

Glossary of Terms

The administration of taxes includes a specialized vocabulary not entirely familiar to the average taxpayer. The terms included here represent a selected, core group of tax-related terms common across many taxes. In cases where a definition contains a term that is also defined in this glossary, that term is highlighted in bold.

Allocation – for purposes of this report, allocation describes a process employed in computing corporation franchise tax **liability** whereby a taxpayer's nonbusiness income (e.g. interest, capital gains, etc.) is distributed between Ohio and other states. What is allocated to Ohio is then subject to Ohio tax.

Adjusted Gross Income – an amount used in the calculation of an individual's income tax **liability**; refers to an amount of income after certain adjustments are made, but before any reduction for the standardized and itemized **deduction(s)** or personal **exemption** is made.

Apportionment – for purposes of this report, apportionment describes a process in computing corporation franchise tax **liability** whereby a taxpayer's business income is distributed between Ohio and other states. What is apportioned to Ohio is then subject to tax.

Assessed value – the taxable value of land and improvements (i.e. buildings) for real property tax, or the taxable value of business property and inventories for tangible personal property tax. The assessed value of real property is set by state law in Ohio at 35 percent of true market value, with some exceptions including certain lands used for agriculture or forestry. This differs from appraised value, which is a value determined, in part, by sales of comparable and proximate properties and is generally representative of the true market value.

Credit – an amount subtracted from the amount of tax owed (the **liability**), such as child care expenses (for purposes of individual income tax) or research and development loan payments (for purposes of corporation franchise tax).

Deduction – an expense subtracted from personal **adjusted gross income** when calculating taxable income, such as for state and local taxes paid, charitable gifts, or certain types of interest payments.

Exemption – an amount excluded from taxable income, e.g. the personal exemption given to any taxpayer who cannot be claimed as a dependent by another taxpayer (for purposes of individual income tax).

Gross receipts – for purposes of the commercial activity tax, the total amount realized, without deduction for the cost of goods sold or other expenses incurred, from activities that contribute to the production of gross income, such as sales, performance of services, and rentals or leases. The public utility excise tax is also measured by gross receipts for business done from operations as a public utility.

Liability – the amount of a specific tax that a taxpayer owes; this amount can be reduced by deductions and credits.

Lien – an ownership right to a piece of property; e.g. when a financial institution loans money for purchase of a home, that mortgage loan is a lien. Taxing authorities can establish, or place, a lien on the property of a delinquent taxpayer. If the mortgage or loan or tax owed is not paid, the property can be sold to satisfy the lien.

Mcf – 1,000 cubic feet; used to measure natural gas.

Mill – a measurement equal to one-tenth of 1 percent; often used to refer to the amount of property tax imposed on real or personal property (e.g. a 2.5 mill tax levy imposed on a home with an **assessed value** of \$100,000 amounts to \$250 in tax).

Net income – the total earnings or "bottom line" of a business, generally calculated by deducting from total sales the costs of doing business; e.g. depreciation, interest, taxes and certain other expenditures.

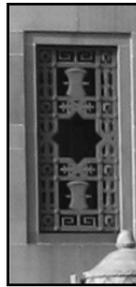
Net worth – the value of a business when its liabilities (debt, taxes and certain other obligations) are subtracted from the value of its assets.

Nexus – a term used to describe whether a business has sufficient presence or activity in a state or other taxing jurisdiction to become subject to the tax(es) of the state or jurisdiction.

Nonrefundable tax credit – a **credit** against a specific tax that does not entitle the taxpayer to a refund; when the credit is applied against the **liability**, if the amount of the credit reduces the liability to less than zero, the taxpayer is not eligible for a refund of the difference.

Permissive tax – a tax that a local political jurisdiction is "permitted" by law to enact, generally a sales tax.

Refundable tax credit – a **credit** against a specific tax that may entitle the taxpayer to a refund; when the credit is applied against the **liability**, if the amount of the credit reduces the liability to less than zero, then the taxpayer is eligible for a refund of the difference.



Situs – the place where property is physically located, or where a taxable transaction occurs.

Sourcing – for purposes of sales tax, the physical location where a sale occurs or where a sale is designated as having occurred. Most often, this is the physical location of the retailer, referred to as origin sourcing. In certain cases of sales involving delivery of a product or service, the source of the sale may be the location to which the product or service is delivered, referred to as destination sourcing.

Streamlined Sales Tax Project (SSTP) – a multi-state initiative to make sales tax laws, rules, and systems more uniform across states and thus easier for vendors to collect states' sales taxes. The goal of the SSTP is to encourage out-of-state vendors – primarily catalog and Internet retailers – to register with the project and collect the sales tax of Ohio and other states, which these retailers are not currently required to do under federal law.

Taxing district – a jurisdiction that by law can impose a **tax levy** for property, sales, or municipal or school district income taxes in a specified geographic area. These jurisdictions may overlap. They include counties, transit authorities, municipalities, special districts such as fire or park districts, and school districts.

Tax levy – a piece of legislation that imposes or alters a tax. A levy may be enacted at either the state level, for income or sales taxes, or at the local political jurisdiction level, such as for municipal or school district income, sales, or property taxes. Local tax levies generally require a vote of the people, are normally for a specific purpose, and are usually for a permanent or specified time period. Note: a locally-imposed sales tax is also referred to as a **permissive tax**.

Tax year – an annual accounting period for tax purposes that consists of 12 consecutive months. This may be either a fiscal year (12 consecutive months ending on the last day of any month except December, e.g. the state government fiscal year ends on June 30); or a calendar year (beginning Jan. 1 and ending Dec. 31). Businesses will normally file taxes on a fiscal tax year basis, which may be any consecutive 12-month period. The tax year for property taxes, as well as individual income taxes for most taxpayers, is the calendar year.