

Tax Glossary

Active Participation

You meet the active participation requirement without regular, continuous, and substantial involvement in real estate activities. But you must have participated in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Such management decisions include:

- Approving new tenants
- Deciding on rental terms
- Approving capital or repair expenditures

You are not considered to actively participate if, at any time during the tax year, your interest (including your spouse's interest) in the activity was less than 10% by value of all interests in the activity.

Alimony

Alimony is a payment to or for a spouse or former spouse under a divorce or separation instrument.

Amortization

Deducting the value of an item in equal amounts over the life of the item.

Cooperative

A business, such as a store, owned collectively by members who share in its benefits.

Dependent

An individual for whom you can claim an exemption. A dependent cannot be the taxpayer or the taxpayer's spouse. You can usually claim an exemption for a dependent if the dependent fulfills the following requirements:

- Lives with or is related to you
- Is a U.S. citizen, U.S. resident, or a resident of Canada or Mexico
- Does not file a joint return
- Does not have \$2,650 or more of gross total income (This does not apply to your child if he/she is under 19 or a student under 24.)
- Is supported (generally more than 50%) by you

Depletion

A situation in which natural resources are used up by mining, quarrying, drilling, or felling. If you own property and receive income from the depletion of the property, you may be eligible for a deduction.

Depreciation

A decrease in value of property as a result of wear or deterioration.

Dividend

An amount, usually cash, that is divided among an entity's members.

Example

You hold stock with the ABC company. Every year, the ABC company divides the profit from the stock and sends it to all individuals who own that stock.

Dual Status Alien

An individual who is both a nonresident alien and a resident alien of the United States in the same tax year. This situation usually occurs in the year that the individual arrives in or departs from the United States.

Earned Income Credit (EIC)

A refundable tax credit for certain workers. Eligible employees can claim the tax credit on their tax returns.

Employer Identification Number (EIN)

An EIN is a nine-digit number assigned to sole proprietors, corporations, partnerships, estates, trusts, and other entities for filing and reporting purposes.

Estimated Taxes

The method used to pay tax on income that is not subject to withholding. This can include income from:

- Self-employment
- Unemployment compensation
- Interest
- Dividends
- Alimony
- Rent
- Gains from selling assets

- Prizes
- Awards

In addition, you may have to pay estimated taxes if the amount withheld from your salary, pension, or other income is not enough.

Expatriate

United States citizens working outside of the United States.

Federal Unemployment (FUTA) Tax

A tax paid by employers that provides for payments of unemployment compensation to workers who have lost their jobs.

Foreign

For the purposes of EY Organizer, the term "foreign" includes any territory (including the air space and territorial waters) under the sovereignty of a government other than the United States.

Foreign National

Non-U.S. citizens working in the United States.

Green Card

A document showing lawful permanent residence in the United States.

Individual Retirement Arrangement (IRA)

A personal savings plan that offers tax advantages to set aside money for your retirement.

Individual Taxpayer Identification Number (ITIN)

ITIN is a tax processing number that became available July 1, 1996, for certain nonresident and resident aliens, their spouse and dependents. The ITIN is only available to individuals who cannot get a social security number (SSN).

Keogh Plan

A retirement plan that:

- A sole proprietorship or a partnership can set up for the benefit of their employees.
- A self-employed individual can set up for themselves.

Keogh Plans are also referred to as "HR-10" plans.

Material Participation

You meet the material participation requirements only if you are involved in the

operations of the activity on a regular, continuous, and substantial basis.

Partnership

A "pass through" tax entity that taxes the partners, not the partnership. Unlike S corporations or limited liability corporations, all partners are legally liable for business debts and liabilities incurred by the partnership.

Points

Certain charges paid, or treated as paid, by a borrower to obtain a home mortgage. Points are also referred to as:

- Loan origination fees
- Maximum loan charges
- Loan discounts
- Discount points

Royalty

A share in the proceeds from:

- A right (such as a patent)
- Land (such as an oil rig)
- Creative work (such as a song or a novel)

Signature Authority

The authority to control an account, such as a bank account. Signature authority is given to the individual whose name the account is listed under. In other situations, signature authority is usually given to the Treasurer of an entity, such as a corporation or a charity.

Simplified Employee Pension (SEP)

A retirement plan that allows an employer to make retirement contributions for himself/herself (if self-employed) and for employees without becoming involved in more complex retirement plans.

S Corporation

An S corporation is a corporation that has elected a special tax status with the IRS. This allows the corporation's income to be treated like the income of a partnership or sole proprietorship, with the income "passed-through" to the stockholders, whose individual tax returns report the income or loss generated by the S corporation.

Trust

An obligation binding a person or company (who is called a trustee) to deal with property (which is called the trust property), for the benefit of persons who are called beneficiaries.

United States Resident

An individual admitted to the United States with the privilege of residing permanently as an immigrant in accordance with the immigration laws. A U.S. Resident is not the same as a U.S. Citizen.