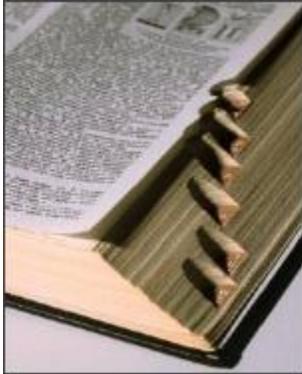


Tax Glossary P through T

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 **P through T** are below.

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

- [A through E](#)
- [F through J](#)
- [K through O](#)
- [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.

P

Pay-as-you-earn taxation -- This concept is the foundation of the U.S. tax system. Taxes due are collected contemporaneously as they are earned, generally through withholding on salary and wage income. Where withholding is not used, such as investment earnings or payment for contract work and other self-employment services, taxpayers must pay due taxes via [estimated tax payments](#).

Payroll taxes -- Another name for the Social Security and Medicare taxes, officially collected via withholding from workers' paychecks. These taxes are authorized under the Federal Insurance Contributions Act, or FICA, tax (details in the [F through J](#) section).

Progressive tax -- A tax that takes a larger percentage of income from high-income groups than from low-income groups. The progressive tax is best illustrated through the [income tax rates and the brackets](#) into which earnings fall.

Property taxes -- A key way that local tax jurisdictions, generally counties (or parishes if you're in Louisiana) raise revenue, generally to pay for public schools. These taxes are primarily on real estate, but some property taxes also are levied on other tangible property, such as can be on boats, automobiles (often paid along with license fees), recreational vehicles, and business inventories.

Proportional tax -- A tax that takes the same percentage of income from all income groups. Also known as a flat tax (details in the [F through J](#) section).

Q

Qualifying child -- To be a qualifying child for tax purposes, the dependent must meet certain tests. For exemption purposes, there are eight qualifying child tests: (1) relationship, (2) age, (3) residence, (4) support, (5) citizenship or residency, (6) joint return, (7) qualifying child of more than one person, and (8) dependent taxpayer.

Qualifying relative -- When a dependent is not eligible as a qualifying child, that person might be a qualifying relative. The qualifying relative tests are: (1) not be a qualifying child, (2) be a member of household or relationship, (3) citizenship or residency, (4) gross income, (5) support, (6) joint return, and (7) dependent taxpayer..

Qualifying Widow(er) filing status -- Also sometimes called surviving spouse status. This allows surviving spouses who are caring for a dependent child or children to continue to use the Married Filing Jointly status for the tax year that they lost their spouse. Eligible taxpayers also may be eligible to use qualifying

widow(er) with dependent child as your filing status for two years following the year of death of your spouse.

Qui tam -- The type of fraud can be a violation of the federal False Claims Act, or similar state and local laws. A whistleblower who exposes fraud on the government can bring a qui tam lawsuit on behalf of the government, and can receive a share of the recovery as reward.

R

Refund -- Money owed to taxpayers when their total tax payments are greater than their total tax liability. Refunds are received from the government.

Refundable credit -- When the amount of a tax credit is greater than the tax owed, taxpayers can receive that excess as a refund.

Regressive tax -- A tax that takes a larger percentage of income from low-income groups than from high-income groups.

Revenue -- The income the nation collects from taxes.

Revenue Ruling -- An official interpretation by the Internal Revenue Service of the tax laws and related statutes, treaties, and regulations that has been published in the Cumulative Bulletin. Revenue rulings are published for the information and guidance of taxpayers, IRS officials, and other concerned parties.

Rollover -- The tax-free transfer of funds from one individual retirement account to another or from a company plan to an IRA. If you take possession of the funds, the money must be deposited in the new IRA within 60 days. Beware that when the rollover method is used to move money from a company plan to an IRA, 20 percent of the amount will be withheld for the IRS, even though the rollover is tax-free if the money is in the IRA within 60 days. To avoid this automatic withholding, use the direct or trustee-to-trustee transfer method to move money from one plan to another.

Roth IRA -- Money contributed to this retirement account is not deductible when made. However, when you make qualified withdrawals from your account, those distributions are tax-free.

S

Sales tax -- A tax on retail products based on a set percentage of retail cost. There is no federal sales tax. States and often cities, counties and other special taxing jurisdictions enact sales taxes.

Savings Incentive Match Plan for Employees (SIMPLE) -- A retirement plan that can be offered by companies with 100 or fewer employees. The employer generally must match employee contributions up to 3 percent or contribute 2 percent of pay for each employee, regardless of whether they contribute on their own. The rules are simpler than for other tax-qualified retirement plans, hence the acronym producing name.

Self-employment profit -- The result of self-employment income minus self-employment expenses where the income is greater than the expenses. For sole proprietors, this is figured and reported on Schedule C, which is filed with the self-employed worker's annual Form 1040.

Self-employment tax -- The self-employed worker's equivalent of FICA Social Security and Medicare taxes. The self-employment tax rate is 15.3 percent of self-employment profit. The [self-employment tax](#) is calculated on Schedule SE. One-half of the SE tax can be claimed as an income adjustment (aka above-the-line deduction; details in the [A through E](#) section) on Form 1040.

Shoebox method -- A common record keeping system in which a taxpayer collects all material and documents relevant to his/her tax affairs and stores them in a shoebox or similar repository, without any further indexing, tracking, arrangement or classification. It is very convenient for the taxpayer, but of questionable efficacy, and very annoying to your tax preparer.

