

Net Financial
Tax Services
Terms and Definitions

Abandonment - The act of voluntarily and permanently giving up possession and use of property with the intention of ending ownership without transferring ownership to another person.

Abode - The taxpayer's home, habitation, residence, domicile, or place of dwelling.

Academic Period - A semester, trimester, quarter, or other period of study (such as a summer school session) as reasonably determined by an educational institution.

Accelerated Cost Recovery System (ACRS) - The name given to tax rules relating to recovering, through depreciation deductions, the cost of property used in a trade or business to produce income. ACRS applies to property first used before 1987.

Accelerated Death Benefits - Any amounts paid under a life insurance contract, prior to death, for an individual who is terminally or chronically ill.

Accountable Plan - A reimbursement or allowance arrangement that requires an employee to account to their employer for their business expenses within a reasonable time.

Accounting Method - The way a taxpayer accounts for income and expenses.

Active Conduct of Trade or Business - Generally, to participate meaningfully in the management or operations of a trade or business.

Active Participation - Participation in a rental real estate activity in which the taxpayer owns at least 10% of the rental property and makes significant and bona fide management decisions, such as approving

new tenants, deciding on rental terms, and approving expenditures.

Bad Debt - A loss from the worthlessness of a debt.

Balance Due - The amount owed to the IRS after subtracting total tax payments from the total tax liability on a tax return.

Barter Exchange - Any person or an organization with members or clients that contract with each other (or with the barter exchange), who jointly trades or barter property or services.

Bartering - An exchange of property or services.

Basis - The amount of an individual's investment in property for tax purposes.

Beneficiary - A person designated to receive all or a portion of a benefit after the owner dies.

Boot - Cash or fair market value of unlike property received in an exchange.

Business Bad Debt - A business bad debt that is either of the following: created or acquired in the taxpayer's trade or business or closely related to the taxpayer's trade or business when it became partly or totally worthless (a debt is closely related to the taxpayer's trade or business if the taxpayer's primary motive for incurring the debt is business related).

Business Books and Records - The intangible value of technical manuals; training manuals or programs; data files; accounting or inventory control systems; customer lists; subscription lists; insurance expirations; patient or client files; and lists of newspaper, magazine, radio, and television advertisers.

Business Expenses - Costs that do not have to be capitalized or included in the cost of goods sold. To be deductible, business expenses must be both ordinary and necessary.

Calendar Quarter - One of four quarters of a calendar year: January through March, April through June, July through September, or October through December.

Call Option - The right to buy a state number of shares of stock at a predetermined price (the strike price) before a specified date.

Capital Asset - Generally, everything an individual owns and uses for personal purposes, pleasure, or investment.

Capital Gain Distributions - Amounts paid to an individual or credited to their account by regulated investment companies and real estate investment trusts (REITs). These amounts are also known as capital gain dividends.

Capitalize - To recover a cost over a period of years through deductions for depreciation, amortization, or depletion, and adding the cost to the basis of the property to which it relates.

Capitalized Interest - The unpaid interest on a loan that the lender adds to the outstanding principal balance of the loan.

Cash Settlement Option- Any option that, upon exercise, is settled by paying the owner of the option cash or other property and not the actual property underlying the option.

Cash Wages - Generally, wages paid by cash, checks, money orders, or equivalent means. Cash wages do not include the value of food, lodging, clothing, or other such noncash items given to an employee.

Casualty - The damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual.

Charitable Contribution - A donation or gift to, or for the use of, a qualified organization. It is voluntary and is made without getting, or expecting anything of equal value.

Child - A natural child, stepchild, adopted child, or an eligible foster child.

Child Support- A payment that is specifically designated as child support or treated as specifically designated as child support under a divorce or separation instrument.

Chronically Ill Individual - An individual who has been certified by a licensed health care practitioner within the previous 12 months as one of the following: (1)an individual who is unable, for at least 90 days, to perform at least two activities of daily living without substantial assistance from another individual due to loss of functional capacity (activities of daily living are eating, toileting, transferring, bathing, dressing, and continence), or (2) an individual who requires substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.

Church Employee - An employee (other than a minister or member of a religious order) of a church or qualified church-controlled organization that is exempt from employer Social Security and Medicare taxes.

Civil Service Annuity - Annuity benefits that are paid primarily under the Civil Service Retirement System or the Federal Employees Retirement System.

Class Life - The number of years that establishes the property class and the recovery period for most types of property for the General Depreciation System and the Alternative Depreciation System under the Modified Accelerated Cost Recovery System.

Closely Held Corporation - Generally, a corporation that, at any time during the last half of the tax year, has more than 50% in value of its outstanding stock directly or indirectly owned by five or fewer people. This type of corporation is generally not a personal service corporation.

Cohabitation - Individuals living together in an intimate relationship when not legally married.

Collapsed Loans - Two or more loans made to the same borrower that are treated by both the lender and the borrower as one loan.

Collectible - Any work of art, rug, antique, metal (such as gold, silver, and platinum bullion), gem, stamp, coin, or alcoholic beverage.

Combat Zone - Any area the president of the United States designates by Executive Order as an area in which the U.S. Armed Forces are engaging or have engaged in combat. An area usually becomes a combat zone and ceases to be a combat zone on the dates the President designates by Executive Order.

Common-Law Employee - An individual who performs services for an employer in return for compensation. An employee is subject to the control of the employer regarding what work is done and how, when, and where it is done.

Common-Law Marriage - A marriage in which a man and woman are considered to be married even without a license or a formal ceremony. Only certain states recognize common-law marriages.

Common Stock - A type of share in the ownership of a company that usually provides the right to vote on decisions relating to the company's management. Shareholders are entitled to receive distributions of the company's profit in the form of dividends.

Community Income - Income earned while married and domiciled in a community property state that is allocated to both spouses, regardless of which spouse actually earned it.

Community Property Laws - Laws that affect what income is reported on the federal income tax returns of married taxpayers who live in a community property state and file separate returns.

