

NEW ACCOUNTANT[®]

Tax Acronyms

It is your first day at work at a local CPA firm and the partner in charge asks you to “examine whether we should use MACRS or ADR for the LLC client that was previously a LLLP client.” Although you may feel intimidated, the reality is that the tax profession has its own unique language that you need to understand to have career success in this field.

The field of tax accounting has a unique set of acronyms and abbreviations that is integral to the “jargon” or language that is shared by tax professionals. As a new tax professional, your superiors and colleagues will expect you to become well versed in this new language.

At present, some of these terms may seem unfamiliar and even intimidating. Learning these terms, however, will help you accomplish your work since it will be easier to communicate with other professionals. Once you start your accounting career these terms should be very familiar to you.

In a previous issue, *New Accountant* published an article on basic financial accounting and auditing acronyms that CPAs or aspiring CPAs need to know as knowledgeable professionals. This article complements that one to cover federal income tax practice acronyms. In tax, more than in financial accounting and auditing, acronyms are pervasive. This article covers acronyms used for tax organizations, tax credentials, tax reference materials, and tax planning and compliance practice. Those presented here are by no means all inclusive; it is intended to cover the more common ones a tax professional is likely to encounter.

As mentioned in the previous article, acronyms can have multiple meanings, so it is incumbent on the user of an acronym to make sure he or she and the recipient share the same meaning. This, along with the fact that some reader may not know the acronym, is the reason an acronym should be explained when it is first used in a written document.

The reader should note that the authors are not lawyers and are not providing tax advice. The provided definitions are informational definitions for tax professionals, not legal definitions for tax compliance work.

Organizations

ABA Taxation Group (<http://www.americanbar.org/groups/taxation.html>) – The American Bar Association is the professional society which represents the legal profession. Its Taxation Group produces materials which can be used by members in their professional practices, represents the interests of attorneys working in the tax area, and publishes several magazines and newsletters.

AICPA Tax Section (<http://www.aicpa.org/InterestAreas/Tax/Pages/TaxHomepage.aspx>) – The American Institute of Certified Public Accountants is the professional society representing CPAs. The

AICPA Tax Section produces resources for the professional tax practitioner, including tax practice guides and checklists, regulatory and legislative e-alerts, and *The Tax Adviser* magazine.

ATA (<http://www2.aaahq.org/ata/index.cfm>) – The American Taxation Association is the tax section of the American Accounting Association (AAA). Its members are primarily academics whose teaching and research interests include tax.

IRS (www.irs.gov) – The Internal Revenue Service is a bureau of the U.S. Department of the Treasury. It is responsible for administering and enforcing the tax laws passed by the U.S. Congress. In fiscal year 2015, the IRS collected almost \$3.3 trillion in revenue and processed almost 240 million tax returns.

NAEA (<http://www.naea.org/about-naea>) – The National Association of Enrolled Agents is a professional organization representing tax professionals who have earned the Enrolled Agent license from the IRS.

NTPI (<http://www.naea.org/education-events/national-tax-practice-institute>) – The National Tax Practice Institute was created by the NAEA to teach licensed tax professionals the skills needed to represent clients before the IRS. Included in the training is IRS law and procedures and review of IRS circular 230.

NASBA (<https://www.nasba.org/>) – The National Association of State Boards of Accountancy is an organization which represents the interests of the 55 state Boards of Accountancy.

NATP (<https://www.natptax.com/Pages/default.aspx>) – The National Association of Tax Professionals is a professional organization for tax professionals. The organization offers tax education, research, and services and supplies to help members' businesses.

NSA (<http://www.nsacct.org/home>) – The National Society of Accountants represents the interests of licensed and nonlicensed accounting and tax professionals, advocating for their practices and setting ethical and professional standards for members to follow.

NSTP (<https://www.nstp.org/>) – The National Society of Tax Professionals is an organization focused on providing education opportunities for tax professionals. Their major offerings include a training program for prospective enrolled agents, a federal tax review for nonlicensed tax professionals, and webinars updating tax professionals on the latest changes to tax law.

NTA (<https://www.ntanet.org/about/>) – The National Tax Association is a nonpartisan organization which works to bring together tax researchers and tax professionals to study and promote sound tax policy and administration. Membership includes legislators, tax practitioners, analysts, professors, students, and a variety of other citizens interested in tax issues.

