



Tax Vocabulary / Calculation of Taxes Owed

(+) **gross business income** – total amount of money you were paid throughout the year, either in cash or reported to you on form(s) 1099-NEC, 1099-K, and/or 1099-MISC

****DO NOT include employee income, reported to you on a W-2****

(-) **business expenses** – any amounts you spent in connection with your trade, business, or profession

(=) **profit or loss from business, (i.e. net business income)** – the result after subtracting your expenses from your income. This is the amount used to calculate the self-employment tax.

(+) **total income** – profit or loss from business (calculated above) plus all other types of income, such as:

- employee income (reported on form W-2)
- unemployment pay (reported on form 1099-G)
- interest, dividends, and capital gains/losses (reported on forms 1099-INT, 1099-DIV, and/or 1099-B)
- profit or loss from Partnerships, S Corps, and LLCs, in which you're a *part* owner (reported on form K1)
- profit or loss from rental income (for landlords and AirBnB owners)
- pensions and distributions from retirement accounts (reported on form 1099-R)
- taxable social security pay (reported on form SSA-1099)
- jury duty pay

(-) **adjustments** – costs you can subtract from your income in order to calculate your AGI, including:

- contributions to traditional IRAs (limited)
- contributions to SEP IRAs (limited)
- self-employed health insurance premiums (limited to profit from self-employment)
- ½ of your self-employment tax liability
- student loan interest paid (limited)
- educator expenses (limited, must be a full-time K-12 school teacher)

(=) **adjusted gross income (AGI)** – total income minus adjustments. This is the figure you are often asked for when applying for loans, unemployment compensation, health insurance, etc.

(-) **standard deduction / itemized deduction** – you subtract *either* the standard deduction *or* your itemized personal deductions (not to be confused with business expenses) from your AGI, whichever is higher. Examples of itemized personal deductions include: a portion of your medical bills, donations to charity, real estate taxes, and mortgage interest. If your itemized personal deductions don't exceed the standard deduction, you won't be able to benefit from them.



(-) **charitable contributions** – this varies from year to year, but if you take the standard deduction, you may also be able to subtract a small amount of charitable contributions made to tax-exempt 501©3 not-for-profit corporations.

(-) **qualified business income deduction (QBI deduction)** – this also varies from year to year, but freelancers and most business owners may be able to deduct the smaller of:

- 20% of their profit from business (see above), or
- 20% of (AGI minus standard/itemized deductions)
- extra limits apply for higher income business owners

(=) **taxable income** – AGI *minus* standard deduction or itemized personal deductions *minus* charitable contributions *minus* QBI. This is the amount used to calculate your income tax liability.

tax liability – the total amount of all the taxes you owe, including:

- Income tax (based on taxable income)
- Self-Employment tax (based on profit or loss from business)
- AMT – Alternative Minimum Tax (for higher income taxpayers)
- NIIT – Net Investment Income Tax (for high amounts of investment income)

(-) **credits** – small rewards the government provides for things like having children and going to school. Credits reduce your *tax liability* dollar for dollar (unlike expenses, adjustments, and deductions, which reduce your *taxable income*). Some credits are **nonrefundable**, which means they can take your tax liability down to \$0 but no further; other **refundable credits** can take your liability into the negative, resulting in a **tax refund**. Some of the things you get credits for are:

- Having children age 16 and under (Child Tax Credit)
- Having dependent children age 17 and over, or any other dependent (Credit for Other Dependents)
- Paying for childcare (Child and Dependent Care Credit)
- Contributing to retirement accounts while being lower income (Retirement Savings Contribution Credit)
- Going to college (American Opportunity Credit and/or Lifetime Learning Credit)
- Having an AGI that is below certain thresholds (Earned Income Credit)
- Paying taxes to other countries (Foreign Tax Credit)

(-) **withholdings; estimated payments** – amounts you've already paid throughout the year, either by making quarterly estimated payments and/or by having taxes withheld from your paychecks.

(=) **tax refund / amount owed** – If you paid in less than you owe, you must pay the remainder at tax time; if you paid in more than you owe, you will get the remainder back and that's called a tax refund.