Commuting - Travel between a personal home and work or job site within the area of an individual's tax home.

Compensation - Money or other benefits given or received as payment for work or service. Compensation can include wages, salaries, bonuses, prizes, and tips an employee receives.

Condemnation - The process by which private property owned by a taxpayer is legally taken for public use without their consent.

Conduit IRA -

An IRA account used as a holding account for eligible rollover distributions from an employer plan that can be rolled over to a new employer plan later.

Consent to Assessment -

A written agreement between a taxpayer and the IRS that extends the statutory period of limitations (which is usually three years) to allow additional time, when it is necessary, to fairly resolve a tax examination. These agreements are called "consents" and apply to all kinds of taxes except estate tax.

Consolidated Loans - Loans used to refinance more than one loan of the same borrower.

Constructive Receipt - The unqualified, vested right to receive immediate income or property. The right may be credited to an account, set apart, or otherwise made available so that it may be drawn upon at any time.

Contract Price - The selling price plus mortgages, debts, and other liabilities assumed or taken by the buyer that are in excess of the seller's adjusted basis. This amount is the total of all principal payments a seller is scheduled to receive on the installment sale, including the down payment and each later payment of principal on any debt that the buyer assumed. It also includes payments the seller is considered to receive. This does not include interest.

Contribution (Retirement) - The amount put into a retirement plan for the individuals participating in the plan, including self-employed individuals.

Convention - A method established under the Modified Accelerated Cost Recovery System (MACRS) to determine when the recovery period begins and ends. The convention affects a taxpayer's depreciation deduction for the year they place their property in service and the year they dispose of it.

Conversion (IRA) - The movement of funds from a traditional IRA to a Roth IRA.

Copyright - Legal protection for artists and authors for the publication or use of their works.

Cost of Goods Sold - Inventory at the beginning of the year, plus purchases (reduced by cost of items withdrawn for the taxpayer's personal use), plus cost of labor (not including amounts the taxpayer paid to themselves), plus materials and supplies, plus other costs, minus inventory at the end of the year.

Coverdell Education Savings Account (ESA) - A trust or custodial savings account that is set up to pay the qualified education expenses of a designated beneficiary. Contributions are not deductible, but earnings may be tax-free.

Covered Disaster Area - A presidentially declared disaster area in which the IRS has decided to postpone tax-related filing deadlines for up to one year.

Custodial Parent - The parent who has custody of a child for the greater part of the year or for the entire year.

Custodian - An individual or organization, such as a bank or trust company, that is responsible for overseeing and safeguarding assets on behalf of the beneficiary or owner of the assets (for example, a minor).

Customer-Based Intangible - The value associated with a customer base, a circulation base, an undeveloped market or market growth, insurance in force, a mortgage servicing contract, an investment management contract, or any other relationship with customers involving the future provision of goods or services.

Date of Record - The date an individual must be listed as the owner of shares in a company's records to be the recipient of the dividends to be paid.

Decedent - A deceased individual.

Declaration Date - The date a company publicly announces that it will be paying a dividend.

Declining Balance Method - A method of calculating the depreciation for property that applies the same depreciation rate each year to the adjusted basis of the property.

Deemed IRA - A qualified employer retirement plan that maintains a separate account or annuity to receive voluntary employee contributions. If this plan or annuity otherwise meets the requirements of an IRA, it is subject only to IRA rules. An employee's account can be treated as a traditional IRA or a Roth IRA.

Deferred Compensation - The voluntary contribution an employer deducts from an employee's pay that is not subject to income tax. Also called elective deferral or pre-tax contributions.

Deferred Interest Account - An account that postpones payment of interest to a future date.

Dependent - An individual, other than the taxpayer or their spouse, who entitles the taxpayer to claim an exemption.

Dependent Care Benefits - Amounts an employer pays directly to an employee or the employee's care provider for the care of the employee's qualifying dependent while the employee works, or the fair market value of care in a daycare facility provided or sponsored by the employer.

Depletion - The using up of natural resources by mining, quarrying, drilling, or felling, for which a deduction allows an owner or operator to account for the reduction of a product's reserves.

Depreciation - An amount that can be deducted annually that allows the taxpayer to recover the cost or other basis of certain property over the time the property is used in trade or business. It is an allowance for

the wear and tear, age, deterioration, or obsolescence of the property.

Descendent - A person who descended from an individual. For example, an individual's great grandchild is their descendent.

Direct Rollover- The transfer of a distribution made by the administrator of the distributing plan directly from one qualified plan to another qualified plan (if permitted) or traditional IRA.

Disabled Individual - An individual who can show proof that they cannot engage in a substantial gainful activity because of their physical or mental condition. A physician must determine that their condition can be expected to result in death or to be of long-standing and indefinite duration.

Discount - The difference between the amount paid for an asset and the fair market value or stated face value of that asset.

Disposition - The exchange, sale, or loss of property, whether voluntary or involuntary.

Distressed Community - An area for which the poverty rate or other conditions cause certain tax incentives to apply.

Distribution - Money or assets paid out or withdrawn.

Dividend Reinvestment Plan - A plan that lets an investor choose to use their dividends to buy more shares of stock in a corporation through an agent instead of receiving the dividends in cash. The investor must still report the fair market value of the dividends on their tax return.

Dividends - Distributions of money, stock, or other property paid to shareholders by a corporation. Dividends may also be received through a partnership, estate, trust, or association that is taxed as a corporation.

Divorce or Separation Instrument - A divorce or separate maintenance decree or a written instrument that happens as a result of that decree, a written separation agreement, or a decree or any type of court order requiring a spouse to make payments for the support or maintenance of the other spouse. This includes a temporary decree, an interlocutory (not final) decree, and a decree of alimony pendente lite (while awaiting action on the final decree or agreement).

Documentary Evidence - Written records that establish certain facts; for example, documents that support a tax deduction or an expense.

Domicile - The taxpayer's permanent legal home where they intend to live for an indefinite or unlimited period and to which they intend to return when absent.

