GLOSSARY

A

Accelerated depreciation: See depreciation.

Adjusted Gross Income (AGI): A measure of income used to determine a tax filing unit's tax liability (before subtracting personal exemptions and the standard or itemized deductions). AGI excludes certain types of income received (e.g., municipal bond interest, most Social Security income) or payments made (e.g., alimony paid, IRA deductions, moving expenses). (See also taxable income.)

Affordable Care Act (ACA): See Patient Protection and Affordable Care Act (PPACA).
After-tax income: Total income of an individual or corporation minus all federal, state, and local taxes (e.g., federal income tax, Social Security tax).

Alternative minimum tax (AMT): The individual alternative minimum tax is a supplemental income tax originally intended to ensure that high-income filers not take undue advantage of tax preferences to reduce or eliminate their tax liability. The most common "preference" items, however, are for state and local tax deductions, personal exemptions, and miscellaneous itemized deductions—not items normally thought of as preferences or shelters. The AMT exemption and tax bracket thresholds are indexed for inflation, protecting many taxpayers from the tax, but rising real incomes make more taxpayers subject to the AMT every year. There is also a corporate alternative minimum tax, but few companies are subject to it.

AMT patch: For many years following enactment of the 2001 tax cuts, lawmakers repeatedly—but only temporarily—raised the AMT's rate bracket thresholds and exemption to offset the effects of inflation. These ad hoc adjustments are sometimes referred to as the "patch," because it was a stopgap remedy for a basic design flaw—the fact that the AMT was not indexed for inflation, unlike most other income tax provisions. Patch legislation also typically extended a temporary provision allowing AMT taxpayers the full benefit of personal tax credits, such as the child and dependent care tax credit. The American Taxpayer Relief Act of 2012 eliminated the need for the patch by permanently raising the AMT exemption amount and indexing it, the AMT exemption phaseout threshold, and AMT tax brackets for inflation beginning in 2013. (See also indexation of the tax system.)

American Taxpayer Relief Act of 2012 (ATRA): Permanently extended most provisions of the 2001 and 2003 tax acts (EGTRRA and JGTRRA) but generally allowed both acts to expire for taxpayers with the highest incomes. In particular, the act maintained most reduced tax rates, expansion of the child tax credit and EITC, and the American Opportunity credit for higher education. It also made permanent reductions to the AMT and the estate tax.

Appropriation: Money a state or federal legislature designates for a specific purpose. Federal appropriations are paid for by the US Department of the Treasury.

Automatic stabilizers: Features of government tax and transfer systems that temper the economy when it overheats and provide economic stimulus when the economy slumps, without direct intervention by policymakers.

GLOSSARY

Average effective tax rate (ETR): A widely used measure of tax burdens, equal to tax paid divided by some measure of income. ETRs may be calculated with respect to a single tax, such as the individual income tax, or with respect to a combination of taxes (e.g., the total of individual and corporate income taxes, payroll taxes, excise taxes, and estate taxes). Furthermore, ETRs can differ, depending on whether taxes are assigned based on statutory incidence (who remits the tax to the government) or on economic incidence (who bears the actual economic cost of the tax). Note that all Tax Policy Center estimates of ETRs are based on economic incidence. (See also tax incidence.)

B

Balanced budget: A budget in which revenues equal outlays. A balanced budget has neither a deficit nor a surplus.

Base broadening: A term applied to efforts to expand the tax base, usually by eliminating deductions, exclusions, and other preferences from the tax base. A broader base allows more revenue to be raised without increasing tax rates, or for rates to be cut without sacrificing revenues.

Bracket creep: The movement of taxpayers into higher tax brackets caused by inflation. Under a progressive tax system, rising nominal income can move taxpayers into higher tax brackets, even if their real income (after adjusting for inflation) remains constant. Congress indexed tax rate schedules for inflation in the early 1980s to prevent general increases in the price level from causing bracket creep. (See price indexing.)

Budget baseline: The baseline is the level of revenue (or spending) expected under a given set of assumptions. Traditionally, Congress and the administration have used a "current law baseline" that assumes that discretionary spending grows at the rate of inflation and mandatory spending and tax revenues are determined by current law. In particular, this approach assumes that temporary tax provisions will expire as scheduled. An alternative is a "current policy baseline," which assumes that temporary tax cuts are extended indefinitely and that temporarily delayed provisions never take effect. The Obama administration used the latter baseline during the years when the temporary 2001-2003 tax cuts were in effect.

Budget resolution: A non-binding Congressional outline for federal spending and revenues for the next fiscal year, including targets for the subsequent four fiscal years. A budget resolution does not actually appropriate funds, but instead, sets goals and establishes tax and spending priorities. It may include budget reconciliation instructions.

Budget scoring: The process of estimating the budgetary effects of proposed changes in tax and expenditure policies and enacted legislation. The budget score represents the difference from baseline revenues or spending.