SIMPLE -- This acronym is derived from the retirement plan's name: **S**avings **I**ncentive **M**atch **P**lan for **E**mployees. Under a SIMPLE plan, employees can choose to make salary reduction contributions to the plan rather than receiving these amounts as part of their regular pay. In addition, the employer contributes matching or nonelective contributions. Details in Chapter 3 of IRS [Publication 560](#).

SIMPLE IRA -- A retirement plan that uses SIMPLE IRAs for each eligible employee. Under a SIMPLE IRA plan, a SIMPLE IRA must be set up for each eligible employee. Details in Chapter 3 of IRS [Publication 560](#).

Simplified Employee Pension (SEP) -- A tax-favored retirement plan mainly for self-employed taxpayers. Contributions to the plan are tax deductible.

Single filing status -- You file using this 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.

Sin tax -- A tax on goods which are generally deemed by public opinion as [bad, such as tobacco and alcohol](#).

Social Security tax -- This portion of FICA that is dedicated to Social Security. The combined tax rate is 12.4 percent, with workers and employers each contributing

6.2 percent. The amount of income subject to the Social Security tax is limited; this earnings threshold is adjusted each year for inflation.

Standard deduction -- This amount, which varies based on your filing status and is adjusted annually for inflation, reduces the income subject to tax.

Stealth tax -- A new tax or tax increase that is introduced in a way that people do not easily notice, for example the phasing out of personal exemptions or itemized deductions on higher income taxpayers. Also used to describe a new payment that is the same as a tax, but is not officially classified as one.

Stepped-up basis -- The basis of inherited property is stepped-up to its value on the date of death of the owner, or a slightly later date if chosen by the executor of a taxable estate. In other words, tax on any appreciation during his or her lifetime is forgiven. The heir uses the higher basis to figure his or her gain when the property is ultimately sold.

Support -- For dependency test purposes, support includes food, clothing, shelter, education, medical and dental care, recreation, and transportation. It also includes welfare, food stamps, and housing provided by the state. Support includes all income, taxable and nontaxable.



1040 -- Form 1040 is the official individual income tax return form. It first appeared in 1913, following the ratification of the Constitution's 16th Amendment, which authorized the income tax. There currently are three 1040 versions: 1040-EZ, the simplest filing form; 1040A which offers some more tax break options; and the 1040, two pages of various income adjustments, credits and deductions. You should use the simplest form that meets your tax-filing needs.

1099-MISC -- This tax form is the independent contractor's version of a salaried worker's W-2 form. Clients who pay a contractor more than \$600 must send the worker a 1099-MISC; a copy goes to the IRS. Regardless of whether you receive a 1099-MISC for the year, you are responsible for reporting all income that you receive.

Tax avoidance -- An action taken to lessen tax liability and maximize after-tax income. Tax avoidance is not inherently illegal.

[Tax Counseling for the Elderly \(TCE\)](#) -- This program offers free tax help to individuals who are age 60 or older. Cooperative grant agreements are entered into between IRS and eligible organizations to provide tax assistance to elderly taxpayers. Tax return preparation assistance is provided to elderly taxpayers during the normal tax-filing period, Jan. 1 to April 15 each year. The program also ensures

that elderly taxpayers receive tax assistance year-round. Usually referenced jointly with Volunteer Income Tax Assistance, or VITA (details in the [U through Z](#) section).

Tax code -- Shorthand name for the Internal Revenue Code, Title 26 of the United States Code. Title 26 contains the tax law of the United States.

Tax evasion -- A failure to pay or a deliberate underpayment of taxes. Tax evasion is illegal.

Tax exclusion -- An amount that does not count as income that a tax filer reports. A common exclusion is the home sale profit on a primary residence. Employer and employee contributions to certain workers' retirement savings plans also are excluded, that is, not counted as income to employees.

Tax exemption -- A part of a person's income on which no tax is imposed.

Tax liability -- Your total tax bill. 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.

Taxable income -- The portion of an individual's or organization's earnings that is subject to income tax. A taxpayer's taxable income amount is reached by subtracting deductions, credits and allowances from the individual's gross income.

Taxes -- Required payments of money to governments that are used to provide public goods and services for the benefit of the community as a whole.

Taxpayer Identification Number (TIN) -- An Employer's Identification Number required of corporations, nonprofit organizations, associations, and partnerships. An individual's Social Security number is his or her TIN.

Tip income -- Money and goods received for services performed by food servers, baggage handlers, hairdressers, and others. Tips go beyond the stated amount of the bill and are given voluntarily. Tips, cash or otherwise, are taxable income.

Traditional IRA -- This retirement account comes in two versions. With a deductible traditional IRA, you can count some or all of your contributions to the account as an above-the-line deduction. With a nondeductible traditional IRA, you cannot reduce your income by the amount of your contributions, but those you do not pay tax on the earnings of your account until you make withdrawals. With a traditional IRA, you pay tax at ordinary tax rates on the account earnings when you make withdrawals from the account.

Treasury Inspector General for Tax Administration (TIGTA) -- This Treasury office was established under the IRS Restructuring and Reform Act of 1998 to provide independent oversight of IRS activities. TIGTA's goal is to promote efficient

and effective administration of the tax laws. It also is tasked with the prevention and detection of fraud, waste, and abuse within the IRS and related entities

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