Tax Calculation Options for Incomes for a W-2 Employee/Traditional Worker

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SIPS Advanced offers nine Tax Calculation Options for Incomes:

	Tax Calculation Options	Examples	Description
1	Not Taxable	Gifts, Inheritances and Bequests, Insurance and Benefits, Child Support Payments, Certain Government Benefits, Qualified Roth IRA Distributions, Scholarships and Fellowships	Non-taxable income is money, property, or services you receive that is specifically exempt from federal income tax (and often state income tax) by law.
2	Wages (line1 of the tax form)	Salaries and Hourly Wages, Commissions, Bonuses, Tips, Vacation, Sick, and Holiday Pay, Taxable Fringe Benefits, Stock Options/Awards, Retirement Plan Income	The total of the amounts reported in Box 1 of your Form(s) W-2 (Wage and Tax Statement)
3	Social Security (line 6a of the tax form)	Social Security Administration (SSA) Benefits, Railroad Retirement Board (RRB) Benefits	This line includes the total of the amounts from Box 5 of your Form(s) SSA-1099 (Social Security Benefit Statement) and/or Form(s) RRB-1099 (Railroad Retirement Board Statement).
4	Pension (line 4 of the tax form)	Pensions	This line is used to report most types of retirement income that are not Social Security or from a traditional IRA. The distributions are reported to you on Form 1099-R, Distributions From Pensions.
5	Other Taxable Income (line 4 of the tax form)	Prizes and Awards, Gambling Winnings, Cancellation of Debt (COD), Jury Duty Pay, Hobby Income, Taxable Refunds, Personal Property Rental, Taxable Distributions	This is a "catch-all" for any taxable income that doesn't have its own dedicated line on the main Form 1040
6	Self Employ Biz-QBI (line S1)	Sole Proprietorships (Schedule C), Partnerships (and LLCs taxed as Partnerships), S Corporations (and LLCs taxed as S Corps, Rental Real Estate, Gig Economy Work	the net income (profit) from your Qualified Trade or Business (QTB) operated as a pass-through entity.
7	Self Employ Biz not QBI (line S1)	Guaranteed Payments to a Partner, Reasonable Compensation from an S Corporation, Investment-Related Income within the Business, Income from a Specified Service Trade or Business (SSTB) Above the Top Threshold, Foreign Business Income	an income item can be 100% taxable self-employment income (meaning it is subject to both income tax and self-employment tax), but still be 0% Qualified Business Income for the purpose of the 20% deduction.
8	Sch E (no SE Tax) - QBI (line 1)	Residential Rental Properties Meeting the Safe Harbor, Triple Net Leases to a Controlled Business (Self-Rental), Passive Income from Partnerships/S-Corps	Passive Rental Real Estate that qualifies as a "trade or business" solely for the QBI deduction. The classification Sch E (no SE Tax) - QBI represents the best-case scenario for many investors and passive owners, as they get the benefit of the QBI deduction without the liability of Self-Employment Tax
9	Sch E (no SE Tax) - not QBI (line 1)	Pure Passive Rental Real Estate (Not Meeting "Trade or Business" Test), Triple Net Lease Rental, Investment Income from a Partnership/S-Corp (on a K-1)	Reported on Schedule E: The income/loss is from rental real estate, royalties, or a pass-through entity (Partnership, S-Corp, Trust, Estate). No Self-Employment (SE) Tax: The activity does not rise to the level of a business requiring the owner to pay Social Security and Medicare taxes. Not Qualified Business Income (Not QBI): The income is specifically excluded from the definition of Qualified Business Income (QBI) because it is considered investment income or is otherwise not generated by an active "trade or business." This classification exists to ensure that only income generated from the regular, profit-seeking activities of a "trade or business" benefits from the 20% QBI deduction, while income from purely investment activities remains ineligible.

To ensure accurate tax calculations, you must correctly configure the Tax Calculation Option for all income sources. This how-to article provides a detailed walkthrough, using a structured income plan example to show how

to correctly model income streams and their taxability.

The hypothetical income streams we'll be working with are detailed below.

