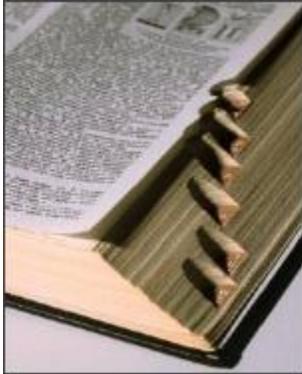


Tax Glossary K through O

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. Tax terms starting with **K through O** are below.

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

- [A through E](#)
- [F through J](#)
- [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 to make sure it and its definition is added. The same goes for any tax term I've overlooked.

K

Keogh plan -- A pension or profit-sharing plan available to self-employed individuals and their employees. Also known as an H.R. 10 plan. It offers a way to save more than some other self-employment retirement plans, but has more administrative requirements.

Kiddie tax -- This tax is imposed on unearned income of children who are under age 19 at the end of the year and dependent students who are under age 24. The rate is the parents' higher tax rate, not that of the child. The amount of investment income to which it applies is adjusted annually for inflation.



Like-king exchange -- The tax-free exchange of similar assets, such as real estate for real estate. The tax on profit accrued in the first property is deferred until the subsequent property is sold.

Long-term care insurance premium -- Premiums paid for long-term care insurance can be deducted as an itemized medical expense. The maximum annual deduction is based on your age.

Lump-sum distribution -- The payment within one year of the full amount of your interest in a pension or profit-sharing plan. To qualify as a lump-sum distribution, and receive favorable tax treatment, other requirements must be met.



Marginal tax rate -- The tax rate that will apply to the next marginal, or incremental, amount of income. Most individuals use the term marginal tax rate interchangeably with the top tax bracket into which their final dollar of taxable income falls. However, because of the progressive nature of the U.S. tax code and the use of deductions, credits and allowances, taxpayers rarely pay that top tax rate on their income. See also Effective Tax Rate.

Married Filing Joint filing status -- You are married and both you and your spouse agree to file a joint return. On a joint return, taxpayers report combined income and deduct combined allowable expenses.

Married Filing Separate filing status -- You must be married but opt to file separate 1040s. 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.

Material participation -- The test used to determine whether a taxpayer is involved enough in a business to avoid the passive-loss rules. To be considered a material participant, you must be involved on a "regular, continuous and substantial basis."

Medicare tax -- This portion of FICA is 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. The Medicare tax rate is 2.9 percent, with employers and employees contributing 1.45 percent each. Unlike the Social Security portion of FICA, there is no earnings cap on Medicare tax collection.

Modified adjusted gross income (MAGI) -- This figure is calculated by starting with your adjusted gross income (AGI) and then adding back certain amounts you previously subtracted to get to your MAGI. The precise deductions you have to reconsider usually depend on the tax benefit that uses your **MAGI**. For example, it's your MAGI, not your AGI, that determines whether you can open or contribute to a Roth IRA. MAGI also affects eligibility for many educational and child-related tax breaks, as well as taxability of Social Security benefits. In each case, how MAGI is figured might be different, so read the instructions carefully.

Moving expenses -- An above-the-line deduction (see Adjustments to Income) is allowed against some of the costs of moving in connection with taking a new job. Deductible expenses include the cost of moving your household goods, as well as travel and lodging expenses for you and your family. To qualify for the deduction, the new job must be at least 50 miles farther from your old home than your old job was. To qualify for the deduction, the new job must be at least 50 miles farther from your old home than your old job was.

N

Net Investment Income Tax (NIIT) -- Effective with the 2013 tax year and beyond, this 3.8 percent tax applies to individuals, estates and trusts that have net investment income above applicable threshold amounts. For individuals the thresholds are \$250,000 for married filing jointly or qualifying widow(er) with dependent child; \$125,000 for married filing separately; and \$200,000 in all other cases. In general, net investment income for purpose of this tax, includes but is not limited to interest, dividends, certain annuities, royalties, and rents (unless derived in a trade or business in which the NIIT does not apply). The NIIT does not apply to certain types of income that taxpayers can exclude for regular income tax purposes, such as tax-exempt state or municipal bond interest, Veterans Administration benefits, or gain from the sale of a principal residence but only that amount excluded for income tax purposes.

Net Operating Loss -- Any loss or negative income generated by the operation of an income-producing activity.

Nonrefundable credit -- This type of tax credit allows taxpayers to reduce the amount of tax owed, possibly zeroing it out. Any excess amount of credit over tax owed cannot be used; that is, it will not produce a refund for the taxpayer.



Offer in compromise (OIC) -- This agreement with the IRS allows you to [settle your tax debt](#) for less than the full amount you owe. It may be a legitimate option if you can't pay your full tax liability, or doing so creates a financial hardship. In deciding whether to accept an OIC, the IRS considers the taxpayer's unique set of facts and circumstances, including the ability to pay, income, expenses and asset equity. The IRS generally approves an OIC when the amount offered represents the most the agency can expect to collect within a reasonable period of time.

Online payment agreement (OPA) -- The electronic option for a qualified taxpayer or authorized representative to arrange for an installment payment plan for a tax debt. The OPA option is available if you owe \$50,000 or less in combined tax, penalties and interest, and filed all required returns. You may also qualify for a short term agreement if your balance is under \$100,000. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.

Offshore Voluntary Disclosure Initiative (OVDI) -- Under the purview of this IRS program, the IRS offers taxpayers with undisclosed income from offshore accounts an opportunity to get current with their tax returns. The IRS began this open-ended OVDI in January 2012, but may discontinue it at any time. A penalty is assessed to participating taxpayers, but the OVDI offers other benefits to encourage taxpayers to disclose foreign accounts now rather than risk detection by the IRS and possible criminal prosecution.

Ordinary tax rates -- These are the seven (for now) [income tax rates](#) -- 10%, 15%, 25%, 28%, 33%, 35% and 3.6% -- that apply to a filer's taxable income.