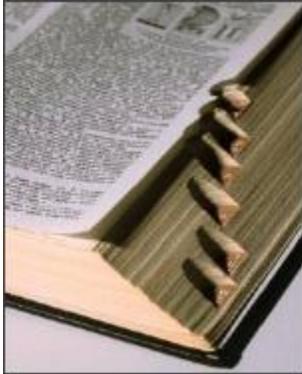


## Tax Glossary F through J

**NOTE:** The Tax Glossary, which debuted in this form on [Dictionary Day 2015](#), has five sections. If a term you think should be here isn't, or you can add to or clarify a definition that is here, let me know via [Twitter](#) or [Facebook](#).

One of the hardest things about filing your taxes is trying to decipher the forms. You practically have to learn a new, tax-specific language.



Unfortunately, IRS-speak is a native tongue for very few folks.

And it's not easy to decipher. In fact, reading tax documents makes that dang VCR manual (yes, a few of us still use those antiquated devices!) seem almost coherent!

To help out, [Don't Mess With Taxes](#) has gathered some common tax terms and phrases and their plain English meanings in this Tax Glossary (and the Tax Glossary's precursor, a [mini tax dictionary](#), if you will, that was a blog post back in 2007). Yes, I've been working on this for a while!

As you can imagine, the IRS dictionary gives Merriam-Webster a run for its money, so I've broken the Don't Mess With Taxes glossary into several sections for ease of page loading. Terms in the second group, **F through J**, are below.

You can check out the other sections by clicking the links below:

- [A through E](#)
- [K through O](#)
- [P through T](#)
- [U through Z](#)

And since tax laws are continually changing (thank you, Congress ... Not!), this is an ongoing list. I'll do my best to keep it updated, but if you find a tax word that's got you stumped, [e-mail](#) it to me and I'll make sure it and its definition is added. The same goes for any tax term I've overlooked.



**401(k) plan** -- An employer-sponsored retirement savings program in which employees contribute part of their salary to a tax-deferred investment account. Salary put in the plan is not taxed until it is later withdrawn. Employers often match part or all of employees' contributions. Penalties usually apply to pre-retirement age withdrawals. Most plans, however, allow employees to borrow limited amounts tax- and penalty-free from their accounts.

**Fair market value** -- The price at which property or the right to use property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy, sell, or transfer property or the right to use property, and both having reasonable knowledge of relevant facts.

**Federal Insurance Contributions Act (FICA) tax** -- These taxes go toward Social Security and Medicare to provide benefits for retired workers and their dependents as well as for disabled workers and their dependents. It typically is referred to by its FICA acronym. The combined FICA tax rate is 15.3 percent. The current tax rate for the Social Security portion is 6.2 percent for both the worker and his/her employer, or 12.4 percent total. The current rate for Medicare is 1.45 percent for the employee and employer, or 2.9 percent total.

**Federal Unemployment Tax Act (FUTA)** -- Taxes collected under FUTA fund unemployment benefits.

**Filing status** -- Determines the rate at which income is taxed. The five filing statuses are single, married filing a joint return, married filing a separate return, head of household, and qualifying widow(er) with dependent child. Qualifying widow/widower also is sometime referred to as surviving spouse with dependent child.

**Flat tax** -- In its most basic form, a flat tax applies a single tax rate to individual income. Depending on the specific proposal, a base exemption may be allowed to exclude low-income families from the tax. Some flat tax proponents also retain certain deductions to determine the amount subject to tax.

**Flexible spending account (FSA)** -- With this workplace account, an employee can divert some salary to a special account that is used to reimburse medical or child-care expenses. There are maximum contribution limits and in the case of medical FSAs, the money might be forfeited if not used within a specific time period.

**Foreign Account Tax Compliance Act (FATCA)** -- This law took effect in March 2010. FATCA targets tax non-compliance by U.S. taxpayers with foreign accounts. It focuses on reporting by U.S. taxpayers of certain foreign financial accounts and offshore assets, as well as reporting by foreign financial institutions about financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a

substantial ownership interest. Individual taxpayers must report information about certain foreign financial accounts and offshore assets on Form 8938 and attach it to their income tax return, if the total asset value exceeds the appropriate reporting threshold. Form 8938 reporting is in addition to Foreign Bank Account Report (see below) reporting.

**Foreign Bank Account Report (FBAR)** -- If you have a financial interest in or signature authority over a foreign financial account exceeding certain thresholds, the Bank Secrecy Act may require you to report the account yearly to the Department of Treasury by electronically filing a Financial Crimes Enforcement Network (FinCEN) 114, [Report of Foreign Bank and Financial Accounts \(FBAR\)](#). Failure to do so carries stiff penalties.

**G**

**Gift tax** -- This tax is levied on an individual who gives more than a certain amount, adjusted annually for inflation, each year to another individual. When the gift exceeds the gift exclusion level, a return detailing the amount must be filed.

**Gross dividends** -- The total dividends you received. Your gross dividends are the sum of any ordinary dividends, capital gains distributions and nontaxable distributions you received during the tax year.

