GLOSSARY

Alimony: A payment to or for a spouse or former spouse under a divorce or separation instrument. It does not include voluntary payments that are not made under a divorce or separation instrument.

Child Support: The amount of money that one parent pays to the other parent to help pay for the everyday needs of the children, including housing, food, and clothing.

Child Tax Credit: A tax credit given to taxpayers for each qualifying child that is under the age of 17 at the end of the tax year.

Community Property: Community property is a classification-based system that divides all marital assets into one of two categories: (1) community property; and (2) separate property. The general rule is that all property, real or personal, acquired by a married person during the marriage while domiciled in a community property state is community property.

Custodial Parent: The parent who has physical custody of a child at any particular time.

Defined Benefit Plan: A defined benefit plan promises to pay each participant a specific benefit at retirement. This basic retirement benefit is usually based on a formula that takes into account factors like the number of years a participant works for the employer and the participant's salary. The basic retirement benefit is generally provided in the form of periodic payments for the participant's life beginning at what the plan calls "normal retirement age".

Defined Contribution Plan: A defined contribution plan, by contrast, is a type of pension plan that provides for an individual account for each participant. The participant's benefits are based solely on the amount contributed to the participant's account and any income, expenses, gains or losses, and any forfeitures of accounts of other participants that may be allocated to such participant's account.

Dependent: A person, other than a taxpayer or his or her spouse, for whom the taxpayer can claim an exemption. To be another person's dependent, a person must be a qualifying child (or qualifying relative).

Dependent Care Benefits: Dependent care benefits include amounts paid directly to a taxpayer or his or her care provider for the care of a qualifying person while the taxpayer is at work and the fair market value of care in a daycare facility provided or sponsored by the taxpayer's employer.

Dependent Care Credit: A nonrefundable credit based on expenses paid for a dependent's care. Such care must enable the taxpayer to be gainfully employed or to look for gainful employment. The credit is computed on Form 2441 for Form 1040 filers.

Dependent Care Expenses: Expenses that are work-related and provide care for a qualifying person.

Divorce: A legal judgment that severs the marriage of two people and restores them to the status of single persons. Also called a dissolution of marriage.

Divorce Decree: Court order that grants the divorce and outlines the determination of the issues in the dissolution. Also referred to as a final decree or the Findings of Fact, Conclusion of Law, Order to Judgment and Judgment and Decree.

Divorce or Separation Instrument: The term "divorce or separation instrument" means: (1) a decree of divorce or separate maintenance or a written instrument incident to that decree; (2) a written separation agreement; or (3) decree or any type of court order requiring a spouse to make payments for the support or maintenance of the other spouse. This includes a temporary decree, an interlocutory (not final) decree, and a decree of alimony pendente lite (while awaiting action on the final decree or agreement).

Domicile: The permanent legal home that a person intends to use for an indefinite or unlimited period, and to which, when absent, he or she intends to return. The question of domicile is largely a matter of intent.

Earned Income: Earned income includes wages, salaries, tips, other taxable employee compensation, and net earnings from self-employment.

Equitable Relief: Form of relief that can be granted by the IRS if it is inequitable to hold the taxpayer liable for any unpaid tax or any deficiency.

Exclusion Rule: Taxpayers may exclude from gross income up to $250,000 of gain from the sale or exchange of their principal residence. If taxpayers jointly own a principal residence but file separate returns, each taxpayer may exclude from gross income up to $250,000 of gain that is attributable to each taxpayer's interest in the property, assuming the requirements of Internal Revenue Code § 121 are met.

Filing Status: This refers to how a taxpayer files a federal return, i.e. whether he or she files a separate return or a joint return with a spouse. Filing status is extremely important in determining a person's tax liability.

Head of Household: A filing status. Refers to someone who is unmarried and resides with a dependent.

