

Tax Jargon

Defining commonly used tax terms

Using a consistent set of terminology when discussing tax issues can help reduce confusion.

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Last Update: April 2022

INCOME AND LOSSES

Term	Definition	Tax Form & Line Reference, if applicable
Ordinary Income	Most types of income received by an individual, including wages, interest income, retirement benefits and business income. Ordinary income is taxed using the ordinary tax brackets, which range from 10% to 37%.	
Capital Gain (Loss) Income	Income or loss on the sale of a capital asset, including most investment property. Short-term gains are taxed as ordinary income, while long-term gains are taxed at preferential rates ranging from 0% to 20%.	2021 Form 1040, Line 7
Short-Term Capital Gain (Loss)	A gain or loss from the sale of a capital asset held for 1 year or less. Short-term gains and losses are combined to get a net short-term total. Net short-term gains are taxed as ordinary income. Net short-term losses first offset net long-term gains before offsetting ordinary income (subject to limitations).	2021 Form 1040, Line 7 (Pulled from Schedule D, Line 7)
Long-Term Capital Gain (Loss)	A gain or loss from the sale of a capital asset held for longer than 1 year. Long-term gains and losses are combined to get a net long-term total. Net long-term gains are taxed at the capital gain rates. Net long-term losses first offset net short-term gains before offsetting ordinary income (subject to limitations).	2021 Form 1040, Line 7 (Pulled from Schedule D, Line 15)
Capital Loss Limitation	Up to \$3,000 of net capital losses can be used to offset ordinary income. Net short-term losses are used first, followed by net long-term losses. Excess loss amounts are carried forward and can offset capital gains in future years.	2021 Schedule D, Line 21
Qualified Dividend	Dividend paid by a domestic corporation or qualified foreign corporation, the stock of which was held by the taxpayer for a minimum period of time. Qualified dividends are taxed at the capital gain rates.	2021 Form 1040, Line 3a

Nonqualified Dividend	Dividends received that do not meet the definition of a qualified dividend. Nonqualified dividends are taxed at ordinary income tax rates.	2021 Form 1040, Line 3b
Total Income	The sum of all taxable income sources including (but not limited to) wages, interest, dividends, retirement plan distributions, social security benefits, capital gains/losses, business income, and unemployment compensation.	2021 Form 1040, Line 9
Adjustments to Income	Expenses that are used to reduce Total Income, including (but not limited to) educator expenses, HSA deduction, deductible self-employment tax, self-employed health insurance deduction, IRA deduction, and student loan interest deduction. These expenses are available regardless of whether a taxpayer uses the standard deduction or itemizes. Often referred to as “above the line deductions”.	2021 Form 1040, Line 10 (Pulled from Schedule 1, Line 26)
Adjusted Gross Income (AGI)	Total income minus adjustments. AGI is used to determine the application of various benefits, credits, taxes, deductions, etc.	2021 Form 1040, Line 11
Modified Adjusted Gross Income (MAGI)	AGI adjusted for various deduction items and tax-exempt income. MAGI is used to determine eligibility for certain tax benefits. The calculation of MAGI varies based on the type of benefit.	
Taxable Income	Adjusted gross income minus the itemized or standard deduction and qualified business income (QBI) deduction. This is the amount of income that is subject to taxes, and includes both ordinary and capital gain income.	2021 Form 1040, Line 15
Net Operating Loss (NOL)	The amount by which allowable deductions for the current year exceed income subject to taxes.	
Passive Activity Income	Income from a business where the taxpayer does not materially participate (participation is not regular, continuous, or substantial). Generally includes all rental income, unless the taxpayer is in the business of renting property.	2021 Schedule E, Line 29a, column h and Line 34a column d
Passive Activity Loss	The amount by which the deductions exceed income from a passive activity. Losses from a passive activity can only be deducted against income from other passive activities (some exceptions apply to losses from a rental property). Excess losses can be carried forward to future years, and are fully deductible when the activity is disposed of.	2021 Schedule E, Line 29b, column g and Line 34b column c