Donee - A person who receives a gift.

Donor - A person who gives a gift.

Dual-Status Taxpayer - An individual who is a resident alien for part of the tax year and a nonresident alien for part of the year.

Due Diligence - The requirement that a paid preparer must show a serious and earnest effort to obtain accurate and complete information.

Dwelling Unit - Property, such as a house, an apartment, a condominium, a mobile home, a boat, a vacation home, or another similar property that has basic living accommodations, such as sleeping space, a toilet, and cooking facilities. It does not include a unit in a hotel, motel, inn, or other establishment where more than half the units are used on a transient basis.

Early Distribution - An amount distributed from the individual's pension, annuity, or traditional IRA account before they reach age 59 1/2.

Earned Income - Income received for services, such as wages, salaries, tips, net earnings from self-employment, and professional fees, and any other income received as pay for work actually performed. Earned income also includes taxable scholarship and fellowship grants.

Earned Income Credit (EIC) - A refundable credit for certain individuals who work and have earned income under a certain amount based on their filing status and the number of qualifying children, if any.

Easement - A legal right to use someone else's land for a particular purpose, such as for utilities, for a right-of-way, or for recreational purposes. Ownership is not transferred.

Education Savings Bond Program - A program that allows a taxpayer who paid qualified higher educational expenses during the year to exclude from income all or part of the interest they receive during the same year from redeeming Series EE savings bonds and Series I savings bonds issued after 1989.

Elective Deferral - The voluntary contribution an employer deducts from an employee's pay that is not subject to tax. Also called deferred compensation or pre-tax contributions.

Eligible Educational Institution - Any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. These institutions include nearly all accredited, public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions.

Eligible Foster Child - An individual who is placed by an authorized placement agency, or by judgment, decree, or other order of any competent jurisdiction.

Employee - An individual who is hired to work for a person, an organization, or a company in return for compensation and who is subject to the will and control of the employer regarding what work is done and how and when to do it.

Employer - The individual, organization, or company for which an employee works.

Employer Identification Number (EIN) - A nine-digit number assigned by the IRS to an employer for tax filing and reporting purposes.

Entertainment Expenses - Expenses incurred while participating in an activity that provides entertainment, amusement, or recreation.

Erroneous item - Any deduction, credit, or expense item that is incorrectly stated on a tax return and any income item that is not properly reported on a tax return.

Escrow - Placing an amount in the care of a third party to make a payment in the future.

Estimated Tax - Estimated tax is the method used to prepay tax on income that is not subject to withholding.

Excess Accumulation - The difference between the minimum amount required to be distributed from a qualified retirement plan and the amount that was actually distributed.

Exchange - To barter, swap, part with, give, or transfer property for other property or services.

Ex-Dividend Date - The date that determines whether the buyer or the seller of stock receives the next dividend distribution a company pays. This date is usually two business days before the date of record.

Exemption Amount - An amount that a taxpayer can claim for themselves, their spouse, and their eligible dependents.

Extension - Additional time granted by the IRS for a taxpayer to file their federal income tax return.

Fair Market Value (FMV) - The price that property would sell for on the open market or the price that would be agreed upon between a willing buyer and willing seller, with neither being required to buy or sell and both having reasonable knowledge of the relevant facts.

Fair Rental Price - Generally, an amount that an individual (who is not related to the property owner) is willing to pay to rent property. If the rental price is substantially less than for similar properties in the same area, it is not considered a fair rental price.

Fair Rental Value - The amount an individual could reasonably expect to receive from a stranger for lodging. Fair rental value includes rent or taxes, interest, depreciation, pain, insurance, utilities, or the cost of furniture and appliances. In some cases, fair rental value may be equal to the rent paid.

Farming Business - A trade or business involving the cultivation of land; raising or harvesting any agricultural or horticultural commodity; operating a nursery or sod farm; raising or harvesting trees bearing fruit, nuts, or other crops; or raising or harvesting ornamental trees. Farming businesses also include the raising, shearing, feeding, caring for, training, and management of animals.

Fellowship - Generally, an amount paid for the benefit of an individual to aid in the pursuit of study or research.

Filing Requirements - Factors that determine whether a taxpayer must file a federal individual income tax return.

Filing Status - The tax return status used to determine a taxpayer's filing requirements, standard deduction, applicable tax, and whether the taxpayer is allowed to claim certain other deductions and credits.

Financially Disabled - The inability of an individual to manage their financial affairs because of a medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

Fiscal Year - A 12-month period ending on the last day of any month except December.

Foreclosure - A procedure by which the lender either takes title to or forces the sale of the borrower's property in satisfaction of a debt.

Foreign Country - Usually any territory (including the air space and territorial waters) under the sovereignty of a government other than that of the United States, including the seabed and subsoil of those submarine areas adjacent to the territorial waters of a foreign country and over which the foreign country has exclusive rights under international law to explore and exploit the natural resources.

Fringe Benefits - A form of additional compensation for the performance of services.

Full Day - A period of 24 consecutive hours, beginning at midnight.

Full-Time Student - An individual attending an educational institution who meets the definition of full-time attendance for that institution.

General Partner - A partner who is personally liable for partnership debts.

General Rule - The method generally used to determine the tax treatment of pension and annuity income from nonqualified plans (including commercial annuities).

General Sales Tax - A tax imposed at one rate with respect to the retail sale of a broad range of classes of items.

Genuine Debt - A debt that arises from a debtor-creditor relationship based on a valid and enforceable obligation to repay a fixed or determinable amount of money.

Going Concern Value - The value associated with a business based on the expectation that the business will continue to function and generate income for the foreseeable future even though there is a change in ownership.

Goodwill - The intangible value of a business based on expected continued customer patronage due to its name, reputation, location, or any other factor.

GO Zone Act - The Gulf Opportunity Zone Act of 2005.

Gross Distribution - The total amount distributed before any adjustments or considerations for basis.

Gross Distribution (Retirement) - The total amount distributed from a retirement account before income tax and other deductions are withheld.

