

Tax Terminology Guide

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Here is an A-Z guide of commonly-used terms that may be helpful to reference when filing your taxes.

1099 Form: A 1099 form is a record that an entity or person other than your employer gave or paid you money. 1099-MISC is most often for independent contractors for work.

401(k) Plan: An employer-sponsored retirement savings plan through which employees divert part of their salary to a tax-deferred investment account. Salary put in the plan is not taxed until it is later withdrawn, presumably in retirement. Employers often match part or all of the employee's deposits. Penalties usually apply to withdrawals before age 55, although most plans allow employees to borrow limited amounts tax- and penalty-free from their accounts.

AGI: AGI is Adjusted Gross Income. It is used to calculate the amount of most tax credits, refunds, taxes owed, and often used for government programs and loans.

Audit: An audit is a review of your tax return by the IRS, during which you are asked to prove that you have correctly reported your income and deductions. Most audits are done by mail and involve specific issues, not the entire return.

California Earned Income Tax Credit (CalEITC): The California Earned Income Tax Credit (CalEITC) is a state tax credit for individuals and families who have earned a low to moderate income, available to eligible filers with a Social Security Number (SSN) and recently expanded to Individual Tax Identification Number (ITIN) filers. Eligible households can receive up to \$3,027.

CalSavers: CalSavers is California's new government-sponsored retirement savings program that will offer millions of workers in California an easy way and opportunity to save for retirement.

Capital Gain: The profit from the sale of such property as stocks, mutual-fund shares and real estate.

Charitable Contribution: A gift of cash or property to a qualified charity for which a tax deduction is allowed. You must have either a receipt or a bank record (such as a cancelled check) to back up any donation of cash, regardless of the amount. Donations of \$250 or more must have an acknowledgement from the charity.

Child Support: Payments made under a divorce or separation agreement for the support of a child. The payments are neither deductible by the person who pays them, nor considered taxable income to the person who receives the money.

Child Tax Credit (CTC): The Child Tax Credit (CTC) is a tax benefit granted for parents of qualifying children. The federal American Rescue Plan Act of 2021 greatly expanded the CTC, allowing for qualifying families to receive monthly CTC checks from the IRS as of July 2021. Qualifying parents can expect a credit of \$3000 for children under 18, and \$3600 for children under 6; per eligible child. The exact amount a family receives is based on income and your children's age. An estimated 90% of households with children are expected to qualify for the Child Tax Credit.

Dependent: Someone you support and for whom you can claim a dependent on your tax return. Generally, for each dependent you claim, you are eligible for a dependent credit that directly reduces your tax. Other tax breaks (such as the child tax credit) may also be available for dependents.

Direct Deposit: This allows tax refunds to be deposited directly to the taxpayer's bank account. Direct Deposit is a fast, simple, safe, secure way to get a tax refund. The taxpayer must have an established checking or savings account to qualify for Direct Deposit. A bank or financial institution will supply the required account and routing transit numbers to the taxpayer for Direct Deposit.

Earned Income Tax Credit (EITC): The Earned Income Tax Credit (EITC) is a tax credit for people filing with a Social Security Number (SSN) who have earned a low to moderate income. EITC is the #1 antipoverty program in the U.S. – approximately 25 million eligible workers and families nationwide received roughly \$62 billion back from the EITC as of December 2020. Eligible households can receive up to \$6,728.

Earned Income: Compensation, such as salary, commissions and tips, you receive for your personal services. This is distinguished from “unearned” income such as interest, dividends and capital gains.

Electronic Filing: The fastest way to get your tax return (or a request for an extension of time to file) to the IRS (and state revenue office).

Federal Income Tax: The federal government levies a tax on personal income. The federal income tax provides for national programs such as defense, foreign affairs, law enforcement, and interest on the national debt.

Filing Status: Your status determines the size of your standard deduction and the tax-rates that apply to your income. For tax purposes, you are considered single, married filing jointly, married filing separately, head of household, or qualifying widow or widower.

Financial Records: Spending and income records and items to keep for tax purposes, including paycheck stubs, statements of interest or dividends earned, and records of gifts, tips, and bonuses. Spending records include canceled checks, cash register receipts, credit card statements, and rent receipts.

Gross Income: All of your income from taxable sources, before subtracting any adjustments, deductions or exemptions.

Head of Household: A filing status with lower tax rates for unmarried or some married persons considered unmarried (for purposes of this filing status) who pay more than half the cost of maintaining a home, generally, for themselves and a qualifying person, for more than half the tax year.

