entire cost taxed](#), later.

If your employer provided more than \$50,000 of coverage, the amount included in your income is reported as part of your wages in Form W-2, box 1. Also, it's shown separately in box 12 with code C.

Group-term life insurance. This insurance is term life insurance protection (insurance for a fixed period of time) that:

- Provides a general death benefit,
- Is provided to a group of employees,
- Is provided under a policy carried by the employer, and
- Provides an amount of insurance to each employee based on a formula that prevents individual selection.

Permanent benefits. If your group-term life insurance policy includes permanent benefits, such as a paid-up or cash surrender value, you must include in your income, as wages, the cost of the permanent benefits minus the amount you pay for them. Your employer should be able to tell you the amount to include in your income.

Accidental death benefits. Insurance that provides accidental or other death benefits but doesn't provide general death benefits (travel insurance, for example) isn't group-term life insurance.

Former employer. If your former employer provided more than \$50,000 of group-term life insurance coverage during the year, the amount included in your income is reported as wages in Form W-2, box 1. Also, it's shown separately in box 12 with code C. Box 12 will also show the amount of uncollected social security and Medicare taxes on the excess coverage, with codes M and N. You must pay these taxes with your income tax return. Include them on Schedule 2 (Form 1040), line 13.

Two or more employers. Your exclusion for employer-provided group-term life insurance coverage can't exceed the cost of \$50,000 of coverage, whether the insurance is provided by a single employer or multiple employers. If two or more employers provide insurance coverage that totals more than \$50,000, the amounts reported as wages on your Forms W-2 won't be correct. You must figure how much to include in your income. Reduce the amount you figure by any amount reported in Form W-2, box 12, with code C, add the result to the wages reported in box 1, and report the total on your return.

Figuring the taxable cost. Use [Worksheet 5-1](#) to figure the amount to include in your income.

Worksheet 5-1. Figuring the Cost of Group-Term Life Insurance To Include in Income

Keep for Your Records



1. Enter the total amount of your insurance coverage from your employer(s)	1. _____
2. Limit on exclusion for employer-provided group-term life insurance coverage	2. <u>50,000</u>
3. Subtract line 2 from line 1	3. _____
4. Divide line 3 by \$1,000. Figure to the nearest tenth	4. _____
5. Go to Table 5-1 . Using your age on the last day of the tax year, find your age group in the left column, and enter the cost from the column on the right for your age group	5. _____
6. Multiply line 4 by line 5	6. _____
7. Enter the number of full months of coverage at this cost	7. _____
8. Multiply line 6 by line 7	8. _____
9. Enter the premiums you paid per month	9. _____
10. Enter the number of months you paid the premiums	10. _____
11. Multiply line 9 by line 10	11. _____
12. Subtract line 11 from line 8. Include this amount in your income as wages	12. _____