Gross Income - All income received in the form of money, goods, property, and services that is not exempt from tax. Gross income includes earned income and unearned income.

Gross Profit Percentage - A certain percentage of each installment sale payment (after subtracting interest) that is reported as a gain from the sale.

Gulf Opportunity Zone (GO Zone) - A special tax area specific to Hurricane Katrina designated by the Gulf Opportunity Zone Act of 2005 (GO Zone Act), which consists of the Hurricane Katrina core disaster area as determined by the Katrina Emergency Tax Relief Act of 2005 (KETRA). The GO Zone consists of counties and parishes affected by Hurricane Katrina that the president has determined are eligible for both individual and public assistance from the federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

Household Services - Ordinary and usual services done in and around the taxpayer's home that are necessary to run their home, including the services of a housekeeper, maid, or cook, but not including the services of a chauffeur, bartender, or gardener.

Hobby - An activity that is carried on for personal pleasure or recreation and is not entered into with the intention of making a profit.

Holding Period - The length of time investment property has been held. Generally, the time between the date of purchase (or acquisition) and the date of sale (or disposition). The holding period for stocks and securities begins the day after the trade date and ends the day of sale.

Home Mortgage Interest - Any interest an individual pays on a loan secured by their home (either their main home or a second home). The loan may be a mortgage to buy their home, a second mortgage, a line of credit, or a home equity loan.

Improvement - Property maintenance or enhancement that adds to the value of the property, lengthens its useful life, or changes it so it can be used in a new way.

Incentive Stock Option (ISO) - An option to purchase stock that is granted to an employee for any reason connected with their employment by a corporation. This option is granted by the employer corporation or its parent or subsidiary corporation and applies to an employee's purchase of stock of any such corporation.

Incidental Costs - Expenses or costs that are not material expenses incurred while on business or that do not add substantial value to a gift.

Income in Respect of the Decedent - Income received after the decedent's death that cannot be included in the decedent's income tax return but that would have been attributable to the decedent had they lived.

Indefinite Assignment - An assignment that is realistically expected to last for more than one year or that does in fact last more than one year.

Independent Contractor - A non-employee who performs services for a person. The person for which they perform services has the right to control or direct only the result of the work and not the means and methods of accomplishing the result.

Individual Retirement Arrangement (IRA) - A personal savings plan that offers an individual tax advantages to set aside money for retirement.

Individual Taxpayer Identification Number (ITIN) - A nine-digit number issued by the IRS to resident and nonresident aliens who are not eligible to get a Social Security number. An ITIN is issued exclusively for tax

reporting or filing purposes.

Injured Spouse - A taxpayer who did not know and had no way of reasonably knowing that there was an understatement of tax due to erroneous items of their spouse (or former spouse) on their joint return.

Insolvent - The condition that occurs when a taxpayer's debts are more than the fair market value of their assets.

Installment Agreement - An agreement with the IRS to pay tax debt in smaller, more manageable amounts (installments).

Installment Sale - A sale of property in which the seller receives at least one payment after the tax year of the sale.

Instrument - A legal document.

Intangible Property - Property that has value but cannot be seen or touched, such as goodwill, patents, copyrights, and computer software.

Intangibles Tax - A tax based on the value of certain intangible personal property, such as portfolio income (income from stocks, bonds, mutual fund shares, etc.).

Interest - The fee received for lending money, usually calculated as a percentage rate for a certain time period. Interest can be earned through depositing money in savings programs, buying certificates of deposits (CDs) or bonds, or lending money to people.

Inventory - Property or merchandise the individual produces or purchases to sell in the natural course of their trade or business.

Investment Interest - The interest paid for money borrowed to buy property held for investment.

Investment Property - Generally, property that produces interest, dividends, annuities, or royalties not derived in the ordinary course of a trade or business.

Involuntary Conversion - The forced (not voluntary) disposition of property due to theft, casualty, or condemnation, and the receipt of other property or money in payment of this property, such as insurance or a condemnation award. An involuntary conversion is also called an involuntary exchange.

IRA Basis - For a traditional IRA, the amount of nondeductible traditional IRA contributions in the person's IRA. For a Roth IRA, the amount of contributions and conversions to the Roth IRA.

Joint and Survivor Annuity - An annuity from which more than one person can receive regular payments. Upon the original annuitant's death, regular payments are made to the designated survivor.

Joint Tenancy - A form of property ownership in which two or more individuals own property jointly. If one owner dies, the survivors are automatically entitled to the decedent's share of the property.

Keogh Plan - A retirement savings plan that is available to self-employed taxpayers. Contributions are deductible within specific limits.

KETRA - The Katrina Emergency Tax Relief Act of 2005.

Kidnapped Child - A child who is presumed by law enforcement authorities to have been kidnapped by someone who is not a family member.

Like-Kind Properties - Properties of the same nature or character, even if they differ in grade or quality.

Limited Liability Company - An entity formed under state law by filing articles of organization as an LLC. Unlike a partnership, none of the members of an LLC are personally liable for its debts. An LLC may be classified for federal income tax purposes as a partnership, a corporation, or an entity disregarded as an entity separate from its owner by applying the rules in the Treasury Regulations, section 301.7701-3.

Limited Liability Partnership (LLP) - A partnership formed under a state limited liability partnership law. Generally, a partner in an LLP is not personally liable for the debts of the LLP or any other partner, nor is a partner liable for the acts or omissions of any other partner, solely by reason of being a partner.

Limited Partnership - A partnership formed under a state's limited partnership law and composed of at least one general partner and one or more limited partners.

Listed Property - Items specifically named (listed) in IRS code as subject to special rules for depreciation. Listed property includes passenger automobiles and any other property used for transportation; property of a type used generally for entertainment, recreation, or amusement; computers and their peripheral equipment (unless used only at a regular business establishment and owned or leased by the person operating the establishment); and cellular telephones or similar telecommunications equipment.

Loan Origination Fees - The costs incurred to obtain a loan.