TEI (<http://www.tei.org/Pages/default.aspx>) – The Tax Executives Institute is an organization of business executives who are responsible for tax matters at the administrative or policy making level. Their primary concern is with business taxation globally.

Credentials

CPA (<http://www.aicpa.org/BecomeACPA/Pages/BecomeaCPA.aspx>) – Certified Public Accountant is a license issued by 55 jurisdictions in the U.S., including each of the 50 states, Guam, Northern Mariana Islands, Puerto Rico, and Virgin Islands. Each jurisdiction sets their own criteria for qualifying for initial licensure, including education requirements, examination, and experience, and for continuing licensure. Links to each jurisdiction's requirements can be found at <https://www.nasba.org/stateboards/#cnmi>. The examination is written and graded by the AICPA. CPAs are one of only three groups of professional licensees which are permitted to represent the interests of clients before the IRS during audit appeals.

EA (<https://www.irs.gov/tax-professionals/enrolled-agents/enrolled-agent-information>) – An Enrolled Agent is a professional certification issued by the IRS when a person has passed an examination on

federal taxation written and graded by the IRS. Alternatively, it can be earned based on past experience as a former IRS employee. In addition to tax return preparation, EAs are permitted to represent the interests of clients before the IRS.

JD (<http://legal-dictionary.thefreedictionary.com/Juris+Doctor>) – Juris Doctor is the degree earned upon successful completion of law school in the U.S. The requirements for earning the JD vary from school to school. In order to practice law, the graduate must also pass the Bar Examination in the state in which they will practice. Once the JD has been earned and the Bar Exam passed, the lawyer is permitted to represent the interest of clients before the IRS.

LLM or LL.M. (<https://llm-guide.com/what-is-an-llm>) – From the Latin *Legum Magister*, which means Master of Laws, the LLM is a law degree earned after completion of a JD or another graduate level degree. This degree demonstrates an advanced, in-depth knowledge of a specialty within the law, such as tax law or international law. The requirements for earning the LLM vary from school to school.

MST (<http://www.gradschools.com/programs/accounting/taxation>) – A Master of Science in Tax is a graduate degree earned after completion of the undergraduate degree. This degree shows an advanced, comprehensive knowledge of taxation. The requirements for earning the MST vary from school to school.

PTIN (<https://www.irs.gov/tax-professionals/ptin-requirements-for-tax-return-preparers>) – A Preparer Tax Identification Number is required for any person who is compensated to prepare or assist in preparation of federal tax returns. Some states also require a PTIN for paid tax preparers. PTIN is issued or renewed annually by the IRS.

Reference Materials

CFR (<http://www.ecfr.gov/cgi-bin/ECFR?page=browse>) – The Code of Federal Regulations is the codification of the permanent rules and regulations published in the Federal Register by the departments and agencies in the executive branch of the federal government. This includes tax regulations (Title 26) as well as nontax regulations. The electronic version which is available at the link above, is updated daily.

Ct. D. – Court Decision. Each year, courts at all levels issue decisions in cases which have been brought before them. These decisions address all aspects of law, and sometimes contradict decisions previously issued in other cases. Court decisions set precedent, meaning they shape the way the law is interpreted and applied.

IRB (<https://apps.irs.gov/app/picklist/list/internalRevenueBulletins.html>) – The Internal Revenue Bulletin is used by the IRS to publish official rulings and procedures. It also contains the texts of Executive Orders, Tax Conventions, and Treasury Decisions, as well as relevant court decisions and legislation.

IRC (<https://www.irs.gov/tax-professionals/tax-code-regulations-and-official-guidance> or <https://www.law.cornell.edu/uscode/text/26>) – The Internal Revenue Code of 1986 is the statutory tax law of the federal government of the United States, as approved by Congress and the President in 1986 and amended many times since then. It exists as Title 26 of the United States Code. Tax topics covered in the sections which comprise the IRC include estate taxes, excise taxes, gift taxes, income taxes, and payroll taxes. The IRC is interpreted by the courts and implemented by the IRS.