GLOSSARY

Bush tax cuts: A set of tax provisions that were originally enacted in the administration of President George W. Bush—mostly in 2001 and 2003. The first installment, the Economic Growth and Taxpayer Relief and Reconciliation Act of 2001 (EGTRRA), cut individual income tax rates, phased out the estate and gift tax, doubled the child tax credit, provided marriage penalty relief, expanded retirement tax incentives, and temporarily raised the threshold for taxation under the individual alternative minimum tax (AMT). The provisions of EGTRRA phased in slowly and al of them were set to expire at the end of 2010. The Jobs and Growth and Taxpayer Relief and Reconciliation Act of 2003 sped up many of the 2001 tax cuts, added cuts in the tax rates on long-term capital gains and dividends, and again temporarily patched the AMT, but preserved the 2010 expiration date. In succeeding years, Congress regularly adjusted AMT parameters to limit the impact of the alternative tax. In 2006, the Pension Protection Act made the retirement savings provisions of EGTRRA permanent and In 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act extended the Bush tax cuts through 2012 (along with several new tax cuts created by the American Recovery and Reinvestment Tax Act of 2009). Finally, the American Taxpayer Relief Act of 2012 made the Bush tax cuts permanent for all but the highest-income taxpayers. (See also AMT patch.)

C

Capital cost recovery: Income tax features intended to allow businesses to deduct over time the costs of tangible capital assets that are used to produce income. It is similar to a depreciation allowance, except that "depreciation" in principle relates the timing of the deductions to changes in asset value over time. (See depreciation.)

Capital gains: The difference between the sale price and purchase price of capital assets net of brokers' fees and other costs. Capital gains are generally taxable upon sale (or "realization"). Long-term gains, those realized after a year or longer, face lower tax rates (no more than 20 percent) than short-term gains, which are taxed the same as earned income. High-income taxpayers must also pay the Affordable Care Act's net investment income tax, a 3.8 percent tax on capital gains and other investment income above specified thresholds. Taxpayers can deduct up to $3,000 of net losses (losses in excess of gains) each year against other income; taxpayers can carry over losses above that amount and deduct them from future gains.

Charitable deductions: Deductions allowed for gifts to charity. Subject to certain limits, individual taxpayers who itemize deductions and corporations are allowed to deduct gifts to charitable and certain other nonprofit organizations. Among other reasons, the deduction is intended to subsidize the activities of private organizations that provide viable alternatives to direct government programs. (See itemized deductions.)

Child and dependent care tax credit (CDCTC): A tax credit based on eligible child care expenses incurred by taxpayers who are employed or in school. The credit varies with the expenses incurred, the number of eligible children, and the taxpayer's AGI. A separate exclusion is available for some employer-provided child care.

GLOSSARY

Child tax credit (CTC): A $1,000 tax credit for each of a family's children under age 17. The credit is partially refundable for filers with earnings over a $3,000 threshold—the refundable portion is limited to 15 percent of earnings above the threshold. (See refundable tax credit.)
Circuit-breakers: Mechanisms that provide relief for an individual's property tax obligation on the basis of the person's age, income level, or disability.

Congressional Budget Office (CBO): A nonpartisan, congressional agency that gives Congress budget and economic analyses and information. CBO was established by the Congressional Budget and Impoundment Act of 1974 to provide Congress with its own agency to project and evaluate federal budget issues.

Consumer price index: A measure of the average level of prices, inclusive of sales and excise taxes, faced by urban households for a given "market basket" of consumer goods and services.
Consumption tax: Tax on goods or services. In the United States, most consumption taxes are levied by states and local governments (as retail sales taxes), although the federal government does levy some selective consumption taxes, called "excise taxes," on items such as alcohol, tobacco products, and gasoline. The most common consumption tax overall is the value-added tax (VAT), used by virtually all developed countries but not by the US.

Corporate income tax: A tax levied on corporate profits. A corporation's taxable income is its total receipts minus allowable expenses and capital depreciation. The top corporate income tax rate in the US is 35 percent, higher than that in any other developed country.

D

Debt held by the public: The portion of the national debt held by entities other than the federal government. Investors holding this debt include US citizens, state and local governments, the Federal Reserve, domestic private investors such as banks, and international investors such as foreign nations.

Debt service: The amount needed to repay interest and principal on a debt over a period of time. For an individual, this might be the amount they owe on student loans or a mortgage. For the federal government, debt service is the interest paid on the national debt.

Deduction: A reduction in taxable income for certain expenses. Some deductions such as that for contributions to an Individual Retirement Account (IRA) reduce AGI. Most deductions, such as those for home mortgage interest and state and local taxes, are only available to those who itemize deductions. About 70 percent of taxpayers choose not to itemize and instead claim the standard deduction because it provides a greater tax benefit. Because tax rates increase with taxable income, a dollar of deductions generally benefits a high-income taxpayer more than a low-income taxpayer. Deductions cannot reduce taxable income below zero.