Long-Term Holding Period - A period of more than one year.

Lump-Sum Distribution - The distribution or payment made in one tax year of a plan participant's entire balance from all of the employer's qualified plans of one kind; for example, pension, profit-sharing, or stock bonus plan.

Luxury Automobile - A vehicle for which the depreciation deduction is limited because of its purchase price.

Main Home - Generally, the home in which an individual lives for most of the year.

Mandatory Retirement Age - Generally, the age set by an employer at which an employee must retire.

Marriage - A legal union between a man and a woman as husband and wife. For federal income tax purposes, this definition supersedes any state definitions.

Material Participation - The satisfaction of one of several tests used to determine that a trade or business is not a passive activity. Generally, material participation in an activity includes being involved in its operations on a regular, continuous, and substantial basis during the year.

Medical Care Expenses - Amounts paid for the diagnosis, cure, relief, treatment, or prevention of disease and for treatments affecting any part or function of the body. The medical care expenses must be primarily to relieve or prevent a physical or mental defect or illness.

Minimum Required Distribution - The smallest amount that must be distributed from a qualified plan to prevent an additional tax on excess accumulation. Also called a required minimum distribution.

Minimum Retirement Age - Generally, the earliest age at which a taxpayer can first receive a pension or an annuity if they are not disabled.

Minister - An individual who is duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination. If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for Social Security purposes.

Ministerial Qualified Services - Services performed in the exercise of the taxpayer's ministry or in the exercise of the taxpayer's duties as required by their religious order.

Modified Accelerated Cost Recovery System (MACRS) - The name given to tax rules relating to recovering, through depreciation deductions, the basis of most business and investment property placed in service after 1986.

Modified Adjusted Gross Income (MAGI) - Adjusted gross income that is modified to meet the requirements of a specific tax item. Modifications are specific for each tax item that uses MAGI.

Mortgage - A legal document an individual signs when they borrow money and put real estate up as collateral to protect the interests of the lender.

Multiple Support Agreement - A written agreement indicating which taxpayer can claim the dependent exemption for an individual when two or more qualifying taxpayers together provide more than half of the individual's support and individually provide more than 10% of the individual's support.

Necessary Expense - A helpful and appropriate expense for a field of trade, business, or profession; it does not have to be indispensable to be considered necessary.

Net Capital Gain - The amount by which the net long-term capital gain for the year exceeds the net short-term capital loss.

Net Operating Loss (NOL) - Generally, the amount by which allowable deductions exceed gross income.

Net Operating Loss (NOL) Year - The year in which an NOL occurred.

Net Unrealized Appreciation (NUA) - The increase in the value of securities while held in trust.

Nominee - An individual who receives income in their name that actually belongs to someone else.

Nonaccountable Plan - A reimbursement or allowance arrangement under which an employer reimburses an employee or provides the employee an expense allowance regardless of whether the employee meets any of the requirements of an accountable plan.

Noncustodial Parent - The parent who has custody of a child for the shorter part of the year or who does not have custody at all.

Nonpassive Income - Income from earnings or wages, active business participation, dividends, interest, or capital gains.

Nonperiodic Payment or Distribution - A payment or distribution from a retirement plan that does not recur on a regular basis.

Nonqualified Plan - A plan that does not meet the IRS requirements for qualified retirement plans.

Nonrecaptured Section 1231 Losses - The net section 1231 losses for the previous five years that have not been applied against a net section 1231 gain by treating the gain as ordinary income.

Nonrecourse Debt - A debt for which the debtor is not personally liable.

Nonrecourse Financing - Financing for which the taxpayer is not personally liable.

Nonrefundable Credit - A credit that cannot be more than the tax liability on the taxpayer's tax return.

Nonresidential Real Property - Most real property (real estate) other than residential rental property.

Nontaxable Exchange - An exchange in which any gain is not taxed and any loss cannot be deducted.

Not-for-Profit Activity - Generally, an activity that has not produced a profit in at least three of the last five tax years, including the current year.

Option - A contract conveying the right to buy (call) or sell (put) specific securities, commodities, or stocks at a predetermined price within a defined period.

Ordinary Expense - An expense that is common and accepted in a field of trade, business, or profession.

Owner of Record - The person whose name is listed as owner in official documents.

Partner - An individual who shares ownership of an unincorporated trade or business with one or more persons.

Partnership - An unincorporated organization with two or more parties who join together to carry on a trade or business, with each party contributing money, property, labor, or skills and expecting to share in the profits and losses of the business.

Passenger Automobile - Any four-wheeled vehicle made primarily for use on public streets, roads, and highways and rated at 6,000 pounds or less of unloaded gross vehicle weight (6,000 pounds or less of gross vehicle weight for trucks and vans).

Passive Activity - Generally, a trade or business activity in which a taxpayer did not materially participate and any rental activity (except a rental activity for those who qualify as real estate professionals).

Passive Income - Income from a trade or business activity in which a taxpayer did not materially participate and income from all real estate activities, regardless of their participation (except rental activities for those who qualify as real estate professionals).

Patent - The exclusive right granted to an owner or inventor to manufacture, use, or sell an invention for a limited period of time.

Pension - Generally, a series of regular definitely determinable payments made to the individual after they retire from work.

Per Diem - Daily or per day.

Per Diem Payments - Payments made on a periodic basis without regard to actual expenses incurred.

Periodic Payment or Distribution - A payment or distribution from a retirement plan that recurs on a regular basis, such as monthly or yearly.

Period of Limitations - The period of time after which a taxpayer can bring no legal action against the IRS regarding their tax return or vice versa.

Permanently and Totally Disabled - A condition that indicates an individual cannot engage in any substantial gainful activity because of a physical or mental condition. A physician must certify that the condition has lasted or can be expected to last continually for at least 12 months or that the condition can be expected to result in death.

Personal Representative - A court-appointed executor or administrator of an estate or anyone who is in charge of a deceased individual's property.