• W-2 employee: annual income of \$150,000 at a 2% inflation rate

• Social Security (SS): starting at 67 at \$24,000 with a 2.5% COLA

• Pension: starting at 67 at 12,000 2%

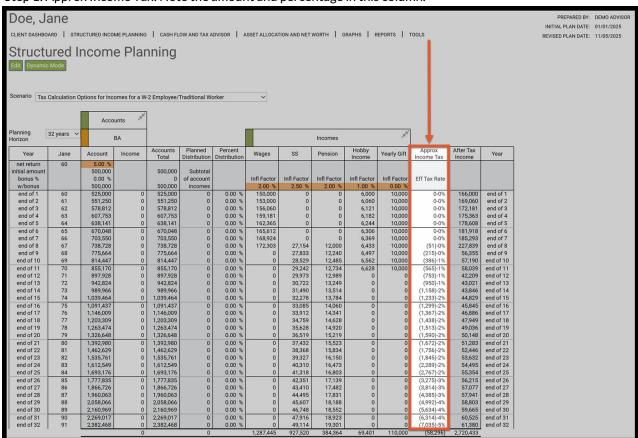
• Hobby Income: \$6,000 with a 1%

Yearly Gift: \$10,000

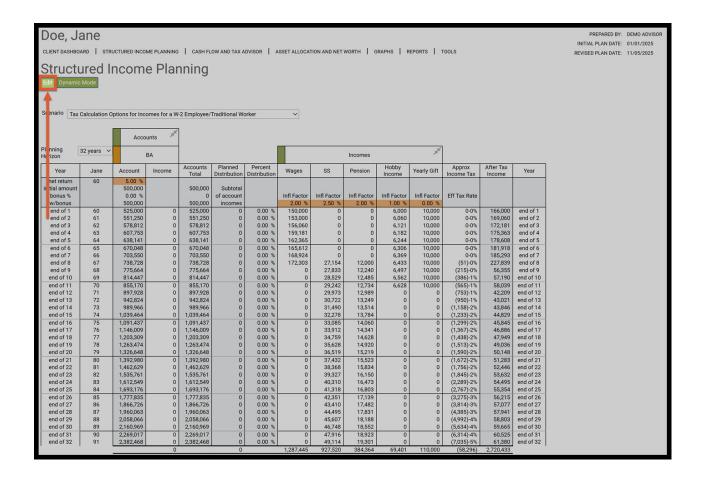
To learn about Tax Calculation Options see articles:

- Tax Calculation Options for Accounts
- Tax Calculation Options for Incomes for a W-2 Employee/Traditional Worker
- Tax Calculation Options for Income for a 1099 Worker/Multi-Stream Earner

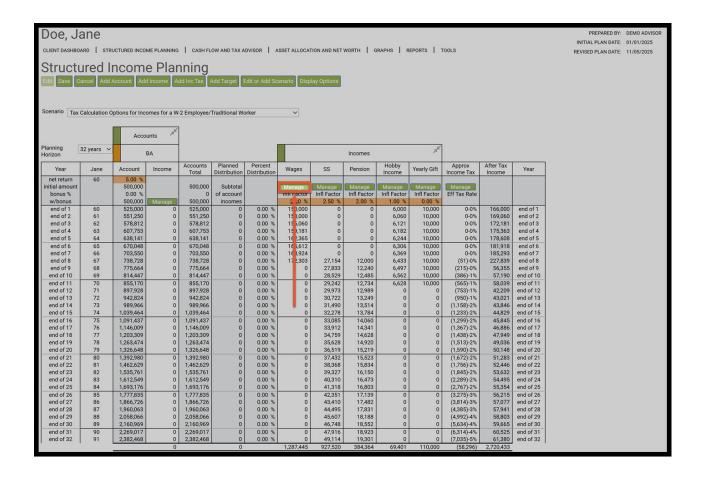
Step 1: Approx Income Tax: Note the amount and percentage in this column.



Step 2: Edit: Click on the green Edit button under the Structured Income Planning heading.



Step 3: Manage: Click on the green Manage button within the Wages column.