GLOSSARY

Deficit: The difference between what the governments takes in (receipts) and spends (outlays) during a year, typically either a fiscal year (October-September for the US government) or a calendar year.

Defined benefit pension plan (DB plan): A retirement plan that guarantees a specified retirement payment beginning at a certain age and after a specified period of service. Contributions to and earnings in DB plans are exempt from both income and payroll taxes, and withdrawals are fully subject to federal income tax.

Defined contribution retirement plan (DC plan): A retirement program in which each employee has an individual account that accumulates employee contributions, employer contributions, and investment earnings. Contributions to DC plans and any increase in value are generally not included in the taxable income of beneficiaries. Employer contributions are also exempt from payroll tax. Withdrawals are fully taxable.

Dependent: An individual supported by a tax filer for more than half of a calendar year. Federal tax law stipulates five tests to determine whether a filer may claim someone as a dependent and thus qualify for an exemption: a relationship test, a joint return test, a citizen-or-resident test, an income test, and a support test. In 2017, a tax filer can reduce taxable income by $4,050 for each dependent exemption.

Depreciation: A measurement of the declining value of assets over time because of physical deterioration or obsolescence. The actual rate at which an asset's value falls is called economic depreciation, which depends on wear and tear and the rate of technological obsolescence. . In practice, tax depreciation is calculated by a schedule of deductions, usually over the asset's "useful life" specified in the tax code through which the full cost of an asset can be written off. Accelerated depreciation refers to a depreciation schedule that allows larger deductions in early years than would be expected due to economic depreciation. (See also Expensing.)

Discretionary spending: Spending decided upon by Congress through the annual appropriations process.

Distortion: The economic cost of changes in behavior due to taxes, government benefits, monopolies, and other forces that interfere with the otherwise-efficient operation of a market economy. For example, employees might choose to work fewer hours because taxes reduce their after-tax wage.

Distribution table: A table that details how a proposal or policy affects the distribution of tax burdens across income categories, demographic groups, or sets of taxpayers defined by other characteristics. Alternative measures assess different aspects of distributional effects (see Measuring the Distribution of Tax Changes).

Dividends: Profits distributed by a corporation to its shareholders. Under 2003 tax law, most dividends are taxed at the same lower tax rates that apply to long-term capital gains.

GLOSSARY

Double taxation of dividends: Most tax systems that have both corporate and individual income taxes levy tax on corporate profits twice, once at the corporate level and again at the individual level when shareholders receive profits in the form of dividends or capital gains. The reduced tax rates on capital gains and dividends are intended in part as an offset to double taxation. Other more sweeping reform options would address double taxation by allowing shareholders credits against personal taxes for tax levied at the corporate level (an "imputation system") or by passing corporate profits through to shareholders, similar to the tax treatment of partnerships and S-corporations ("corporate tax integration").

Dynamic analysis: An approach to calculating how a tax proposal would affect the economy in the short and long run by determining the policy's macroeconomic effects. Unlike conventional ("static") analysis, which holds economic inputs and outputs constant, dynamic analysis predicts how a policy would affect macroeconomic factors, such as consumption, investment, saving, and labor supply, and uses those factor changes to forecast GDP and government revenues over a period of time. Dynamic analysis can also be used for proposals affecting government spending and regulation.

Dynamic modeling: Computer simulation of how tax policy or tax reform affects the economy taking into account how individuals, households, or firms alter their work, saving, investment, or consumption behavior, and how those effects feed back to affect tax revenues.
Dynamic scoring: See dynamic analysis.

E

Earned income tax credit (EITC): A refundable tax credit that supplements the earnings of low-income workers. The credit is a fixed percentage of earnings up to a base level, remains constant over a range above the base level (the "plateau"), and then phases out as income rises further. Those income ranges depend on both the taxpayer's filing status and number of children in the taxpayer's family. In contrast, the credit rate depends only on the number of children. Married couples with three or more children receive the largest credit, a maximum of $ 6,318 in 2017. Childless workers get the smallest credit, no more than $510 in 2017. Originally enacted in 1975, the EITC is now the largest federal means-tested cash transfer program.

Economic Growth and Taxpayer Relief and Reconciliation Act of 2001 (EGTRRA): A tax bill passed under the presidency of George W. Bush (and therefore often referred to as the "Bush tax cut") that reduced most tax rates, increased the child tax credit and made it partially refundable, expanded tax-free retirement savings, reduced marriage penalties, increased the child and dependent care tax credit, and phased out the estate tax. Most provisions were scheduled to phase in slowly between 2001 and 2010, and then expire at the start of 2011. JGTRRA accelerated some of the EGTRRA tax cuts and added others.