Personal Service Activity - An activity that involves the performance of personal services in the fields of health (including veterinary services), law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

Personal Service Corporation - A corporation for which the main work is the performance of personal service activities and for which these activities are substantially performed by employees who are also owners of the corporation.

Phaseout - The gradual reduction in the amount allowed as a deduction, a credit, or an expense.

Placed in Service - Ready and available for a specific use whether in a trade or business, the production of income, a tax-exempt activity, or a personal activity.

Placed-in-Service Date - The date property is ready and available for a specific use.

Points - Mortgage interest fees paid to reduce the initial interest rate on a loan. Points may also be called loan origination fees, maximum loan charges, loan discount, or discount points.

Policyholder - A person who owns the proceeds of an insurance contract. The policyholder may also be the insured.

Portfolio Income - Interest, dividends, annuities, and royalties not derived in the ordinary course of a trade or business; a gain or loss from the disposition of property that produces these types of income or that is held for investment.

Postsecondary Education - Education beyond high school at a college, university, or vocational school.

Preferred Stock - A type of share in the ownership of a company that usually does not provide voting rights, but the preferred stock shareholders' claim to dividends comes before shareholders owning common stock.

Presidentially Declared Disaster Area - An area declared by the president of the United States to be eligible for federal assistance under the Disaster Relief and Emergency Assistance Act.

Pre-Tax Contribution - The voluntary contribution an employer deducts from an employee's pay that is not subject to income tax. Also known as deferred compensation or elective deferral.

Prior-Year Unallowed Losses - Losses not allowed in prior years due to basis limitations, at-risk limitations, or passive activity loss limitations that are carried forward to the current tax year.

Private Activity Bond - A tax-exempt bond issued by a state or locality to finance the private development of public projects for the benefit of the general public.

Progressive Deterioration - Damage resulting from a steadily ongoing operation or a normal process, rather than from a sudden event.

Property Class - A category for property under the Modified Accelerated Cost Recovery System (MACRS) that generally determines the depreciation method, recovery period, and convention.

Publicly Traded Partnership - A partnership in which the partnership's interests are traded on an established securities market or are readily tradable on a secondary market (or its substantial equivalent).

Put Option - A contract granting the owner of a security the right to sell the security at a predetermined price during a specified period of time.

Qualified Dividends - Certain ordinary dividends received in tax years beginning after 2002 that are subject to the same 5% or 15% maximum tax rate that applies to net capital gains.

Qualified Employee Plan - An employer's stock bonus, pension, or profit-sharing plan that is for the exclusive benefit of employees or their beneficiaries and that meets Internal Revenue Code requirements.

Qualified Long-term Care Service - Services that are necessary diagnostic, preventative, therapeutic, curing, treating, mitigating, and rehabilitative services, or necessary maintenance and personal care services, required by a chronically ill individual. The services must be provided pursuant to a plan of care prescribed by a licensed health care practitioner.

Qualified Nonrecourse Financing - Financing for which no one is personally liable for repayment and for which the financing is all of the following: (1) borrowed in connection with the activity of holding real property, (2) secured by real property used in the activity, (3) not convertible from a debt obligation to an ownership interest, and (4) loaned or guaranteed by any federal, state, or local government or borrowed from a qualified person. (Qualified persons generally include any person actively and regularly engaged in the business of lending money; for example, a bank or savings and loan association.)

Qualified Organization - Generally, a charitable organization that must apply to the IRS to be considered a qualified tax-exempt entity (unless it is a church or government entity).

Qualified Retirement Plan - A retirement plan that conforms to a specific set of legal rules. Qualified retirement plans include IRAs, 401(k), 403(b) and 457(b) plans. Conforming profit-sharing plans and employee stock ownership plans are also qualified retirement plans.

Qualified Services (Religious) - Services performed in the exercise of the taxpayer's ministry or in the exercise of the taxpayer's duties as required by their religious order.

Qualified Small Business - A sole proprietorship or a partnership that has average annual gross receipts (reduced by returns and allowances) of \$5 million or less during a three-year period ending with the tax year of a net operating loss or the period the business was in existence if the business did not exist for the entire three-year period.

Qualified Tuition Program (QTP) - A program (also known as a 529 plan or program) established by a state or by an eligible educational institution that is set up to allow either prepayment of or contributions to an account established for paying a student's qualified higher education expenses at an eligible educational institution.

Real Estate Investment Trust (REIT) - A trust that primarily invests in real estate or real estate secured loans. Most of the assets in real estate mutual fund include REITs.

Realized Gain or Loss - The difference between the adjusted basis of the property and the sales price. In a like-kind exchange, the total of all money received, net liabilities given up, and the fair market value of all property received, minus the basis of the property traded is the realized gain or loss.

Real Property - Land and generally anything built on, growing on, or attached to land, such as buildings and their structural components (real estate).

Recapture - To include an amount in income that was deducted or excluded in a prior year.

Recovery Period - A period of years during which the cost of business assets is depreciated.

Recharacterization - Treating a contribution to one type of IRA as having been made to another type of IRA.

Recognized Gain or Loss - The part of a realized gain or loss that is a taxable gain or deductible loss. For a like-kind exchange, it is the lesser of realized gain or boot. A recognized (or taxable) gain is also known as the amount recognized.

Reconversion - The process of converting funds in a traditional IRA to a Roth IRA after they have been recharacterized. A reconversion cannot occur in the same tax year (or within 30 days, whichever is later) as the original conversion.

Recourse Debt - A debt for which an individual is personally liable.

Recovered Basis - The basis of property has been fully recovered when the total of the section 179 and cumulative allowed or allowable depreciation deductions equals the cost or investment in the property.

Recovery - A return of an amount the taxpayer deducted or took a credit for in an earlier tax year.

Recovery Period - A predetermined number of years over which the cost or other basis of a property is recovered.

Redemption - The payment or exchange of an obligation such as when stock is sold or converted or a bond is presented for payment.

Refundable Credit - A credit that, when combined with a taxpayer's other tax payments, can reduce the amount of tax they owe, give them a refund, or increase their refund.

