

GLOSSARY OF FREQUENTLY USED TAX TERMS

Ad valorem tax - a tax based on the assessed value of real estate or personal property

Capital gains tax – a tax charged on the profit realized on the sale of a non-inventory asset; amount determined by the type of investment and the holding period and must be paid anytime you sell something and make money.

Circuit breaker – a credit which helps low income taxpayers; allowed only when property tax bills exceed a certain percentage of the person's income

Direct tax – a tax that is paid directly by an individual or organization to the imposing entity (A taxpayer pays a direct tax to a government for different purposes, including property tax, personal property tax, income tax or taxes on assets).

Earned Income Tax Credit (EITC) – a refundable tax credit designed for lower income working families and individuals. The amount of credit varies depending on the level of income and the number of supported dependents. The tax credit can even generate a tax refund larger than the amount of tax paid in through withholding.

Estate tax – a federal tax on your right to transfer property at your death; paid only on net amounts of \$5,000,000 or more in 2011 (There was no estate tax in 2010—a one-year occurrence). The Tax Policy Center estimates that approximately 3,300 estates will pay estate tax for 2011. That is approximately .003 per cent of the 115 million U. S. households.

Excise tax – a tax based on consumption of specified products (cigarettes, liquor, gasoline)

Federal itemized deduction offset – Allowable itemized deductions to federal income taxes; mortgage interest, medical expenses, state and local personal income and property taxes are common deductions. (Persons who do not itemize deductions receive a “standard” deduction.”

Flat tax / proportional tax – a tax for which the tax rate is applied at the same percentage regardless of the amount subject to taxation. This usage of flat and proportional applies only to the tax base and not to the income of the taxpayer. The sales tax and flat rate income tax are examples. #

Homestead exemption – a flat dollar amount of a flat percentage of the home value deducted from property tax owed (For example, if your home is valued at \$100,000, and you qualify for a \$20,000 exemption, you pay taxes on your home as if it were worth only \$80,000. In Kansas there are special exemptions for rural land).

Indirect tax – a tax, such as sales tax or value-added tax (VAT) which is collected by intermediaries who turn over the proceeds to the government and file the related tax return (Some argue that an indirect tax increases the price of a good so that consumers are actually paying the tax).

Inheritance tax – a state tax on assets inherited in a legal will; some deductions apply depending upon the status of the person inheriting. (Kansas has had no inheritance tax since January 1, 2010).

Progressive tax – a tax that takes an increasing proportion of income as income rises. A graduated rate income tax is generally progressive, but at the federal level, the income tax may revert to regressivity due to tax “loopholes” and the 15 per cent rate applied to dividends and capital gains. #

Proportional tax – a tax that takes in same proportion of income across all levels; it is unlikely that any one tax would be proportional across all income levels. For the tax burden to be proportional, a combination of taxes would generally be required (e.g. sales plus income tax). #

Regressive tax – a tax that takes a decreasing proportion of income as income rises. The sales tax is generally considered to be regressive, but if such things as food, children’s clothing, and medicine were exempt, and services such as spas and veterinary fees were added to the tax base, a sales tax would become far less regressive. #

Value-added tax (VAT) – a general consumption tax assessed on the value of goods and services and applied at each stage of the production of a commodity and charged only on the value added at that stage; in essence, a hidden sales tax

#Tax rates are measured several ways: (1) as a percentage of the tax base, e.g. for the sales tax, the flat rate applied to taxable purchases and the graduated rates applied to taxable income. (2) as the percentage of families’ personal incomes (or federal adjusted gross incomes) across income levels. The first definition would show the sales tax to be flat rate or proportional. The second definition is generally used for discussions of ability to pay or distributional equity.