

Math for Financial Literacy © 2013

Chapter 3: Income Taxes—Glossary

adjusted gross income (AGI). Gross income minus selected government-approved deductions.

asset. Anything owned that is of value.

capital asset. Anything of value that is owned.

capital gain. Profit that results from selling something for more than the buyer paid.

capital loss. Amount lost when a capital asset is sold for less than the buyer paid.

deduction. Adjustment to income that comes after the adjusted gross income is determined.

estate. All of a person's possessions, including assets and debts.

estate tax. Tax that is paid out of the value of an estate before the estate is transferred to the heir.

exemption. Amount that a person can claim on a tax form for each other person who depends on his or her income.

federal income tax return. Form used to file income tax with the Internal Revenue Service that is due by April 15 each year; also called a *tax return*.

gift tax. Law that limits the amount of money a person can give away as a gift without potentially costing their estate additional taxes.

gross income. Sum of earned and unearned income within a specific period of time.

heir. Recipient of an inheritance.

individual retirement arrangement (IRA). Retirement account that allows individuals to save money for retirement.

inheritance. Individual's portion of an estate.

inheritance tax. Tax imposed by some states on a person receiving an inheritance.

long-term capital gain. Any profit from the sale of an asset that was held more than a year.

ordinary income. Income earned from sources other than capital gains, such as wages.

self-employed. Someone who creates his or her own job and works for him- or herself.

self-employment tax. FICA taxes that must be paid by a self-employed person.

short-term capital gain. Any profit from the sale of an asset that was held less than a year.

standard deduction. Fixed amount that can be claimed instead of listing individual deductions.

tax deductible. Expense that qualifies as a deduction from adjusted gross income.

tax return preparer. Any person who completes tax returns for others; also called a *tax preparer*.

W-2 form. Form that summarizes an employee's earnings and the amounts withheld from the employee's paychecks for the year.