Refund Offset - An item of existing debt that reduces the refund amount claimed on a tax return.

Regular Tax - The federal tax liability imposed for the year without regard to the alternative minimum tax.

Regulated Investment Company (RIC) - Commonly called a mutual fund, this type of investment company is required by law to distribute interest, dividends, and capital gains to its shareholders. The income avoids double taxation by only being taxed at the personal level, not at the corporate level.

Reimburse - To pay back for money spent for out-of-pocket expenses.

Rental Expenses - Ordinary and necessary expenses that may be deducted for rental property.

Rental Income - Any payment received for the use or occupation of property.

Repair - Property maintenance that keeps property in good operating condition and that does not materially add to the value of property or substantially lengthen its life.

Repossession - The action of a lender or a seller taking property from an individual, usually because of loan default.

Required Beginning Date - The date at which an individual must begin receiving distributions from a qualified retirement plan.

Required Distribution Rules - Requirements for distributing qualified retirement plan funds. The requirements differ depending on whether the person is the owner or the beneficiary.

Required Minimum Distribution - The smallest amount that must be distributed from a qualified plan to prevent an additional tax on excess accumulation. Also called minimum required distribution.

Residential Rental Property - Any building or structure, such as a rental home (including a mobile home), for which 80% or more of its gross rental income for the tax year is from dwelling units.

Retiring Property - Permanently withdrawing property from use in a trade or business or from use in the production of income.

Rita GO Zone - The portion of the Hurricane Rita disaster area determined by the president before October 6, 2005, to warrant individual or individual and public assistance from the federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Rita.

Rollover - A tax-free withdrawal of cash or other assets from a qualified retirement plan that is reinvested into another qualified retirement plan within 60 days.

Roth IRA - A type of IRA that allows an individual (subject to certain income limits) to save for retirement while allowing the savings to grow tax-free.

S Corporation - A corporation that generally is exempt from federal income tax. Its shareholders include on their tax returns their share of the corporation's separately stated items of income, deduction, loss, and credit, and their share of income or loss not separately stated. An S corporation may have no more than 100 shareholders, may have only one class of stock, and must be a domestic corporation.

Salvage Value - The estimated value of property at the end of its useful life. Salvage value is not used under the Modified Accelerated Cost Recovery System.

Scholarship - Generally, an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of studies.

Scrip - A money substitute, such as a card or paper certificate, that is used in exchange for goods and services.

Section 179 Property - Property defined under section 179 of the IRS code for which a taxpayer can choose to recover all or part of the cost of the property (up to a limit) by deducting it in the year they place the property in service.

Section 197 Intangibles - Assets listed in section 197 of the IRS code that a taxpayer can choose to amortize over a period of 15 years.

Section 1231 Transactions - Sales, exchanges, and involuntary conversions of business, rental, and royalty property held longer than one year.

Section 1245 Property - Any property that is or has been subject to depreciation or amortization and is personal property, a single purpose agricultural or horticultural structure, or a storage facility (other than a building or its structural components) used for the distribution of petroleum.

Section 1250 Property - Real property (other than section 1245 property) that is or has been subject to an allowance for depreciation.

Self-Employed Individual - An independent contractor, a person who carries on a trade or business as a sole proprietor, an active member of a partnership, or a person who is in business for themselves in any other way.

Self-Employment Tax - Social Security tax and Medicare tax primarily for individuals who work for themselves.

Separate Maintenance Decree - A legal document, court order, or agreement specifying amounts paid to one spouse by another spouse while they live apart.

Separate Property - Property belonging to one spouse that is not community property.

Separately Stated Items - The beneficiary, partner, or shareholder's distributive share of income and deductions from an estate, trust, partnership, or S corporation reported on a Schedule K-1.

Settlement Date - The date by which property must be delivered and payment must be made.

Shared Equity Financing Agreement - An agreement under which two or more persons acquire undivided interests for more than 50 years in an entire dwelling unit (including the land), and one or more co-owners are entitled to occupy the unit as their main home upon payment of rent to the other co-owner or owners.

Short-Term Holding Period - A period of one year or less.

Sick Pay - A payment to an employee to replace regular wages while they are temporarily absent from work due to sickness or personal injury.

SIMPLE (Savings Incentive Match Plan for Employees) IRA - A qualified retirement plan, using IRAs, that certain small employers (including self-employed individuals) can set up for the benefit of their employees.

SIMPLE (Savings Incentive Match Plan for Employees) 401(k) - A qualified retirement plan that certain small employers (including self-employed individuals) can set up for the benefit of their employees.

Simplified Employee Pension (SEP) - A written qualified retirement plan that allows self-employed individuals to make contributions toward their own, and their employees', retirement using a traditional individual retirement arrangement (called a SEP-IRA).

Simplified Method - The required method of calculating the taxable portion of benefits from a qualified retirement plan with an annuity starting date after November 18, 1996.

Sole Proprietor - Someone who owns an unincorporated business by themselves.

Sole Proprietorship - A business that is owned by one individual and is not incorporated.

Sponsor - A trustee or other administrator of a retirement plan.

Spread - The difference between an incentive stock option's exercise price and the stock's fair market value on the date of exercise.

Standard Deduction - A predetermined dollar amount that reduces the income subject to tax. The amount varies depending on the taxpayer's filing status, age, blindness, and dependency status.

Standard Mileage Rate - A per mile rate, established by statute, that a taxpayer uses to calculate deductible vehicle expenses based on miles driven. Specific rates apply based on whether the use is for

business, charity, moving, or medical reasons.

Start-Up Costs - Costs for creating an active trade or business or investigating the creation of acquisition of an active trade or business. Start-up costs include any amounts paid or incurred in connection with any activity engaged in for profit and for the production of income in anticipation of the activity becoming an active trade or business.

Statute - A legislative act or law.

Statutory Employee - A worker who would normally be considered an independent contractor, but is treated by statute as an employee. Statutory employees include full-time life insurance salespersons, certain agent or commission drivers, traveling salespersons, and certain home workers.

