

Useful Tax Definitions

Amend	Re-filing a tax return due to a change in filing status, error in reported income, or missed deductions or credits.
Audit	In-depth investigation conducted by the Internal Revenue Service (IRS) where additional information needs to be obtained concerning an individual's or business's financial records or systems.
Bankruptcy	Legal status of an individual or business that is unable to pay debts that are owed to creditors.
Debt Forgiveness	Relief from total debt owed.
Decedent	A person who has died.
Deduction (Tax Deduction)	A reduction in taxable income based off of various criteria that may lessen an individual's tax liability.
Dependent	For income tax purposes, a dependent is a person that relies on a taxpayer for more than half of their financial support and whom a taxpayer can claim on their taxes. There are two (2) types of dependents – a qualified child or a qualified relative.
e-file	Filing your tax return electronically in place of mailing in a paper return.
Escrow	An account to pay taxes and insurance. Homeowners pay into the account held for them by the lender.
Estimated Taxes	Taxes paid on amounts reported on the taxpayer's tax return that are not subject to withholding, such as self-employment, interest, and alimony. Estimated tax may also have to be paid if the amount of income tax withheld from the taxpayer's salary, pension, or other income is insufficient.
Fair Market Value	The normal selling price of a home in the open market that

(FMV)	is agreed upon by the buyer and seller. A realtor can prepare a comparative market analysis of similar properties that are currently on the market, or have recently sold in the area to determine a fair market value.
Foreclosure	The process in which property is seized from a homeowner who is unable to make mortgage payments.
HUD-1 Settlement Statement	The official statement of the US Department of Housing and Urban Development that details all closing costs paid by the buyer and seller. This is completed by the settlement agent and both the buyer and seller must sight it at closing.
Improvements	Home expenditures that prolong the life of your home such as the costs of a total roof replacement.
Married Filing Joint (MFJ)	The filing status that can be used by a couple who are married at the end of a tax year. This means the taxpayers report total income, exemptions, deductions, and credits of both spouses on one return. Married couples using this status must not be legally separated or have a final divorce decree or decree of separate maintenance.
Nontaxable Income	Income that is not taxed by the IRS such as life insurance money and certain veteran's benefits.
Offer In Compromise (OIC)	This allows a taxpayer to settle a tax debt with the IRS for less than the full amount owed and is usually an option when a tax liability cannot be paid in full or created financial hardship for the taxpayer.
Points	Charges at closing by the lender in increments of 1% of the mortgage amount. They may also be listed as loan origination fees or loan discounts and may be deductible on a tax return.
Repairs	Expenditures that maintain a home such as painting the interior.
Schedule C	The document used to report income or loss from a business that an individual operated or a profession that the individual practiced as a sole proprietor.
Self-Employment Income and Expenses	Money that is made and expenses that are incurred by an individual who works for himself rather than earning waged from an employer.

Short Sale	An alternative to foreclosure. The sale of property on which there is debt and can no longer be afforded by the property owner who settles to repay less than the full amount owned on the property.
Substitute Return	A tax return filed by the IRS on a taxpayer's behalf if the taxpayer does not file a tax return on their own.
Taxable Income	Income that is subject to income tax or being taxed by the IRS such as employee wages, jury duty fees and rental property income.
W-2	A document issued to an individual by an employer that states the individual's income for the year.
W-4	A form completed by an employee to be given to an employer to ensure that correct federal income tax is deducted from the employee's compensation