I-9 Form: The I-9 form is used by the Department of Homeland Security to verify employment eligibility.

Independent Contractor: Performs services for others. The recipients of the services do not control the means or methods the independent contractor uses to accomplish the work. The recipients do control the results of the work; they decide whether the work is acceptable. Independent contractors are self-employed.

Interest: Interest is the money that the bank or financial institution pays to the account holder for holding onto their money. This is separate from what is dividends. Also please note: this is also separate from interest paid on loans or fees for debts owed by the taxpayer. This form is specifically based on savings and interest that has been paid to the taxpayer. There are separate forms for student loan interest which has been paid as well as mortgage interest.

ITIN: An ITIN is an Individual Taxpayer Identification Number used to allow workers and their family members who do not qualify for a Social Security Number (SSN) to be able to file and pay their taxes as well as collect any potential tax credits and refunds.

Married Filing Joint Filing Status: You are married and both you and your spouse agree to file a joint return. (On a joint return, you report your combined income and deduct your combined allowable expenses.)

Married Filing Separate Filing Status: You must be married. This method may benefit you if you want to be responsible only for your own tax or if this method results in less tax than a joint return. If you and your spouse do not agree to file a joint return, you may have to use this filing status.

Medicare Tax: Used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65.

Refundable Credit: A refundable tax credit often means money you can get back as a refund if you owe less taxes than the amount of the credits and taxes withheld.

Single Filing Status: If on the last day of the year, you are unmarried or legally separated from your spouse under a divorce or separate maintenance decree and you do not qualify for another filing status.

Social Security Tax: Provides benefits for retired workers and their dependents as well as for the disabled and their dependents. Also known as the Federal Insurance Contributions Act (FICA) tax.

SSI: SSI is Supplemental Security Income provided monthly to adults and dependents with disabilities. Payments are also made to adults over age 65 without disabilities who qualify due to limited income and resources.

Tax Credit: Tax Credits are based on a variety of factors mainly for contributing to retirement accounts, having children, educational costs, being elderly, or disabled. These credits can be either refundable or non-refundable. Refundable means that if you don't owe taxes you can get money back in the form of direct deposit or a check in the mail. Nonrefundable means that you can reduce your taxes owed to zero, but if there is extra left over that you will not receive any money paid back.

Tax Deduction: A tax deduction is able to lower your taxable income which is used to calculate your taxes owed. If the amount of taxes withheld from your income or refundable credits exceeds the amount of taxes owed this could allow tax deductions to increase your refund. There are a variety of deductions for those who are independent contractors, self-employed or who have a small business.

Tax Liability: The amount of tax that must be paid. Taxpayers meet (or pay) their federal income tax liability through withholding, estimated tax payments, and payments made with the tax forms they file with the government.

Tax Write Off: A tax write off typically refers to those who work as an independent contractor, self-employed, have a small business, or rental property and the expenses that they have related to those income they are able to use to decrease the amount of income that they have so they pay less taxes on the income or in some cases can have a loss that they might even be able to carry-forward from one year to the next.

Taxable Income: Taxable income is the income that the government deems subject to taxes. It is generally less than adjusted gross income because of deductions that reduce it.

VITA: Volunteer Income Tax Assistance. This is a program created by the IRS to provide free tax preparation services to low-income families, immigrants, and workers primarily to claim federal and state tax credits.

W-2 Form: A W-2 is the statement of income from an employer to an employee which shows the total amount paid less any taxes or withholdings. This is needed by the taxpayer in order to file their taxes if they had employment income.

W-4 Form: W-4 is the federal form to determine how much taxes to withhold.

W-7 Form: The W-7 form is the Individual Taxpayer Identification Number (ITIN) application for undocumented workers and their family members to be able to file, pay, and receive a refund for their taxes.

W-9 Form: Before you start a job or receive an income W-9 forms confirm and certify the taxpayer's identification number.

Withholding: The amount held back from your wages each payday to pay your income and Social Security taxes for the year. The amount withheld is based on the size of your salary and the W-4 form you file with your employer.

Young Child Tax Credit (YCTC): The Young Child Tax Credit is a benefit available exclusively to California families with young children who also qualify for the California Earned Income Tax Credit (CalEITC). Eligible households can receive up to \$1,000.

To stay up to date on information and resources, please text "TAXES" to 211-211.