

Kid's Tax Glossary: Money Words About Taxes Made Simple

Introduction

Welcome to our Kid's Tax Glossary! This guide explains tricky tax words in ways that are easy to understand. Keep this handy when you hear grown-ups talking about taxes or when you're learning about how our communities work together.

Tax Words from A to Z

A

Audit: When the government double-checks someone's tax forms to make sure everything was reported correctly. It's like when a teacher reviews your homework to check your work!

Allowance: Money given to children regularly, usually by parents. Most allowances don't need to be taxed unless they're very large.

B

Budget: A plan that shows how money will be spent. Governments create budgets to decide how to use tax money for things like schools, parks, and roads.

Bracket: A range of income that gets taxed at a specific rate. People who earn more money are in higher tax brackets and pay a larger percentage of their income as taxes.

C

Credit: A special discount on taxes. Tax credits directly reduce the amount of tax someone owes, like getting points off on a test!

Capital Gains: Money earned from selling something (like stocks or property) for more than what was paid for it. This kind of money often gets taxed differently than regular job income.

D

Deduction: An expense that reduces how much of your income gets taxed. Common deductions include money spent on education or donations to charity.

Dependent: A person who relies on someone else for financial support, usually a child or elderly family member. Parents can pay less in taxes by claiming their children as dependents.

E

Earned Income: Money received for work or services provided. This includes money from jobs, self-employment, or tips.

Exemption: A specific amount of money you don't have to pay taxes on. (Note: Personal exemptions were removed from federal taxes in 2018, but some states still have them.)

F

Filing Status: A category that determines which tax rules apply to you. Common statuses include "single," "married," or "head of household" (a single parent with children).

FICA: Taxes taken from paychecks to fund Social Security and Medicare, which help older and sick people. Every worker pays these taxes.

G

Gross Income: The total amount of money earned before any taxes or other deductions are taken out.

Gift Tax: A tax that might need to be paid when someone gives a very expensive gift to another person. Most normal birthday and holiday gifts don't need this tax!

I

Income: Money received from working, investments, or other sources.

IRS: The Internal Revenue Service – the government agency responsible for collecting taxes in the United States.

M

Minimum Wage: The lowest amount of money per hour that employers are legally allowed to pay workers. Taxes are still taken out of minimum wage paychecks.

N

Net Income: The amount of money someone takes home after taxes and other deductions are removed from their paycheck. Also called "take-home pay."

P

Property Tax: Money homeowners pay based on the value of their house and land. This type of tax often helps fund local schools and community services.

Payroll Tax: Taxes that employers take out of workers' paychecks, including income tax, Social Security tax, and Medicare tax.

R

Refund: Money returned to taxpayers who paid more in taxes during the year than they actually owed.

Revenue: All the money that comes into the government from taxes. This money is then used to pay for public services.

S

Sales Tax: An extra amount added to the price of items you buy in stores. Different states have different sales tax rates, and some states don't have sales tax at all!

Social Security: A government program that provides money to older people, disabled people, and families who have lost a parent or spouse. It's funded by special taxes taken from everyone's paychecks.

T

Tax Return: A form that people fill out to report their income, calculate how much tax they owe, and determine if they should get money back or need to pay more.

Tax Year: The 12-month period for which taxes are calculated. In the United States, the tax year is the same as the calendar year (January 1 to December 31).

W

W-2 Form: An important document that shows how much money someone earned at their job during the year and how much tax was already taken out of their paychecks.

Withholding: Money taken directly from paychecks to pay taxes throughout the year, instead of paying it all at once.

Fun Tax Facts for Kids

- The word "tax" comes from the Latin word "taxare," which means "to assess."
- Benjamin Franklin famously said, "In this world, nothing is certain except death and taxes."
- April 15th is usually "Tax Day" in the United States – the deadline for adults to submit their tax returns.
- The first income tax in the United States was created during the Civil War to help pay for war expenses.
- Some countries, like Monaco and the Bahamas, don't collect income taxes from their citizens at all!

This glossary is meant to help kids understand basic tax concepts. For more detailed or specific tax information, adults should consult with a tax professional.

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