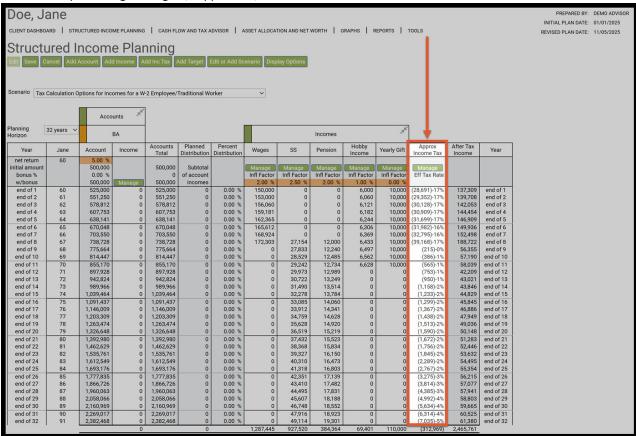
Step 4: Tax Calculation Option Dropdown Arrow: Select the dropdown arrow located in the Tax Calculation textbox, and select Wages.



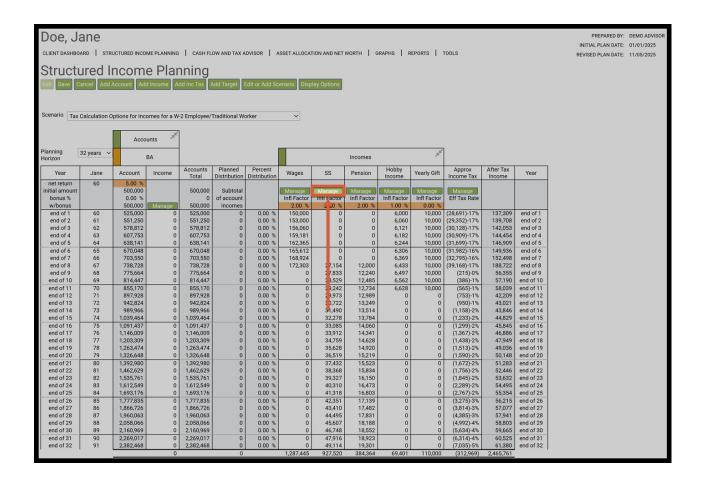
Step 5: Save: Click on the green Save button under the Manage Income heading.



Step 6: Approx Income Tax: You will automatically be taken back to the Structured Income Planning page. Note the amount and percentage changes (if applicable) in this column.



Step 7: Manage: Click on the green Manage button within the SS column.



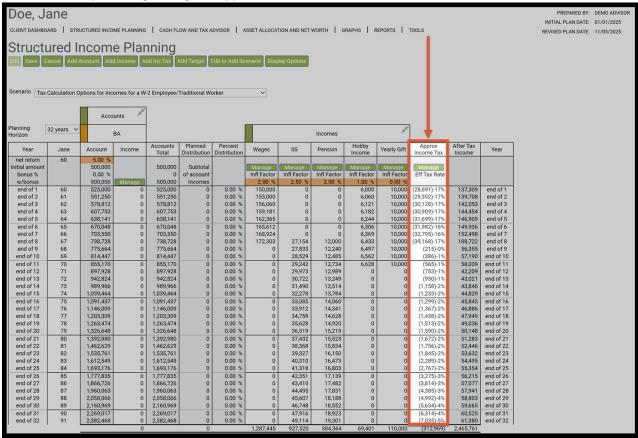
Step 8: Tax Calculation Option: Since this is the Social Security Income, by default the setting will already be adjusted to Social Security (line 6a of the tax form).