**Gross income** -- All the money, goods and property you receive during the year before you reduce it by using adjustments, deductions or exemptions. People who use the barter system have to include the value of whatever they've received in exchanged for services as part of their gross income.

**Gross income test** -- One of five tests a person must meet for you to claim him or her as a dependent so that you can take an exemption. It generally is the amount of the tax year's standard deduction amount for a single taxpayer. If this person is your child under 19 years old, or a full-time student under 24 years old, he or she does not need to meet this test.

**H**

**Head of Household** -- An unmarried taxpayer who provides more than half of the cost of keeping up a home that was the main residence, for more than six months, for the taxpayer and a qualifying relative can use this filing status. Head of household provides a larger standard deduction and more generous tax brackets than the single status. Similarly, some tax breaks are more favorable for head of household filers than for singles.

**Health savings account (HSA)** -- A special account tied to a high-deductible health [insurance policy](#). Earnings inside the HSA are tax deferred. HSA money can be used tax- and penalty-free to pay the insurance policy deductible, co-payments and any other qualifying medical expenses. Money left in the account at the end of a year can be rolled over to the next year. A 20 percent penalty is assessed for withdrawing HSA funds for non-qualifying purposes before age 65. After age 65, you cannot contribute to an HSA and non-qualifying withdrawals are taxed but not penalized.

**Hobby loss** -- Loss from a hobby or other activity you do not pursue for profit, i.e., something you do for fun and earn a little money versus a business activity. You cannot claim expenses from a hobby that exceed the amount of income that you report. For example, if you had a part-time job and made \$10,000 and spent \$12,000 on rebuilding an antique auto as a hobby, you cannot claim the hobby loss because it would mean you would have no earned income for tax purposes.

**Holding period** -- The length of time you hold an asset. Your holding period determines the maximum tax rate you will pay on a gain from the sale of a capital asset. The capital gains tax on assets held for longer periods are usually taxed at lower rates.

**Home equity debt** -- Debt secured by your home. Home equity interest usually is deductible as an itemized deduction.

**Home office** -- A part of your home or other structure on your property that you use exclusively and regularly to conduct business. Doing so might qualify you to take a deduction for the home office's use.

**Homestead exemption** -- A dollar amount that is not counted by state or county tax officials when determining the value of your primary residential real estate for property tax calculation purposes.



**Income tax** -- Finally! A tax term we all know (and hate). The main source of revenue for the federal government and many states. The tax is based on your earned and unearned income. You are allowed certain deductions, allowances, exclusions and credits to reduce your tax.

**Independent contractor** -- A worker whose employer has the right to control or direct only the result of the work done, This is the status of freelancers and sole proprietors. On the business side, independent contractors are treated as non-employees for employment tax purposes. From the contractors' standpoint, the worker is responsible for all income and self-employment taxes due on earnings.

**Individual Retirement Arrangement (IRA)** -- Yes, arrangement is the official IRS term, although most of us call them Individual Retirement Accounts or IRAs for short. This type of savings account offers tax benefits for money designated for withdrawal in retirement. There are a variety of IRA options, including a traditional IRA (deductible and nondeductible) and a Roth IRA.

**Individual Taxpayer Identification Number (ITIN)** -- The taxpayer identification number for persons who do not qualify for a Social Security number. It is usually assigned to aliens in the United States.

**Innocent Spouse Rule** -- The IRS usually holds both signers of a joint return liable for the entire tax due plus penalties and interest. That means that when you sign a joint return you are liable for the entire tax due, even if you later divorce your spouse, did not earn the income that generated the tax or did not know about the omission of income or claiming of erroneous deductions. Under the innocent spouse rule, a spouse may claim not to be jointly liable if he or she did not know about the errors and did not benefit from them.

**Internal Revenue Service (IRS)** -- And here's another tax term we all know (and hate). The IRS is the federal agency that collects income taxes in the United States.

**Itemized deductions** -- Allowable expenses that are reported on Schedule A and help reduce a taxpayer's amount of adjusted gross income.

**Investment income** -- Includes taxable and tax-exempt interest, dividends, capital gains net income, certain rent and royalty income, and net passive activity income. The IRS generally views investment income as unearned income. The distinction comes into play in determining application of some tax breaks.

**Job search expenses** -- The costs of looking for a new job in your same line of work are deductible. Qualifying expenses include employment agency fees, printing and mailing resumes, and travel expenses for interviews, including transportation, lodging and some food if your job hunting takes you away from home overnight.

**Joint return** -- A tax return filed by a married couple using the Married Filing Jointly status. Here the couple combines the income and deductions of both spouses on the same tax return and shares the deductions and credits.

**Joint return test** -- One of the five tests a person must pass to qualify as a dependent. To meet this test, the person must not file a joint tax return with his or her spouse for the tax year in which you claim the person as a dependent. This test does not apply if the person is not required to file a return, files only to receive a

refund and would have no tax liability for either spouse if they filed separate returns.