GLOSSARY

Economic income: A very broad income concept that includes cash income from all sources, fringe benefits, net realized capital gains, both cash and in-kind transfers, the employer's share of payroll taxes, and corporate income tax liability. The Treasury Department's Office of Tax Analysis developed a similar measure in the 1980s and used it for distribution tables until 2000.

Economic Recovery Tax Act (ERTA): Tax legislation enacted in 1981 (and often referred to as the "Reagan tax cut") that significantly reduced income taxes on individuals and businesses. The Tax Equity and Fiscal Responsibility Act (TEFRA) scaled back the cuts in 1982.

EGTRRA: See Economic Growth and Taxpayer Relief and Reconciliation Act of 2001.

Employer-sponsored health insurance: Health insurance offered by an employer to some or all employees. Employer contributions to health insurance plans are exempt from both income and payroll taxes. Economists believe that workers accept lower wages in exchange for the valuable tax-free fringe benefit. The exclusion from tax of employer-sponsored health insurance is the single biggest tax expenditure.

Empowerment zone: A rural and urban geographic area of economic distress eligible for special grants, business training, improved access to capital, tax benefits, and regulatory relief aimed at encouraging economic development and greater opportunity.

Enterprise zone: A geographically targeted tax, expenditure, and regulatory inducement used by state and local governments since the early 1980s and by the federal government since 1993. While they differ in their specifics, all the programs provide development incentives in an attempt to encourage private investment and increase employment opportunities.
Entitlements: Payments to individuals, governments, or businesses which, under law, must be made to all those eligible and for which funds do not have to be appropriated in advance. Major entitlement programs include Social Security, Medicare, Medicaid, and Temporary Assistance to Needy Families (TANF).

ERTA: See Economic Recovery Tax Act.

Estate tax: A tax levied on a person's estate at the time of his or her death. The federal estate tax applies only to large estates, those worth over $5.49 million for people dying in 2017 ($10.98 million for married couples). No tax is owed on transfers to spouses or to charities and special provisions apply to farms and small businesses. (See also Gift Tax and Inheritance Tax.)
Excise tax: A tax on specific goods and services, levied at federal, state, and local levels. The most common excise taxes are on gasoline, alcohol, and tobacco products.

Expenditure: The purchase of a good or service.

Expensing: Allow businesses to immediately deduct the entire cost of a capital asset, rather than claiming depreciation deductions over the useful life of the asset. (See also Depreciation.)

GLOSSARY

Extenders: Temporary tax provisions that will expire if Congress does not act to extend them.

F

Federal poverty levels: See Poverty levels.

Federal fiscal year (FY): See Fiscal year.

Federal Reserve: The central bank of the United States that controls monetary policy. The Federal Reserve System of the United States, also referred to as the Fed, is made up of 12 Federal Reserve Banks throughout the country and is headed by a Board of Governors. The Fed controls monetary policy by making open-market sales or purchases of government bonds and Treasury bills.

Filing status: Tax filers fall into one of five categories, depending on their marital status and family structure. A single person without children files as a single; a single person with dependents who maintains her own home files as a head of household; a married couple, with or without children, files either as married filing joint or married filing separate; and a recent widow(er) may file as a qualifying widow(er), which is the same, in effect, as married filing joint. The standard deductions, bracket widths, and qualification criteria for certain credits and deductions vary by filing status.

Fiscal policy: The way in which the federal government can affect the economy through tax and spending policies. Fiscal policy can boost economic activity, at least in the short run, through tax cuts and increases in spending. Fiscal policy can slow down the economy through tax increases or spending cuts.

Fiscal year: The government's accounting period designated by the calendar year in which it ends. The federal government's fiscal year begins on October 1 and ends on September 30.

Flat tax: A proposal for tax reform that would replace the income tax system with a single-rate (or flat-rate) tax on businesses and individuals, after an exempt amount. Many flat tax proposals are designed to be consumption rather than income taxes (see VAT), many would retain politically sensitive deductions such as for mortgage interest payments, and most are really not "flat" because they grant an exemption at least for the first dollars of earnings.

Foreign tax credit: A credit that allows U.S. residents to subtract foreign income taxes paid from the U.S. income tax due on income earned abroad.

G

Gift tax: A tax levied on gifts in excess of a specified threshold. In 2017, no tax is levied on annual gifts of up to $14,000 per recipient; gifts in excess of the limit are taxable but no tax is due until lifetime taxable gifts total more than $5.49 million. Any tax still due must be remitted when the donor dies and is incorporated into the decedent's estate tax. (See also Estate tax.)

GLOSSARY

Gini coefficient: A summary measure of how unequal is the distribution of income (or wealth or other quantity) across a given population. It ranges from 0 (perfect equality) to 1 (perfect inequality); higher values thus indicate greater inequality. The coefficient is useful for comparing levels of inequality over time or across populations. Note, however, that two populations may have the same Gini coefficient and thus the same level of inequality overall, yet have differently shaped income distributions.

