BASIC TAX VOCABULARY

Part of the reason tax is difficult is that many of the words used to talk about taxation are hard to understand. Some of the words are unique to tax. Other words are used elsewhere but have special meanings when used in connection with taxation. Here are some common words connected with taxation.

Ability to pay principle of taxation	The principle that the amount of tax a taxpayer should pay should depend on the ability to pay. Most often this is interpreted as meaning ability increases as the amount of the tax base (for example, income) increases. Under both a flat and a progressive income tax, the amount of tax people pay as their amount of income increases. The tax just increases more with a progressive tax.
Apportion	To divide, share, distribute, allocate.
Authority	Power to command; a governmental agency.
Benefit principle of taxation	The principle that the amount of tax a taxpayer should pay should depend on the amount of benefit the taxpayer gets from the government.
Capitation tax	A tax that is a fixed amount per person. Also called a per capita, head, or poll tax.
Comprehensive tax	A tax that has a wide base, such as a general sales tax. A narrower sales tax would tax fewer things—perhaps not taxing (exempting) food and medicine.
Compulsory	Obligatory, mandatory, not voluntary. Laws are compulsory; you must obey them or else pay a penalty or go to jail.
constitution	The basic principles and laws of an organization, including governments, which set out their powers and duties and also the rights of its members.
Consumer surplus	The benefit consumers receive because they are willing to pay more than the market price.
Consumption tax	A tax with a tax base of spending on sales of goods and/or services.

Deadweight loss	Excess burden. Decrease in consumer surplus caused by a tax.
Discretionary income	The amount of income a person has left after buying basic necessities to live—such as food, clothes, shelter—and paying taxes. People either save discretionary income or use it to buy goods and services they would like to have.
Effective incidence of tax	The person (or company) that has the actual burden of a tax. This may differ from who has the legal obligation to pay the tax in the first instance. For example, a seller may be able to pass on a tax it pays to the buyer by increasing the price.
Effective tax rate	Average rate of tax. In a progressive income tax, this is usually computed by dividing the tax liability by taxable income. This rate differs from the marginal rate (rate on the last dollar) and from the nominal rate (stated rate).
Equality of opportunity	Everyone has the same chance to have or achieve something such as money or a college education.
Equality of outcome	Everyone ends up with the same result such as having the same amount of money or education.
Equity	fairness
Estate tax	A tax on what a person owns at the time of death. It is a tax on the total value of the assets of the person who has died. The United States has an estate tax for very large estates—in 2019 the taxable estate of the decedent's (person who died) has to be more than $11 million before the tax applies. Many states also have estate taxes. They apply at much lower amounts.
Excise tax	A tax on a specific good or activity (such as the manufacturing or production of an item). A gas tax is an example of an excise tax.

Flat tax	A tax with a rate structure in which everyone pays the same percentage no matter how much of the tax base they have. For example, under a flat income tax both the person with $20,000 and the one with $50,000 pay the same rate (let's say 10%). The dollar amount of money each pays, however, varies because 10% of $50,000 is $5,000 but 10% of $20,000 is only $2,000. A flat tax is also called a proportional tax.
Graduated tax	A tax with a rate structure in which the tax rate (percentage) increases as the amount of the tax base increases. For example, if the tax base is income, then people with more income will pay a tax rate that is a higher percentage of their income than people with lower income. An example of a progressive income: people with $20,000 only pay 10% of their income in taxes; people with income above $20,000 pay a tax rate of 20% on income above $20,000. So, if Jordan has $50,000 of income, Jordan's tax is $2,000 + $6,000 = **$8,000** 10% of first $20,000 or $2,000 plus 20% of $30,000 (income above $20,000) or $6,000. (NOTE: Jordan still pays only 10% on the 1st $20,000 of income.) A graduated tax is also called a progressive tax.
Head tax	A tax that has a tax base of people. It is the same amount for every person. Often called a capitation (per capita) tax or a poll tax.
Horizontal equity	People in similar economic situations should pay the same amount of a tax.
Inheritance tax	A tax that has a tax base of people who inherit money or property. Taxpayers who inherit pay tax on the value of what they inherit.
Levy	*verb*: to charge or impose. *noun*: a tax.
Mandatory	Required by law, obligatory, compulsory.
Marginal tax rate	The tax rate that people pay on their last dollar subject to the tax. It is the highest rate they pay. In a graduated or progressive tax, a taxpayer pays several rates. In an income tax, for example, a taxpayer may pay 10% on the 1st $30,000 of income and 15% on the next $30,000, and 20% on any income above $60,000. The marginal tax rate, or the rate paid on the last dollars, is 20%.

