

Tax Terms Word Search

Answer Key

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■ 10 Terms & Definitions

<p>DEDUCTION</p> <p>A tax deduction reduces your taxable income — the amount of income on which you pay taxes. Common deductions include mortgage interest, state and local taxes (SALT), charitable contributions, and business expenses. Deductions lower your tax bill indirectly by reducing taxable inc</p>	<p>WITHHOLDING</p> <p>Tax withholding is the amount your employer removes from your paycheck each pay period and sends directly to the IRS on your behalf. It is an advance payment of your annual income tax liability. W-4 forms let you tell your employer how much to withhold based on your expected dedu</p>
<p>BRACKET</p> <p>Tax brackets divide taxable income into ranges, each taxed at a specific rate. The US uses a progressive system where higher income is taxed at higher rates — but only the income within each bracket is taxed at that rate, not all of your income. This is a common misconception.</p>	<p>REFUND</p> <p>A tax refund occurs when the amount of taxes you paid throughout the year — through withholding or estimated payments — exceeds your actual tax liability. The IRS returns the overpayment. While refunds feel like free money, they are actually interest-free loans you gave the gover</p>
<p>LIABILITY</p> <p>Tax liability is the total amount of taxes owed to the IRS for the year after applying all deductions, credits, and exemptions to your gross income. It is distinct from taxes withheld — you may owe more (and owe a payment) or less (and receive a refund) depending on your withhold</p>	<p>CAPITAL</p> <p>Capital gains taxes apply to profits from selling assets like stocks, real estate, or businesses. Short-term capital gains (assets held under one year) are taxed at ordinary income rates. Long-term capital gains (held over one year) are taxed at preferential rates of 0%, 15%, or</p>
<p>EXEMPTION</p> <p>A tax exemption reduces the amount of income subject to taxation. Personal exemptions were eliminated by the 2017 Tax Cuts and Jobs Act, but exemptions still apply in areas like Social Security income (partially exempt), municipal bond interest, and certain retirement account dis</p>	<p>FILING</p> <p>Tax filing is the process of submitting your annual tax return to the IRS, reporting income earned and taxes owed. The standard deadline is April 15 each year. Filing can be done on paper (Form 1040) or electronically, with e-filing being faster and less error-prone.</p>
<p>AUDIT</p> <p>A tax audit is the IRS's examination of a taxpayer's return to verify accuracy. Audits can be conducted by mail (correspondence audits) or in-person. They are triggered by statistical anomalies, unusually large deductions, missing income, or random selection.</p>	<p>CREDIT</p> <p>A tax credit directly reduces your tax bill dollar-for-dollar, making it more valuable than a deduction. Key credits include the Child Tax Credit (up to \$2,000 per child), the Earned Income Tax Credit (up to \$7,830 for low-income families), and the American Opportunity Credit for</p>