Gramm-Rudman-Hollings law: A law enacted in 1985 requiring that budget deficits be brought down to specified amounts and the budget be balanced by 1991; failure to meet those goals would trigger automatic spending cuts. The law was replaced in 1990 with specific deficit reduction targets (and pay-as-you-go rules) unrelated to actual size of the deficit, as it varied with economic conditions. (See also Pay-as-you-go and caps.)

Gross domestic product (GDP): The total value of goods and services produced by the economy, the sum of aggregate consumption, investment, government purchases, and exports, less the value of imports.

H

Health savings account (HSA): A special tax-favored account for deposits made to cover current and future health care expenses paid by the individual. Like defined contribution retirement plans, contributions to HSAs and any earnings are generally deductible (or excluded from income if made by an employer). Unlike DC plans, withdrawals from the account are also tax-free as long as they are used to pay for medical expenses. Enacted in 2003 as part of legislation providing drug benefits under Medicare, the tax preference is only available if the individual purchases a high-deductible health insurance policy.

Highway trust fund: A federal trust fund created in 1956 to finance highway construction and certain other federal spending on transportation. The fund's revenues and outlays are segregated from the rest of the federal budget.

Horizontal equity: (See also Vertical equity.) The concept that people of equal well-being should have the same tax burden.

Human capital: Knowledge and skills that people acquire through education, training, and experience.

I

Income: The amount of wages, interest, dividends, business income, transfer payments, and other resources that an individual or household receives that can be used to purchase goods and services or be saved for future purchases.

GLOSSARY

Individual income tax: A tax on the income of an individual or household. In the US, a minimum level of income is exempt from tax, and rates are progressive. Many spending-like programs ("tax expenditures") are administered through the income tax.

Indexation of the tax system: Annual adjustments to various parameters in the tax code to account for inflation and prevent bracket creep. Since 1981, many features of the federal individual income tax, including personal exemptions and tax brackets, have been automatically indexed for inflation based on changes in the Consumer Price Index. For instance, with 5 percent inflation, a personal exemption of $1,000 would be raised to $1,050. More broadly, the term applies to all efforts to adjust measures of income to account for the effects of price inflation.

Inheritance Tax: A tax imposed on the amount of gifts and bequests a taxpayer receives from a person who dies. Currently the United States has no federal inheritance tax, but several states do. Inheritance tax rates can differ, depending on the relationship of an heir to the decedent, with the lowest rates applying to closer relatives such as spouses and children. (See also Estate Tax and Gift Tax.)

Intragovernmental debt: The amount one part of the federal government owes to another part of the federal government. This money is typically held in trust funds such as those for Social Security and Medicare.

IRA (Individual Retirement Account): Retirement accounts funded by individuals through their own contributions or by rolling over benefits earned under an employee-sponsored plan. An IRA is a kind of defined contribution retirement account. In traditional IRAs, contributions and earnings are tax-free, but withdrawals are taxable. In Roth IRAs, contributions are not deductible, but earnings and withdrawals are exempt from income tax.

Itemized deductions: Particular kinds of expenses that taxpayers may use to reduce their taxable income. The most common itemized deductions are for state and local taxes, mortgage interest payments, charitable contributions, medical expenses larger than 10 percent of AGI, and certain miscellaneous expenses. Individuals may opt to deduct these expenses or claim a standard deduction.

J

JGTRRA: See The Jobs and Growth Tax Relief Reconciliation Act of 2003.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA): The 2003 tax act that accelerated the phase-in of tax rate reductions scheduled under EGTRRA, reduced the taxation of capital gains and dividends, accelerated increases in the child credit amount, and temporarily raised the exemption for the alternative minimum tax (AMT). Most provisions were set to expire at the end of 2010, but were first extended through 2012 and then generally made permanent for all but high-income taxpayers by the American Taxpayer Relief Act of 2012. (See also Bush tax cuts and American Taxpayer Relief Act.)

GLOSSARY

Joint Committee on Taxation: A nonpartisan committee of the United States Congress charged with assisting Members of Congress on tax legislation and related issues. The committee helps draft legislative proposals, estimates the revenue effects of all tax legislation considered by the Congress, and examines various aspects of US federal taxes.

L

Low-income housing credit: A tax credit given to investors for the costs of constructing and rehabilitating low-income housing. The credit is intended to encourage the acquisition, construction, and/or rehabilitation of housing for low-income families. Credits are allocated to state housing agencies based on state population. The agencies select qualifying projects and authorize credits subject to statutory limits.

M

Mandatory spending: Expenditures on federal programs that are required by the statutory structure of the program, rather than by an annual appropriation. Examples are Social Security and Medicare.

Marginal tax rate: The additional tax liability due on an additional dollar of income. It is a measure of the effect of the tax system on incentives to work, save, and shelter income from tax. Provisions such as the phaseout of tax credits can cause marginal tax rates to differ from statutory tax rates.

