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Certified Public Accountants

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Here's the Tax Beat broadcast for July 30

Subject Line: Truth, Justice, and Form 1099

Netflix's top-streaming crime drama *Untamed* drops us into the breathtaking beauty of California's Yosemite National Park. When a young woman is found murdered, a park investigator with a haunted past follows a web of secrets. *Untamed* blends mystery, memory, and *Yellowstone* grit in a slow-burn thriller where every clue leads deeper into darkness.

At one point, an old neighbor with a suspiciously good memory shows up clutching a photo of the victim from a missing period of her life—in Nevada. He hands it to the sheriff, shrugs like it's no big deal, then asks for the \$10,000 reward.

Now, let's pause the drama for a second and solve the mystery *real* true-crime junkies want to crack: Is that \$10,000 taxable? Spoiler alert: You don't have to wait till the finale for an answer.

Let's start at the top. Section 61 of the Internal Revenue Code defines gross income as, essentially, "All income from whatever source derived, including the extra buck you get back from the dyslexic bartender and the \$20 your neighbor leaves in your pickup to thank you for borrowing it." Naturally, that includes reward money for helping solve a murder. If it makes you richer, Uncle Sam wants a piece.

So our helpful informant now has an extra \$10,000 of ordinary income to report on his 1040. There's no exclusion for being a good citizen. No offset for emotional distress. And no "Finders Keepers" clause in the Code. It's income, pure and simple.

But wait, the plot thickens. He lives across the border in Nevada, a state known for its zero percent income tax and 100 percent commitment to blackjack. Should be simple, right? Just pay the federal tax and take what's left to the slots.

Not so fast, cowboy. There's a catch, and its name is "California source income." If the tip was delivered in California or if the reward is paid by California authorities, the income is "sourced" to California. That means our Nevada neighbor might have to file a California 540NR nonresident return and pay Golden State income tax on the reward.

Yes, that's right. He just drove across the border, dropped off a photo, and rode off into the sunset. But the Franchise Tax Board doesn't care if he came for justice or Disneyland. They want their cut.

How do we know this? California taxes nonresidents on income from California sources. This includes wages for work performed in California, business income from California, and—brace yourself—rewards paid for solving crimes in California.

Now, in the grand tradition of armchair tax planning, someone might ask, "What if he mailed it in? Or emailed it from Nevada? Isn't 'no tax on tips' a thing now?" Clever, but still a no-go. If the reward is for a California murder, paid by California law enforcement or a California-based fund, California's going to argue that it's sourced right there in the Golden State. The state's motto might be "Eureka," but the tax motto is, "Nice try."

And yes, there are ways to challenge that sourcing, but are you really going to go to Tax Court over reward money tied to a murder? Bottom line: crime-solving can be noble. It can be brave. But it sure isn't tax-free. Not under federal law, and not under state law if California is involved.

So if you're thinking of tracking down fugitives for cash, just know you're also tracking down a few new tax forms. And maybe even some new tax strategies from *us*. Because when the sheriff says, "justice has been served," the IRS says, "Great, send us our share of that taxable reward."

Kevin

