APPENDIX I: GLOSSARY

Adjusted gross income (AGI). On a personal income tax form, the amount of income that is subject to tax after all adjustments have been taken, but before subtracting deductions or exemptions. (Chapter 5)

Adjustments. Income tax breaks that reduce the amount of taxable income. For example, on federal income tax forms moving expenses, some teaching supplies, and contributions made to certain retirement plans are subtracted from income. Most states allow the same adjustments that are allowed on federal forms, and many allow their own unique adjustments. These adjustments are often enacted with good intentions, but tend to make the income tax more complicated than it needs to be. (Chapter 5)

Ad valorem tax. A tax based on the value of the thing being taxed. Sales taxes are based on the sales price of items taxed, so they are ad valorem taxes. Cigarette taxes are not ad valorem taxes, because they are levied on a per-pack basis, so tax collections do not vary with the price of a pack of cigarettes. (Chapter 3)

Apportionment formula. The formula states use to divide up the profit of a multi-state corporation into an "in-state" portion and an "out-of-state" portion. In theory, apportionment rules should divide a corporation's income between the states in which it earns profits in such a way that all of its profit is taxed exactly once, but special apportionment rules mean that some profits are never taxed at all. (Chapter 6)

Assessed Value. The official value of a property for tax purposes, as determined by property tax officials. A property's assessed value can be equal to its market value, or less than market value, depending on the legal assessment ratio used by the state and the quality of assessments. (Chapter 4)

Benefits Principle. A principle of taxation in which taxes are based on the benefits received from the public services funded by the tax. (Chapter 2)

Bracket Creep. When income tax brackets are not adjusted frequently to account for the impact of inflation, taxpayers can see income tax hikes over time even if their real income doesn't grow. These inflationary tax hikes can affect any income tax variable that is defined as a fixed dollar amount, including exemptions and credits, and can also reduce the value of property tax breaks. (Chapter 5)

Business Input Sales. The sale of items purchased by businesses to create their products. For example, a baker purchases flour to make bread. The baker's purchase of flour is a business input sale. Retail sales taxes should not apply to such sales—but most state sales taxes do so to some extent. (Chapter 3)

Circuit Breakers. A targeted property tax credit. Typically, states give homeowners a credit equal to the amount by which their property tax exceeds a certain percentage of their income. Most states target their circuit breakers to elderly homeowners, but an increasing number of states use them to deliver tax relief to non-elderly homeowners and renters. (Chapter 4)

Consumption Tax. A tax that applies to purchases of goods and/or services by individuals and businesses. These taxes include general sales taxes, which apply to retail sales, and special excise taxes on alcohol, cigarettes, and gasoline. (Chapter 3)

Credit. A dollar amount subtracted from tax liability. (By contrast, deductions and exemptions are subtracted from taxable income.) Tax credits are used primarily to reduce income and property tax liability, but are occasionally used to partially offset the regressivity of sales taxes. In general, credits are a more progressive approach to tax relief than are exemptions. (Chapters 3, 4, 5)

Deferral Program. A special rule that allows some homeowners, usually the elderly, to delay paying their property taxes for some period of time. Interest is often owed on the deferred taxes, and the final payment is usually due when either the homeowner dies or the property is sold. (Chapter 4)

Effective Tax Rate. The tax paid as a share of the potentially taxable base. For example, the effective income tax rate is the income tax paid expressed as a share of total personal income. (Chapter 2)

Elasticity. A measure of tax adequacy that describes whether or a tax produces revenue growth faster or slower than the economy. (Chapter 2)

Excise Tax. Sales taxes that apply to particular products. For example, many states levy excise taxes on alcohol, cigarettes and gasoline. Excise taxes are especially regressive because the tax is levied on a per-unit basis (so the tax on a bottle of cheap wine is the same as the tax on an expensive wine). (Chapter 3)

Exemptions. A special rule that provides a tax shelter for some economic activity. Exemptions reduce the amount of taxes owed. Income taxes usually allow exemptions for each taxpayer, and property taxes often allow part of a home's value to be exempted from tax. Sales taxes frequently exempt all sales of certain items such as food, utilities and rent. (Chapters 3, 4, 5)

Exported Tax. The amount of a tax paid by out-of-state residents. Some part of almost every state tax is paid by residents of other states. This helps ensure that non-resident individuals and businesses that use a state's services pay their fair share of the cost of providing these services. (Chapter 2)

Federal Offset. The ability to deduct certain state taxes on federal income tax forms. For taxpayers this can result in state taxes being offset by lower federal income taxes. (Chapter 2)

Graduated Tax. A graduated tax applies higher tax rates to higher income levels. Most income taxes use graduated rate structures. By contrast, a flat-rate tax applies the same rate to all incomes. (Chapters 1, 5)

Gross Receipts Tax (GRT). A tax on the total gross revenues of a company, regardless of their source. A gross receipts tax is similar to a sales tax, but it is levied on the seller of goods or services rather than the consumer. Applies to the sales made by companies at every stage of the production process, including manufacturing companies, wholesalers, and retailers. (Chapter 3)

Homestead Exemption. A tax break enjoyed by owner-occupied homes in many states that shelters a portion of the home's value from tax. (Chapter 4)

Horizontal Equity. The measure of tax fairness that describes how a tax system treats taxpayers in similar circumstances. (Chapter 2).

