



Do You Know the Tax Lingo?

April 15 is fast approaching, and we know that tax time can sometimes feel like visiting a foreign country, complete with its own language. You'll likely encounter the following tax terms, so we've translated them into plain English to hopefully alleviate confusion and frustration.

The 1040: This is the form you'll fill out to help determine how much you owe (or if you'll get a refund). People 65 or older can choose the optional 1040SR version of the form. Virtually identical in function to the 1040, Form 1040-SR has larger type and larger boxes to write numbers in, making it easier for seniors to read and fill out by hand.

Tax Filing Status: This is your current living situation; there are five different options:

- Single
- Married filing jointly
- Married filing separately
- Head of household
- Qualifying widow(er) with dependent child

Different tax rates apply to each filing status. Your tax professional can help you determine the correct filing status for your situation.

Taxable Income: Simply put, this is the amount of your income, after deductions, that is subject to income tax. Your taxable income includes both earned income (such as paychecks) and unearned income (such as interest and capital gains).

Tax Deduction: The IRS allows taxpayers to take certain deductions that reduce taxable income, which helps determine the amount of taxes owed. Examples of tax deductions include: up to \$2,500 of student loan interest, contributions to a traditional IRA, and contributions to a health savings account, up to annual limits.

Adjusted Gross Income (AGI): Your AGI is your taxable income. It's "adjusted" because it refers to your **entire** income (including salary, wages, tips, capital gains, alimony received,

interest and dividends, etc.) **minus** allowable deductions (qualified retirement contributions, some healthcare costs, some interest payments, some business expenses, etc.). The number you're left with is your AGI. It's important to note, many of the adjustments allowed for AGI are specific for particular circumstances that may not apply to everyone.

Standard Deduction: This is a dollar amount determined by the IRS based on a variety of factors like age, disability, filing status and dependent status. If you choose to take the standard deduction, you subtract that amount from your AGI to reduce the amount of taxes owed. This is often the easiest approach to calculating your taxable income because it's one set amount you're allowed to deduct, instead of adding up lots of different types of deductions.

Itemized Deduction: This is the alternative to taking the standard deduction. To itemize deductions, you keep track of allowable expenses such as medical expenses, state, local and property taxes, mortgage interest, charitable contributions, etc., and use them to offset your income and reduce your AGI. Choose this option when your allowed deductible expenses add up to **more than** the standard deduction amount. In recent years, most people have taken the standard deduction due to changes in calculations following the passage of The Tax Cuts and Jobs Act in 2017. Remember: you either pick the standard deduction or itemize your deductions (you can't do both). Your tax professional can help you decide which approach makes the most sense for you.

Tax Credits: Credits directly reduce the amount of your tax bill. This is different from deductions, which lower the amount of income on which you are taxed. Common tax credits include those associated with child-care expenses, paying for higher education, and low-income filers. If you're eligible for a tax credit that's greater than the amount of taxes you owe, you get a refund.

Tax Scams: Scammers impersonating IRS officials may contact you via phone, email, text, or social media asking for personal financial information. NOTE: The IRS **never** initiates contact with taxpayers via email, text or phone. If you are unsure about a communication you've received, contact us or your tax professional immediately for help sorting it out.

Voluntary Compliance: This term simply means that everyone who earns more than a very minimal amount (determined by the IRS each year) is required to file honest and accurate tax returns or risk penalties. If you need more time beyond April 15 to file your tax return, you can file for a six-month extension.

As you prepare to file your taxes, call us if you need additional information or have questions. Or, if you are looking for the help of a tax professional, we're happy to make a recommendation.

Here is a handy link to my calendar if you want to chat - [Click here to schedule an appointment with Mary Sterk](#)