

## Appendix J

### Tax glossary

**Adjusted Gross Income (AGI):** Total income (wages, salaries, tips, capital gain distributions, pensions, annuities, unemployment benefits, social security benefits) before subtracting filing status-appropriate standard deductions and claiming exemptions.

**Federal Taxable Income:** Total income after subtracting federal filing status-appropriate standard deductions (for single, married filing separately, married filing jointly, or head of household) and claiming exemptions.

**Total Federal Income Tax:** Total federal tax an individual is liable for based on their taxable income bracket in the current federal tax table, before calculating the federal earned income credit.

**Federal Child Tax Credit:** A non-refundable credit for individuals with children (up to \$1,000 per child in 2003, but varies year to year) that can reduce owed taxes to zero; if child tax credit exceeds tax liability, no excess is refunded.

**Federal Earned Income Credit (EIC):** A refundable tax credit targeted to low-income individuals earning less than 200% of the federal poverty level. The value of the credit increases up to a specific income threshold depending on taxpayer status (i.e. zero to more than two dependents). The value of the credit then phases out once income exceeds the federal poverty level. The full amount of the EIC is still awarded even if taxes owed are zero, or the difference is awarded if EIC exceeds the estimated total tax value (based on taxable income). If the estimated total tax value exceeds the EIC, the taxpayer pays the difference.

**Federal Actual Income Tax Paid:** The final amount paid by the individual, or owed to the individual, after child tax credits, earned income credits and other credits have been calculated.

**Maryland Taxable Income:** Total income after subtracting Maryland filing status-appropriate standard deductions (for single, married filing separately, married filing jointly, or head of household) and claiming exemptions.

**Maryland Income Tax:** Total Maryland income tax an individual is liable for, based on their taxable income bracket in the current Maryland tax table, before calculating any state refundable/non-refundable tax credits

**Maryland Earned Income Credit:** A non-refundable tax credit for individuals eligible for the federal earned income credit (see federal definition above). The Maryland EIC is equal to 50% of the value of the federal earned income credit. The value is weighed against the value of the Maryland income tax. If the Maryland EIC plus the Maryland Poverty Credit exceeds Maryland tax (based on Maryland taxable income), the actual owed tax is reduced to zero. If the Maryland tax exceeds the Maryland EIC plus the Maryland Poverty credit, the taxpayer pays the difference.

**Refundable Earned Income Credit:** A state-level refundable tax credit for individuals with dependents who are eligible for the federal earned income credit (see federal definition above), and whose Maryland earned income credit exceeds the value of the Maryland income tax (whereby the actual owed state tax is reduced to zero). In this case, a certain percent (18% in 2003, but varies year to year) of the total federal earned income credit minus the Maryland income tax liability (i.e. what an individual would have paid, were they not eligible for the EIC) is the amount of the refund. In 2003, a new rule excluding married parents from receiving the Refundable EIC was added.

**Maryland Poverty Level Credit:** A non-refundable tax credit for individuals whose AGI is below the state poverty level income for the number of exemptions claimed. The credit is equal to 5% of

the AGI. Like the Maryland EIC, the value of the poverty credit is weighed against the value of the Maryland income tax liability. If the Maryland poverty credit plus the Maryland EIC (see state definition above) exceeds Maryland tax (based on Maryland taxable income), the actual owed tax is reduced to zero. If the Maryland tax exceeds the Maryland poverty credit plus the Maryland EIC, the taxpayer pays the difference.

**Local Income Tax (Baltimore City):** Total Baltimore City income tax an individual is liable for, based on the current Baltimore City tax rate (0.0305 in 2003, but can vary), before calculating any refundable/non-refundable tax credits

**Local Earned Income Credit (Baltimore City):** A non-refundable tax credit for individuals eligible for the federal earned income credit. The Baltimore City earned income credit is equal to the current city income tax rate multiplied by the value of the federal earned income credit. The value is weighed against the value of the local income tax. If the local EIC plus the local poverty credit (see local definition) exceeds the local tax, then the actual owed local tax is reduced to zero. If the local tax exceeds the local EIC plus the local poverty credit, the taxpayer pays the difference.

**Local Poverty Level Credit (Baltimore City):** A non-refundable tax credit for individuals eligible for the Maryland poverty level credit. The local poverty level credit is equal to the current city income tax rate multiplied by the value of an individual's AGI. Like the Maryland poverty level credit, the value of the local poverty credit is weighed against the value of the local income tax liability. If the local poverty credit plus the local EIC exceeds local income tax, the actual owed tax is reduced to zero. If the local income tax exceeds the local poverty credit plus the local EIC, the taxpayer pays the difference.

**Maryland/Local Actual Income Tax Paid:** The final payment owed by the individual, or the final refund owed to the individual, after the Maryland and local Baltimore City earned income credits, poverty level credits and refundable earned income credits have been calculated. Operationally, any local tax owed is calculated and paid using the state income tax forms.