Injured Spouse: An individual is an "injured spouse" if the individual files a joint return and all or part of his or her share of the overpayment was, or is expected to be, applied against his or her spouse's past-due federal tax, state income tax, child or spousal support, or federal non-tax debt, such as a student loan.

Innocent Spouse Relief: By requesting innocent spouse relief, a taxpayer can be relieved of responsibility for paying tax, interest, and penalties if his or her spouse (or former spouse) improperly reported items or omitted items on his or her tax return.

Legal Separation: A court determination of rights and responsibilities of a husband and wife without dissolving the marriage.

Married Filing Jointly: A tax filing status. If an individual taxpayer is married, the taxpayer and his or her spouse can choose to file a joint return. If an individual elects to file jointly, both spouses must include all of their income, deductions, and credits on that return. A taxpayer can file a joint return even if the other spouse had no income or deductions.

Married Person: A taxpayer is considered "married" for the whole year if the taxpayer is separated but has not obtained a final decree of divorce or separate maintenance by the last day of the tax year.

Marital Property: All property acquired during the course of the marriage regardless of who owns it or who has title to it. Includes property such as houses, real estate, pensions, stocks, bonds, and household goods. Marital property does not generally include property that was acquired by either spouse prior to the marriage.

Pension Benefit Guaranty Corporation: The Pension Benefit Guaranty Corporation (PBGC) is a Federal agency that insures pension benefits in most private-sector defined benefit pension plans.

Prenuptial Agreement: A written contract entered into by two individuals who intend to marry but want to establish, before the marriage, their rights in the event of death or divorce during marriage. Such a document generally limits a spouse's rights to property, support, or inheritance upon divorce.

Presumed Gift: Where one party contributes a separate asset to the community, it is presumed to be a gift to the community and will not be reimbursed unless the person who made the gift can prove there was an agreement to the contrary.

Qualified Domestic Relations Order (QDRO): A separate order often used to divide a pension or a retirement plan owned by a spouse.

Recapture Rule: If an individual's alimony payments decrease or terminate during the first three calendar years, he or she may be subject to the recapture rule. If someone is subject to this rule, he or she has to include in income in the third year part of the alimony payments previously deducted. The individual's spouse can deduct in the third year part of the alimony payments he or she previously included in income.

Relief by Separation of Liability: A way of seeking relief for an injured spouse. Under relief by separation of liability, a taxpayer allocates (separates) the understatement of tax (plus interest and penalties) on his or her joint return between the taxpayer and his or her spouse (or former spouse). The understatement of tax allocated to the applicant for relief is generally the amount for which he or she is responsible.

Separate Property: Property that is not community property is separate property. This includes property acquired prior to marriage and not gifted to the community, inheritances received during the marriage (so long as they are not subsequently commingled) and certain insurance proceeds.

Standard Deduction: A dollar amount that reduces the amount of income on which a taxpayer is taxed. It is a benefit that eliminates the need for many taxpayers to itemize actual deductions, such as medical expenses, charitable contributions, and taxes, on Schedule A of Form 1040.

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010: A Congressional act that, among other impacts, provided temporary extension of 2010 tax rates, including estate tax and other expiring provisions and credits.

Transfer Incident to Divorce: The transfer of property from one spouse to another as part of a divorce settlement. Pursuant to Internal Revenue Code §1041, such transfers are non-taxable events.

Transfer in Trust: If an individual makes a transfer of property in trust for the benefit of his or her spouse (or former spouse, if incident to a divorce), gain or loss is generally not recognized.

Understatement of Tax: Generally the difference between the total amount of tax that should have been shown on an individual's return and the amount of tax that was actually shown on the return.

Unmarried Person: An individual is considered "unmarried" for the entire tax year if: (1) the individual has obtained a final decree of divorce or separate maintenance by the last day of their tax year. Individuals must follow their state law to determine if they are divorced or legally separated; or (2) a taxpayer has obtained a decree of annulment, which holds that no valid marriage ever existed.