Marriage bonus: The reduction in tax that some married couples owe because they must file as a couple rather than separately. Marriage bonuses result from the combination of treating a family as a single tax unit and progressive tax rates. In general, couples in which spouses have quite different incomes receive marriage bonuses. (See also Marriage penalty.)

Marriage penalty: The additional tax that some married couples pay because they must file as a couple rather than separately. Marriage penalties result from the combination of treating a family as a single tax unit and progressive tax rates. In general, couples in which spouses have similar incomes incur marriage penalties. (See also Marriage bonus.)

Medicaid: A federal entitlement program that reimburses states for a portion of the costs associated with providing acute and long-term care services to certain low-income individuals. States determine which services and categories of people, beyond the minimum required by federal law, to cover. States also establish payment rates for providers and administer the program.

Medicare Part A: The part of Medicare that covers hospital services, skilled nursing facility services, and some home health care. Anyone over age 65 who is eligible for Social Security and persons under age 65 who have received Social Security disability payments for two years are eligible. Participants pay no premiums for Part A coverage. (See also Medicare Part B and Medicare Part D.)

GLOSSARY

Medicare Part B: Supplementary medical insurance for Medicare beneficiaries; provides physician services and other ambulatory care (such as outpatient hospital services and tests). Beneficiaries must pay a premium to join; premiums, which are higher for high-income enrollees, cover about one-fourth program costs. All persons over the age of 65 and other Medicare beneficiaries can enroll. (See also Medicare Part A and Medicare Part D.)

Medicare Part D: Also called the "Medicare prescription drug benefit," Part D provides Medicare beneficiaries with supplementary medical insurance for prescription drugs. Enrollees pay an additional premium for Part D coverage. (See also Medicare Part A and Medicare Part B.)

Monetary policy: A set of actions taken by the Federal Reserve (or Fed) to influence the economy. Monetary policy can be used to control inflation, stimulate growth, or slow down the economy. The Fed influences the economy by making open-market sales or purchases of government bonds and Treasury bills. The rate at which the Fed sells or purchases government bonds determines the federal funds rate, or the rate at which banks can borrow funds from one another overnight.

Moral hazard: The incentive created by insurance (explicit or implicit) to engage in behaviors that raise the expected cost of insurance. The moral aspect refers to the observation that unscrupulous people covered by fire insurance were sometimes tempted to engage in arson. However, less insidious behavior, such as using more health services when they are covered by insurance, is also covered by the term.

N

National debt: The cumulative amount that the federal government owes its creditors. Total US federal debt is the sum of debt held by the public and intragovernmental debt, and is approximately equal to deficits accumulated over the years.

Nominal income: A measure of income that is not adjusted for inflation. That is, nominal income is expressed in current dollars. (See also real income.)

Non-filer: A person or household who does not file an individual income tax return. Most non-filers do not work; many are elderly. Others simply fail to comply with the legal requirement that they file annual tax returns.

O

OASDI (Old Age, Survivors, and Disability Insurance): The Social Security programs that pay monthly benefits to retired workers and their spouses and children, to survivors of deceased workers, and to disabled workers and their spouses and children.

GLOSSARY

Off-budget: Federal government expenditures on certain programs, agencies, and government sponsored enterprises that are accounted for separately in the budget to prevent spending changes or avoid a conflict of interest. Examples "off-budget" programs include Social Security and the Post Office. The Federal Reserve is an "off-budget" government agency in order to maintain its autonomy when making policy decisions.

Office of Management and Budget (OMB): An office of the executive branch that develops the president's budget and evaluates the effectiveness of the executive branch's programs and policies.

On-budget: Government programs that are generally subject to annual appropriations, and therefore susceptible to spending cuts or increases.

The Omnibus Reconciliation Act of 1987: Legislation that attempted to decrease the budget deficit through tax increases and expenditure decreases.

The Omnibus Budget and Reconciliation Act of 1990 (OBRA90): This act increased excise and payroll taxes, added a 31 percent income tax bracket, and introduced temporary high-income phase-outs for personal exemptions and itemized deductions. OBRA93 made these changes permanent.

The Omnibus Budget and Reconciliation Act of 1993 (OBRA93): This act introduced 36 percent and 39.6 percent income tax brackets, repealed the wage cap on Medicare payroll taxes, increased the portion of Social Security benefits subject to income taxation for those with higher incomes, made more workers with children eligible for the Earned Income Tax Credit and increased their benefits, and made permanent the temporary high-income phase-outs of the personal exemption and itemized deductions. Overall, the bill was focused on deficit reduction.

Out year: In budget parlance, a future year beyond the period over which budget costs are tallied (in recent years, after a five5- or ten10-year period over which costs are estimated).

Outlay: The amount of federal spending on goods and services. (See also Expenditures.)