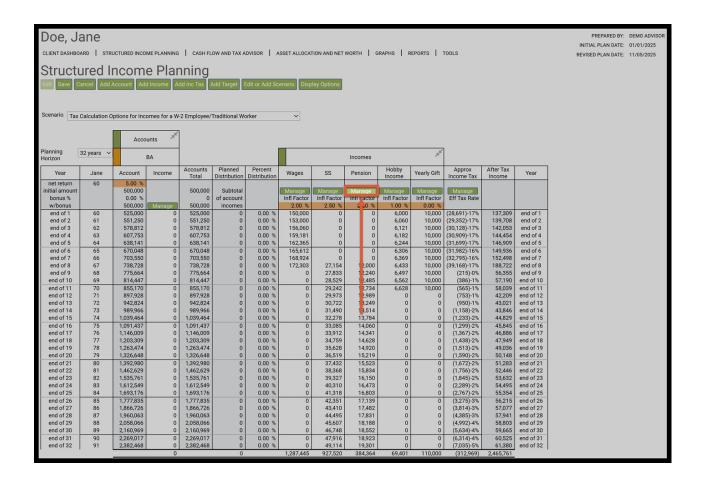
Step 9: Save: Click on the green Save button under the Manage Income heading.



Step 10: Approx Income Tax: You will automatically be taken back to the Structured Income Planning page. Note the amount and percentage changes (if applicable) in this column.



Step 11: Manage: Click on the green Manage button within the Pension column.



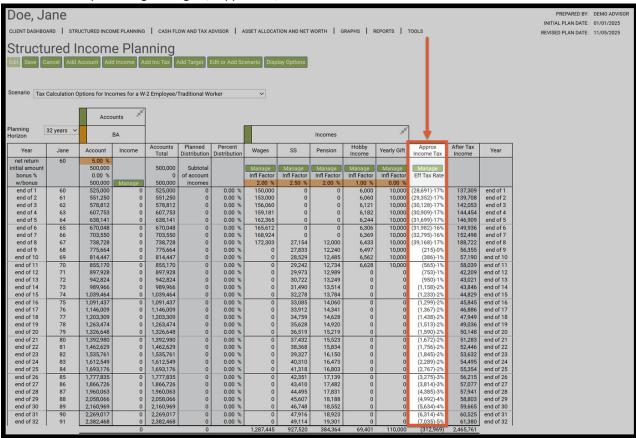
Step 12: Tax Calculation Option Dropdown Arrow: Select the dropdown arrow located in the Tax Calculation textbox, and select Pension (line 4 of the tax form).



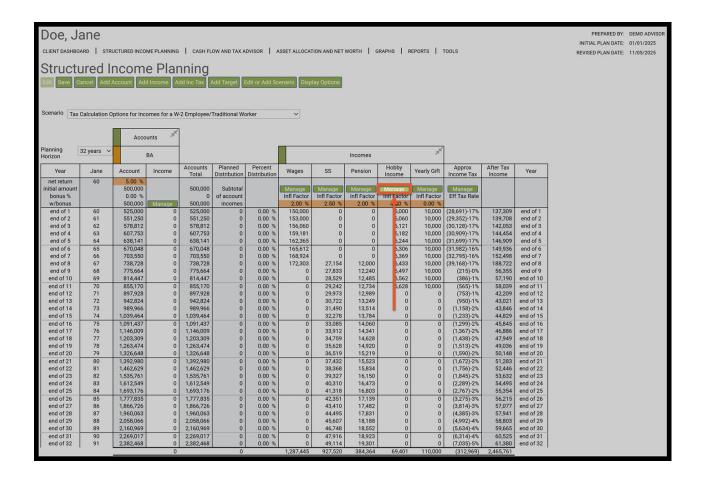
Step 13: Save: Click on the green Save button under the Manage Income heading.



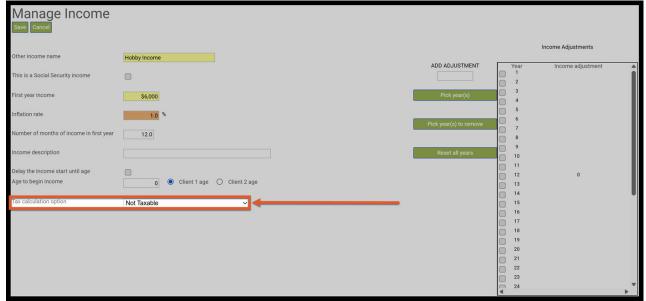
Step 14: Approx Income Tax: You will automatically be taken back to the Structured Income Planning page. Note the amount and percentage changes (if applicable) in this column.