Incidence Analysis. A tool for measuring the fairness of state and local taxes and tax changes. (Chapter 2)

Intangible Property. Property that has no physical substance, but may have financial value. Examples of intangible property include stocks, bonds, and retirement plans. (Chapter 4)

Marginal rate. Income tax rates that apply only to the taxable income over the amount where the tax bracket starts. (Chapter 5)

Microsimulation Tax Model. A tool for calculating revenue yield and incidence (current and proposed), by income group, of federal, state and local taxes. The model starts with a sample of income tax returns representative of the tax-filing population of interest rather than aggregate data. (Chapter 9)

Nexus. The minimum level of contact that a business must have with a state in order for its activities to be taxable in that state. (Chapter 6)

Nominal tax rate. The legal rate that is multiplied by the tax base to yield the amount of tax liability. (Chapter 2)

Progressive. A progressive tax is one in which upper-income families pay more of their income in tax than do those with lower incomes. (Chapter 1)

Proportional. A proportional tax is one in which all taxpayers pay the same share of their income in tax. (Chapter 1)

Public Law 86-272. A federal law restricting the ability of states to tax the income of multi-state businesses under their corporate income tax. PL 86-272 holds that states cannot tax the income of businesses whose only connection to the state is shipping products into it. (Chapter 6)

Pyramiding. Pyramiding occurs when an input is subject to sales tax when purchased by a business and then, effectively, a second time when the business passes the cost of the input into the selling price of a good or service that is also subject to sales tax.(Chapter 3)

Rainy Day Fund. Term used to describe a reserved amount of money to be used in times when regular income is disrupted or decreased in order for typical operations to continue. (Chapter 9)

Regressive. A regressive tax requires low- and middle-income families to pay more of their income in tax than wealthier families must pay. (Chapter 1)

Remote Sales. Purchases of items from companies based in other states. Every state with a sales tax also levies a use tax designed to tax these remote sales. (Chapter 3)

Retail sale. A sale made to the final consumer of a product. When we buy a new refrigerator for personal use, that's a retail sale. By contrast, when a business buys lumber for use in building a house, that's not a retail sale but an intermediate transaction, because the goods purchased are used in the process of making something else. In theory, states should tax all retail sales and exempt all intermediate transactions, but almost all states fall short of both of these goals. (Chapter 3)

Split Roll. A property tax system that applies different tax rates, or different assessment ratios, to different categories of properties. Split roll systems often favor residential property over commercial property. (Chapter 4)

Stability. A measure of tax adequacy that describes whether or not a tax grows at a predictable pace. (Chapter 2)

TABOR (Taxpayer Bill of Rights). A constitutional amendment that limits the annual growth in state revenues and expenditures to the sum of the inflation rate and the percentage change in the state's population. (Chapter 9)

Tangible Property. Property that has physical substance and can be touched. This includes real property such as homes and apartments, and personal property such as cars and furniture. (Chapter 4)

Tax Base. The amount subject to tax. If all the consumers in a state purchase $1,000,000 in coffee each year, then the tax base for a coffee sales tax would be $1,000,000. However, the tax base does not have to be expressed in terms of money. If coffee was taxed by the pound, then the tax base would be the number of pounds of coffee sold. (Chapter 2)

Tax and Expenditure Limits (TELs). Designed to curb growth in government spending by placing constitutional or statutory restrictions on the amount a government entity can spend or tax its citizens. (Chapter 9)

Tax Expenditure. A special tax break targeted to particular groups of individuals or businesses. These tax breaks have the same impact as a direct government spending program giving cash grants to these groups, but implementing them through the tax system makes these grants less visible—and makes lawmakers less accountable for explaining why these breaks are a good idea. (Chapter 10)

Tax Incidence Analysis. A measure of the impact of various taxes on residents at different income levels. (Chapter 9)

Tax Increment Financing (TIF). A public financing method which uses future gains in taxes to finance current improvements. (Chapter 8)

Uniform Division of Income for Tax Purposes Act (UDITPA). Model legislation adopted in the 1950s by legal reformers seeking to achieve fairness and uniformity in state corporate tax practices. Most states initially adopted at least some of the UDITPA recommendations, but many have moved away from UDITPA recommendations by changing apportionment factors and other rules. (Chapter 6)

Use Tax. A sales tax which applies to goods that are purchased from out-of-state retailers. (Chapter 3)

User Fee. A fee charged by government for a specific service rendered to a specific taxpayer by the government. The payment is usually made at the same time that the service is rendered and the amount of the fee is usually related to the cost of the good or service provided. (Chapter 7)

Vertical equity. The measure of tax fairness that describes how a tax system treats people at different income levels. When we describe a tax as regressive, proportional or progressive, we're making a statement about vertical equity. (Chapter 2)