DEDUCTIONS AND CREDITS

Term	Definition	Tax Form & Line Reference, if applicable
Standard Deduction	A flat deduction amount available to all taxpayers based on tax filing status that is subtracted from AGI to calculate Taxable Income. An increased standard deduction is available to taxpayers over age 65 and/or who are blind. The standard deduction is only utilized if it exceeds the taxpayer's total itemized deductions.	2021 Form 1040, Line 12a
Itemized Deductions	Specific expenses that can be used in place of the Standard Deduction to calculate Taxable Income. These expenses include (but are not limited to) unreimbursed medical expenses, state and local income and property taxes, mortgage interest, investment interest and charitable contributions. The deductibility of these expenses is subject to limitations and is typically only utilized if the total exceeds the standard deduction. Often referred to as "below the line deductions".	2021 Form 1040, Line 12a (Pulled from Schedule A)
Qualified Business Income (QBI) Deduction/Section 199A Deduction	Deduction of up to 20% of qualified business income for owners of pass-through businesses. Pass-through businesses include sole proprietorships, partnerships, S corporations, and certain trusts. Deduction is subject to limitation based on the nature of the business, total income and other factors.	2021 Form 1040, Line 13 (Pulled from Form 8995/8995-A)
Tax Deduction	A dollar-for-dollar reduction in the amount of income on which taxes are calculated. The tax benefit of a deduction is found by multiplying the tax rate by the deduction amount.	
Tax Credit	A dollar-for-dollar reduction in the amount of taxes owed. A credit can be either refundable or nonrefundable, and is more valuable than a deduction of the same dollar amount.	
Refundable Tax Credit	Credit that can exceed a taxpayer's tax liability, thereby creating a refund.	2021 Form 1040, Line 31 (Pulled from Schedule 3)
Nonrefundable Tax Credit	Credit that cannot exceed a taxpayer's tax liability, and therefore, cannot create a refund.	2021 Form 1040, Line 20 (Pulled from Schedule 3)

TAXES AND PAYMENTS

Term	Definition	Tax Form & Line Reference, if applicable
Marginal Tax Rate	The tax rate paid on the last dollar of ordinary income for a specific taxpayer. The current marginal tax rates are 10%, 12%, 22%, 24%, 32%, 35% and 37%. Marginal rate is best used to analyze the impact of a specific short-term strategy.	

Tax Jargon, *continued*

Effective Tax Rate	The average rate at which a taxpayer's taxable income is taxed. Effective tax rate equals total taxes paid divided by taxable income. Effective rate is best used for long-term planning.	
FICA (Federal Insurance Contributions Act) Tax	The combined amount of payroll tax assessed against employment income. FICA consists of a 12.4% OASDI tax (Old Age, Survivors and Disability Insurance tax, which funds the Social Security program) and a 2.9% Medicare tax. Liability for this tax is split equally by employees and employers.	
Self-Employment Tax	A tax assessed against income earned by self-employed individuals that is the equivalent of FICA taxes paid by an employee and their employer. Self-employed individuals pay the full 12.4% OASDI tax and 2.9% Medicare tax.	2021 Form 1040, Schedule 2, Line 4
Net Investment Income Tax	A 3.8% tax assessed on Net Investment Income (NII) above a specified threshold. NII includes interest, dividend and capital gain income, plus rental and passive business income.	2021 Form 1040, Schedule 2, Line 12 (Pulled from Form 8960)
Additional Medicare Tax	A 0.9% additional Medicare tax assessed on taxpayers with earned income above a specified threshold, paid entirely by an employee or self-employed individual.	2021 Form 1040, Schedule 2, Line 11 (Pulled from Form 8959)
Tax Refund	The amount by which a taxpayer's estimated tax payments, tax withholding, and tax credits exceed their tax liability for the year.	2021 Form 1040, Line 35a and Line 36
Tax Due	The amount by which a taxpayer's tax liability exceeds their estimated tax payments, tax withholding, and tax credits for the year.	2021 Form 1040, Line 37
Estimated Tax Penalty	Penalty imposed when a taxpayer fails to pay enough toward their tax obligation throughout the year.	2021 Form 1040, Line 38
Safe Harbor Amount	The amount a taxpayer must pay toward their tax obligation throughout the year to avoid an underpayment of estimated tax penalty.	