Step 15: Manage: Click on the green Manage button within the Hobby Income column.



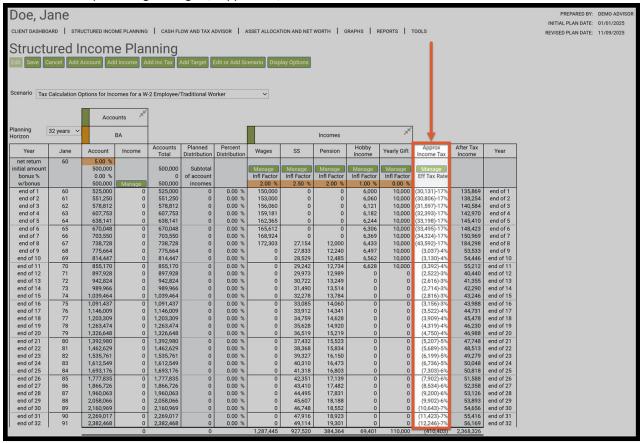
Step 16: Tax Calculation Option Dropdown Arrow: Select the dropdown arrow located in the Tax Calculation textbox, and select Other Taxable Income (line 4 of the tax form).



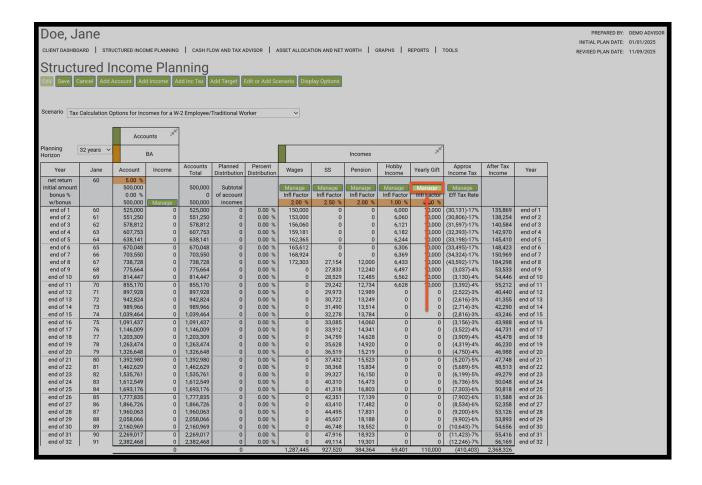
Step 17: Save: Click on the green Save button under the Manage Income heading.



Step 18: Approx Income Tax: You will automatically be taken back to the Structured Income Planning page. Note the amount and percentage changes (if applicable) in this column.



Step 19: Manage: Click on the green Manage button within the Yearly Gift column.



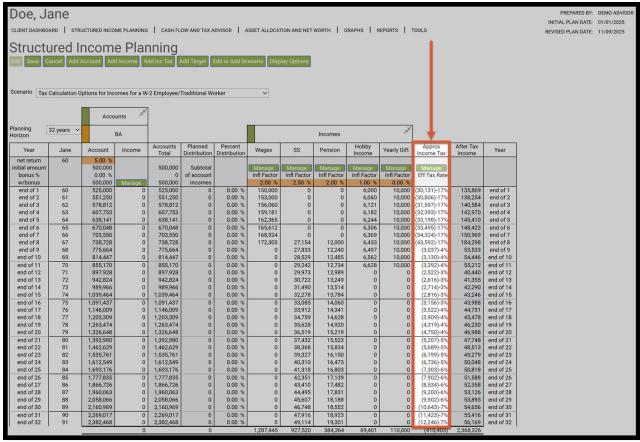
Step 20: Tax Calculation Option: Leave the selection at the default setting "Not Taxable."



Step 21: Save: Click on the green Save button under the Manage Income heading.



Step 22: Approx Income Tax: You will automatically be taken back to the Structured Income Planning page. Note the amount and percentage changes (if applicable) in this column.



If you feel you need more support or would like to set up demo time with one of our representatives, please contact us at: support@planscout.com.