P

Patient Protection and Affordable Care Act (PPACA): Also known as the Affordable Care Act (ACA), the act included a variety of health-related provisions that extended health insurance coverage to many uninsured Americans, implemented measures designed to reduce health care costs, imposed requirements on health providers and insurance companies, and levied a broad range of taxes to help pay for expanded healthcare.

GLOSSARY

Pay-as-you-go system: A retirement system in which benefits for current retirees are funded by taxes on today's workers in return for the implicit promise that those workers will receive retirement benefits funded by future workers. Social Security operates largely on this system.

Pay-as-you-go and caps: As part of the 1990 Budget Enforcement Act, spending subject to appropriation was made subject to a separate series of annual caps. Pay-as-you-go rules (often called PAYGO) covered the rest of the budget: changes to mandatory spending and revenues could not together increase the deficit in any bill when pay-as-you-go rules were enforced.

PAYGO: See Pay-as-you-go and caps.

Payroll taxes: Taxes imposed on employers, employees, or both that are levied on some or all of workers' earnings. Employers and employees each pay Social Security taxes equal to 6.2 percent of all employee earnings up to a cap ($127,200 for 2017 and indexed for wage growth) and Medicare taxes of 1.45 percent on all earnings with no cap. Those taxes are referred to by the names of their authorizing acts: FICA (Federal Insurance Contributions Act) or SECA (Self-Employment Contributions Act), depending on the worker's employment status. Employers also pay State and Federal Unemployment Taxes (SUTA and FUTA) that cover the costs of unemployment insurance.

Personal exemption: A per-person amount of income that is shielded from income tax. In calculating taxable income, tax filers may subtract the value of the personal exemption times the number of people in the tax unit. The personal exemption—$4,050 in 2017—is indexed for inflation to maintain its real value over time.

Poverty guidelines: Income levels used to determine eligibility for participation in means-tested federal programs. The guidelines equal a base amount for each household plus a constant additional amount for each household member. The guidelines are indexed annually to the Consumer Price Index. (See also poverty levels.)

Poverty levels: (Also called "poverty thresholds.") The level of pre-tax cash income below which a family is considered to be officially "poor." Thresholds vary by family size, age of head, and number of children. When established in 1965, the thresholds were set at three times the cost of a minimally adequate diet and indexed annually for changes in the price of food. The basis for indexing changed to the Consumer Price Index for all goods and services in 1969. (See also poverty guidelines.)

Price indexing: (See also Wage indexing.). Adjusting monetary values by the change over time in prices. For example, many parameters in the federal individual income tax system are price-indexed annually. A prominent proposal to reform Social Security would price-index earnings to compute benefits, instead of the current wage indexing.

Progressive tax: A tax that claims a larger percentage of the income of higher-income households than from lower-income households. (See also regressive tax.)

GLOSSARY

Progressivity: A measure of how tax burdens increase with income. A progressive tax claims a proportionately larger share of income from higher-income than from lower-income taxpayers. Conversely, a regressive tax levies a larger share of income from lower-income households than from higher-income ones. Taxes that claim the same percentage of income from all taxpayers are termed "proportional."

Property tax: A tax based on the value of property owned by an individual or household. In the United States, most property taxes are levied locally.

Public debt: See "debt held by the public."

R

Real income: The value of income after accounting for inflation. Real income is typically converted in terms of a particular year's prices—for example, a table may show income in 2010 dollars, meaning that the incomes are shown in terms of purchasing power in 2010. (See also nominal income.)

Receipts: *Government revenue from taxes, fees, fines, and miscellaneous other sources. Reconciliation: A process created by the Congressional Budget Act of 1974, which allows for legislation to be fast-tracked for approval. If Congress opts to go through the "reconciliation" process, the House and Senate must set spending and tax targets. In recent years, the reconciliation process has been used to tack pieces of legislation onto the year-end Omnibus Spending Bill.*

Refund anticipation loan: An immediate cash loan from a private lender, typically a commercial tax preparer, backed the by the anticipated tax refund claimed on the borrower's tax return. Refundable tax credit: A tax credit that is payable even when it exceeds an individual's tax liability. Tax credits generally may be used only to reduce positive tax liability, and are therefore limited to the amount of tax the individual otherwise would owe. Unlike other tax credits, the refundable portion of a tax credit is scored as an outlay in government budget accounts—that is, it is treated the same as direct spending. (See, for example, earned income tax credit.)

Regressive tax: A tax that claims a larger percentage of the income of lower-income households than of higher-income households. (See also progressive tax.)

Revenue: Federal government revenue consists of taxes, mandatory fees, licenses, fines, and Federal Reserve earnings.

Revenue-neutral: A term applied to tax proposals in which provisions that raise revenues offset provisions that lose revenues so the proposal has no net effect on revenue.

GLOSSARY

S

SSDI (Social Security Disability Insurance): Social insurance that provides benefits to disabled individuals who have the required years of work covered by Social Ssecurity and can no longer work. (See also OASDI.)