Nominal tax rate	The rate (such as 10% or 15%) stated in the law.
Poll tax	A tax with a tax base of people. It is a fixed amount per person. Also called a head, capitation, or per capita tax.
Progressive tax	A tax with a rate structure in which the tax rate (percentage) increases as the amount of the tax base increases. For example, if the tax base is income, then people with more income will pay a higher percentage of tax than people with lower income. An example of a progressive income tax with 3 rates: people pay 10% tax on their first $10k of income; q15% on income above $20k but not more than $50k and 20% on income above $50k. A progressive tax is also called a graduated tax.
Property tax	A tax on property based on the value of the property. Usually property tax is paid annually or semi-annually. The most common type of property tax is a tax on "real property"—that is land and buildings. States and local governments use real property taxes to fund schools. There can be taxes on all types of property, however.
Proportional tax	A tax with a tax rate structure in which everyone pays the same percentage no matter how much of the tax base they have. For example, under a proportional income tax, both the person with $20,000 and the one with $50,000 pay the same rate (let's say 10%). The amount of money each pays, however, varies because 10% of $50,000 is $5,000 but 10% of $20,000 is only $2,000. A proportional tax is also called a flat tax.
Supermajority	An amount of votes greater than a 50% simple majority. A few states require a supermajority to pass some taxes. For instance, Arizona and Louisiana require a 2/3 (66.66%) majority to increase all taxes while Michigan requires a ¾ (75%) supermajority to increase property taxes.
Tax	Money that must be paid to support the government; An amount that a government requires a taxpayer subject to the tax to pay to the government to produce revenue (as opposed to being a fine or penalty). A tax is not voluntary, but is compulsory or mandatory.

Tax base	Whatever is being taxed is called the tax base. In other words, the tax base is the target or object that is subject to the tax, whether it is a thing, service, money, action, transaction, or privilege. With an income tax, for example, income is the tax base; with a sales tax, sales are the tax base.
Tax burden	The amount of tax a taxpayer owes to the government. It is determined by multiplying the tax rate times the tax base.
Tax exemption or tax-exempt	An amount or thing that is excluded from a tax base and so not subject to that tax. Many sales taxes exclude medicine from the tax. This means medicine is exempted from the sale tax and no sale tax is due when medicine is bought.
Tax liability	The amount of tax a person, company or other taxpayer owes the government. The tax liability is sometimes called the tax burden Tax liability is determined by multiplying the tax rate times the tax base.
Tax rate	The tax rate is either the percentage rate applied to the tax base to determine tax liability (burden) or the set dollar amount applied to each unit of the tax base.
Tax rate structure	The pattern of the rates a tax imposes. There are 3 basic percentage rate structures: up (progressive), down (regressive), or stay the same (flat). The rate structure can also be a set dollar amount per unit.
Taxpayer	A taxpayer is a person or entity (such as a business) that must pay a tax.
Vertical equity	The situation in which taxpayers with more of a tax base (e.g. income) pay more tax than people with less of the base. The principle of vertical equity is based on the theory that ability to pay increases as the tax base increases. Both progressive and proportional (flat) tax rates satisfy some definitions of vertical equity.
Wealth tax	A wealth tax is a tax on the value of all an taxpayer's assets such as cash, cars, real property (including homes), jewelry, stocks. A wealth tax is usually a net wealth tax which means the tax is on the value of all assets minus the value of all liabilities (debts). Wealth taxes usually exempt a certain amount of wealth from the tax. Some countries have wealth taxes that people pay annually (once a year.) The United States does not have a national one but some states have wealth taxes on certain types of assets like real property.