Stock - A share in a company that represents the portion of the company's earnings and assets that a shareholder owns.

Stock Rights - The ability to buy more shares in a company at a specified price for a limited time.

Straight-Line Method - A method of calculating the depreciation for property that uses a percentage rate to deduct the same amount for each year in the recovery period. The percentage rate is determined by dividing one by the number of years in the recovery period.

Substantial Gainful Activity - An activity in which the taxpayer must perform significant duties over a reasonable period of time while working for pay or profit or in work generally done for pay or profit.

Supplier-Based Intangible - The value resulting from the future acquisition of goods or services used or sold by a business because of business relationships with suppliers including a favorable credit rating or a favorable supply contract.

Surviving Spouse - The widow or widower of a deceased individual.

Tangible Property - Property that can be seen or touched, such as buildings, machinery, vehicles, furniture, and equipment.

Taxable Income - Gross income minus any adjustments to income, any allowable exemptions, and either itemized deductions or the standard deduction.

Tax-Exempt Interest - Interest income that is not subject to federal income tax. Tax-exempt interest may or may not be exempt from state income taxes.

Tax Home - The entire city or general area of an individual's regular place of business, employment, or post of duty, regardless of where they maintain their family home.

Tax Liability - The amount of total tax due to the IRS after claiming credits and before reporting payments such as withholding and estimated payments.

Tax Year - The annual period used for keeping tax records and reporting income and expenses. The most common tax year is a calendar year, which ends December 31.

Taxpayer - An individual subject to any internal revenue tax. All citizens of the U.S. and all individuals resident in the U.S. are subject to internal revenue tax.

Temporary Assignment - Generally, a work assignment in a single location away from a taxpayer's tax home that the taxpayer realistically expects will last (and does last) for one year or less.

Tenancy by the Entirety - A form of property ownership in which a husband and wife own property jointly. If one owner dies, the survivor is automatically entitled to the decedent's share of the property.

Tenancy in Common - A form of property ownership in which two or more individuals own property separately. If one owner dies, the survivors are not automatically entitled to the decedent's share of the property.

Tentative Minimum Tax - The amount of tax calculated under the alternative minimum tax rules.

Terminally Ill Individual - Any individual who has been certified by a physician to have an illness that can be reasonably expected to result in death in 24 months or less.

Terrorist Action or Military Action - Any activity primarily directed against the U.S. or its allies or any military action involving the U.S. Armed Forces resulting from violence or aggression against the U.S. or its allies.

Theft - The intentional taking and removing of money or other property from its rightful owner. The taking of property must be illegal under the laws of the state where it occurs and it must be done with criminal intent.

Three-Year Rule - A method for calculating the taxable portion of benefits from a qualified plan for retirees whose annuity starting date was before July 2, 1986.

Tie-Breaker Rule - The method the IRS applies to determine who can claim the tax benefits when two or more tax returns are filed using the same individual as a qualifying child.

Time-Savings Account - An interest-bearing savings account that restricts access to its funds for a defined time limit. Funds cannot be withdrawn before the limit without incurring a penalty.

Trade - A transfer of property for other property or services.

Trade or Business - Generally, an activity carried on for a livelihood or in good faith to make a profit.

Traditional IRA - Any IRA that is not a Roth IRA, a Savings Incentive Match Plan for Employees (SIMPLE) IRA, or a Simplified Employee Pension IRA (SEP-IRA).

Transient - Someone who does not have a regular place of business or post of duty and does not have a place where they regularly live.

Travel Expenses - The ordinary and necessary expenses a person incurs while traveling away from home to meet the demands of their job.

Trustee - The person who is responsible for managing the assets of a trust for the benefit of the beneficiaries and who is usually independent of the person who created the trust.

Trustee-to-Trustee Transfer - A transfer of funds in a traditional IRA from one trustee directly to another, either at the taxpayer's request or at the trustee's request. This is not a rollover.

Unadjusted Basis - The basis of property for purposes of calculating gain on a sale without taking into account any depreciation taken in earlier years but with adjustments for the section 179 deduction and any special depreciation allowance.

Underpayment of Tax - The amount of tax that has not been paid by either withholding or estimated payments but that has been properly reported on the tax return.

Underpayment Penalty - A penalty assessed for not paying enough tax through withholding or because estimated tax payments were not made in a timely manner.

Understatement of Tax - The difference between the tax that should have been reported on the tax return (if all the income had been properly included and all the deductions correctly reported) and the lower tax that was actually reported on the return.

Unearned Income - Investment income (such as interest, dividends, and capital gains) and other income that is not generated by personal service (such as unemployment compensation, taxable Social Security benefits, pensions, annuities, and alimony).

Unmarried Individual - A person who is unmarried or legally separated from their spouse under a divorce or separate maintenance decree. State law governs whether a taxpayer is married or legally separated under a divorce or separate maintenance decree. A taxpayer is considered unmarried for the entire year

if they can be considered unmarried as of the last day of the tax year.

Unrecognized Gain or Loss - The difference between realized gain or loss and recognized gain or loss.

Unstated Interest - The part of the stated principal amount of an installment sale contract that is treated as interest when the contract does not provide for adequate stated interest.

Useful Life - The estimated length of time it takes for property to wear out, decay, get used up, become obsolete, or lose its value from natural causes.

Vehicle - Generally, a car, van, pickup truck, panel truck, or sport utility vehicle weighing 6,000 pounds or less that is considered a passenger automobile.

Voluntary Interest Payments - Payments made on a qualified student loan during a period when interest payments are not required, such as when the borrower has been granted a deferment.

Wash Sale - A stock transaction in which the person sells or trades stock or securities at a loss and, within 30 days before or after the sale, acquires substantially identical stock or securities, either directly or through an option.

Wilma GO Zone - The portion of the Hurricane Wilma disaster area determined by the president before November 14, 2005, to warrant individual or individual and public assistance from the federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Wilma.