SSI (Supplemental Security Income): Provides a floor of protection as cash for those who become disabled or reach age 65 and have very low incomes and assets.

Stagflation: The combination of stagnant growth and high inflation, a situation that occurred in the United States during the 1970s.

Standard deduction: A deduction that taxpayers may claim on their tax returns in lieu of itemizing deductions such as charitable contributions, mortgage interest, or state and local taxes. Typically, taxpayers with modest deductible amounts that could be itemized choose to take the standard deduction. Single filers, heads of household, and married couples filing jointly have different standard deductions. Roughly two-thirds of tax filers claim a standard deduction. (See also itemized deductions.)

Stimulus: An effort to increase growth in an economy during a recession by using monetary policy, fiscal policy, or both. Fiscal policy uses tax cuts and increased government spending to boost economic growth. Monetary policy can also stimulate economic growth by reducing interest rates through purchases of government bonds.

Sunset: Provision of a tax act that terminates or repeals other parts of the act on a certain date unless legislation is passed to extend them.

T

Tax incidence: A measure of the actual burden of a tax. Tax incidence may deviate from statutory tax liability because the imposition of a tax may change pre-tax prices. For example, retailers remit sales taxes, but those taxes raise the prices faced by consumers, who ultimately bear much of the burden of the tax.

Taxable income: The final income amount used to calculate tax liability. Taxable income equals adjusted gross income (AGI) less personal exemptions and the standard or itemized deductions.

Tax-after-credits: A filer's calculated, final tax liability after all credits (e.g., the earned income tax credit, the child credit, the child and dependent care tax credit, and the foreign tax credit) have been applied. If this amount is less than taxes paid via withholding or estimated tax payments, the taxpayer receives the difference as a refund. If the amount exceeds taxes paid, the taxpayer must remit the difference as a final payment.

GLOSSARY

Tax burden: The total cost of taxation borne by a household or individual. The burden includes not only the costs of taxes paid directly but also those taxes paid indirectly through lower wages or a reduced return on an investment. For example, in addition to the employee portion of payroll taxes, a worker may also bear the employer's share in the form of lower compensation.

Tax credit: A reduction in tax liability for specific expenses such as for child care or retirement savings. Unlike deductions, which reduce taxable income, a tax credit reduces tax liability dollar for dollar. Nonrefundable credits may only offset positive tax liability; in contrast, if a refundable credit exceeds the taxpayer's tax liability, the taxpayer receives the excess as a refund. (See also refundable tax credit.)

Tax expenditure: A revenue loss attributable to a provision of federal tax laws that allows a special exclusion, exemption, or deduction from gross income or provides a special credit, preferential tax rate, or deferral of tax liability. Tax expenditures often result from tax provisions used to promote particular activities in place of direct subsidies.

Tax filing threshold: The level of income at which filing units of specific size and filing status first owe a tax before considering tax credits. The amount varies with filing status, allowable adjustments, deductions, and exemptions. Tax credits can further increase the amount of untaxed income.

Tax incidence: A measure of the actual burden of a tax. Tax incidence may deviate from statutory tax liability because the imposition of a tax may change pre-tax prices. For example, retailers remit sales taxes, but those taxes raise the prices faced by consumers, who ultimately bear much of the burden of the tax.

Tax liability: The amount of total taxes owed after application of all tax credits.

Tax preferences: Special provisions of tax laws that are designed to further policy objectives different from tax policy objectives. In the income tax, such provisions include special deductions and exclusions, special rates, and tax credits. For example, the deduction for home mortgage interest is intended to encourage home ownership, rather than to properly reflect ability to pay income tax.

Territorial system: An income tax that generally applies only to economic activity within a country. A territorial tax is intended to apply only to income earned by residents and businesses from activities within the country. In practice, to mitigate tax avoidance territorial systems do apply to income earned outside the country in certain circumstances.

TRA86 (Tax Reform Act of 1986): Revenue-neutral legislation passed in 1986 that simplified the tax code, lowered marginal tax rates, and closed corporate loopholes.

TRA97 (Taxpayer Relief Act of 1997): Tax legislation passed in 1997 that reduced capital gains tax rates, introduced the child credit, created education credits, raised the estate tax exemption level, created Roth IRAs, and increased the contribution limit for traditional IRAs.

GLOSSARY

U

Unemployment insurance (or Unemployment compensation): A government program that provides cash benefits to some jobless workers for limited periods. Supervised by the federal government, the state-run programs are funded by payroll taxes states impose on employers.

V

Value-added tax (VAT): A form of consumption tax collected from businesses based on the value each firm adds to a product (rather than, say, gross sales). VATs are almost universal outside the United States.

Vertical equity: A value judgment about whether the net tax burden on people at different levels of well-being is appropriate. (See also horizontal equity.)