**Adjusted Gross Income (AGI)** This is your income from all taxable sources, minus certain adjustments. Adjusted Gross Income is also the amount from which deductions (the standard deduction or itemized deductions) and personal and dependent exemptions are deducted to arrive at the amount of taxable income that will actually be taxed.

**Amended Return** A revised tax return, filed on Form 1040X, to correct an error on a return filed during the previous three years.

**Audit** A review of your tax return by the IRS, during which you are asked to prove that you have correctly reported your income and deductions.

**Deductions** Write-offs that are permitted to subtract from gross income to calculate taxable income. All taxpayers may claim a standard deduction, if qualifying expenses exceed the standard deduction, you may claim the higher amount by itemizing your deductions. You should maintain records of qualifying expenditures if you itemize.

**Dependent** A qualifying child or qualifying relative, other than the taxpayer or spouse, who entitles the taxpayer to claim a dependency exemption.

**Earned income** Compensation, such as salary, commissions and tips, you receive for your personal services (includes self-employment income). This is distinguished from "unearned" income such as interest, dividends and capital gains.

**Earned Income Tax Credit (EITC)** is a special credit for employed taxpayers whose earnings fall below the established allowance ceiling.

**Enrolled Agent** A tax preparer who, by virtue of passing a tough IRS test or prior IRS work experience, can represent clients at IRS audits and appeals.

**Estimated Tax** If you have income that's not subject to withholding, such as investment or self-employment income, you may have to make quarterly payments of the estimated amount needed to cover your expected tax liability for the year.

**Exemptions** Amount that taxpayers can claim for themselves, their spouses, and eligible dependents. There are two types of exemptions-personal and dependency. Each exemption reduces the income subject to tax. While each is worth the same amount, different rules apply to each.

**Federal Income Tax** Taxes withheld and paid to the federal government from personal income.

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

**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.
Form W-4, Employee's Withholding Allowance Certificate Completed by the employee and used by the employer to determine the amount of income tax to withhold.

Gross Income Money, goods, services, and property a person receives that must be reported on a tax return. Includes unemployment compensation and certain scholarships.

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

Income Taxes Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes).

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

Interest is the service charge for the use of money or capital, paid at agreed intervals by the user, commonly expressed as an annual percentage of outstanding principal. Interest on delinquent taxes and other receivables that arise as the result of custodial operations are non-entity assets, held by the IRS as an agent for the Government as a whole rather than on its own behalf.

Liability Generally, liabilities are thought of as amounts owed for items or services received, assets acquired, construction performed (regardless of whether invoices have been received), an amount received but not yet earned, or other expenses incurred.

Medicare Tax The portion of the combined Social Security and Medicare tax—1.45 percent for employees and 2.9 percent for self-employed taxpayers—that pays for Medicare.

Personal Exemption Can be claimed for the taxpayer and spouse. Each personal exemption reduces the income subject to tax by the exemption amount.

Refund Money owed to taxpayers when their total tax payments are greater than the total tax.

Scholarships and Fellowships Scholarships and fellowships received by degree candidates to cover tuition, fees, books and supplies are generally tax-free. But amounts for room and board are taxable.

Self-Employment Tax Similar to Social Security and Medicare taxes. The self-employment tax rate is 15.3 percent of self-employment profit.
**Social Security Tax** Provides benefits for retired workers and their dependents as well as for the disabled and their dependents. Also known as the Federal Insurance Contributions Act (FICA) tax.

**Standard Deduction** A no-questions-asked write-off that reduces taxable income, the amount of which varies depending on your filing status. Reduces the income subject to tax.

**Tax Bracket** Each tax bracket encompasses a certain amount of income to be taxed at a set rate. The rates now run from 10 percent to 39.6 percent.

**Tax Credit** A dollar-for-dollar reduction in the tax. Can be deducted directly from taxes owed.

**Tax Deduction** An amount (often a personal or business expense) that reduces income subject to tax.

**Tax Liability (or 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.

**Tax Refund** is money owed to taxpayers by the Government when their total tax payments are greater than their total tax.

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

**Taxpayer Advocate** The official inside the IRS who is charged with helping individuals resolve their problems with the IRS, as well as identifying changes in IRS procedures that could make the agency more taxpayer-friendly.

**Wages** Compensation received by employees for services performed. Usually, wages are computed by multiplying an hourly pay rate by the number of hours worked.

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