Ltr. Rul. (<https://www.irs.gov/uac/understanding-irs-guidance-a-brief-primer>) – A Letter Ruling, also known as a **Private Letter Ruling (PLR)**, is issued by the IRS at the request of a taxpayer. The request is made and the response is given before the transaction occurs or before the relevant tax return is filed. Ltr. Rul. is a written response interpreting federal tax law regarding the taxpayer's unique set of facts. It is intended to give the taxpayer certainty about the tax consequences of a particular transaction or set of facts, because the response is binding on the IRS if the taxpayer does not deviate from the facts presented in the request. However, a Ltr. Rul. does not set precedent for other taxpayers.

PLR – Private Letter Ruling. See **Ltr. Rul.**

Prop. Reg. – Proposed Regulation. (https://www.irs.gov/irm/part4/irm_04-010-007.html) Prop. Reg. is the initial issuance of regulations by the Treasury Department. They are published in the FR and IRB and are the first indication of the Treasury Department’s interpretation of a section of the IRC. After publication, the public has the opportunity to comment, and a public hearing may be held by the Department.

Reg. (https://www.irs.gov/irm/part4/irm_04-010-007.html) – A Regulation, also known as **Treasury Decision (TD)**, is the final interpretation of a tax law and supersedes the relevant Prop. Reg. and Temp. Reg. It is published in the Federal Register.

Rev. Proc. (https://www.irs.gov/irm/part4/irm_04-010-007.html) – A Revenue Procedure is a statement issued by the Treasury Department to help taxpayers comply with a procedural issue. These procedural issues often affect tax return preparation or compliance with tax law. The goal is to promote uniformity by taxpayers and by regulators.

Rev. Rul. (https://www.irs.gov/irm/part4/irm_04-010-007.html) – A Revenue Ruling is an interpretation of the IRC and Reg. as applied to a given set of facts. It is published in the IRB and sets precedent for all taxpayers with a similar set of facts and circumstances.

S. Ct. (<https://www.supremecourt.gov/>) – The Supreme Court of the United States is the highest federal court in the nation. It has jurisdiction over all federal courts in the United States and is the highest level of appeal for any decision of a federal court or of a state court ruling which affects federal law. It is the highest level interpreter of federal constitutional law. Currently, there are nine seats on the Supreme Court.

TC (<https://www.ustaxcourt.gov/>) – The Tax Court, also known as United States Tax Court (USTC), helps ensure uniform interpretation of the IRC by hearing disputes between taxpayers and the IRS in a courtroom setting. The court currently has 19 seats which are filled by Presidential appointment with judges who are experts in tax law.

TD – Treasury Decision. See **Reg.**

Temp. Reg. (https://www.irs.gov/irm/part4/irm_04-010-007.html) – A Temporary Regulation is usually issued by the Treasury Department shortly after a change in tax law. It serves as guidance to taxpayers and regulators in the application of the new law. Taxpayers can rely on the Temp. Reg. until the final Reg. is issued.

Tax Planning and Compliance

ADR – Asset Depreciation Range is a range of acceptable lives for tax computation of depreciation of long-lived tangible assets and is used by taxpayers who do not elect to use the Modified Accelerated Cost Recovery System.

AGI – Adjusted Gross Income is a subtotal on the federal income tax return for individuals resulting from taking specifically allowed adjustments (deductions) from gross income. AGI is important, because it is used to limit other deduction, such as medical expenses.

AMT or AltMin Tax – Alternative Minimum Tax is a tax created to stop individuals from benefiting too much from legitimate tax deductions. It limits the use of selected deductions for taxpayers above a certain income level.

C Corp – A C Corporation is a separate legal entity, meaning the earnings, whether or not distributed, are taxed at the company level, with distributions from earnings (dividends) generally taxable again at the recipient level.

CFC – A Controlled Foreign Corporation is any foreign (non-U.S.) corporation that is more than 50% owned by U.S. Shareholders. The CFC rules are designed to reduce the ability of individuals and entities subject to U.S. tax to use foreign entities to defer otherwise taxable income.

CG – Capital Gain is the excess of the net sales price of a capital asset over its tax basis.

CIT - Corporate Income Tax is the tax paid by a corporation

CL – Capital Loss is the excess of the tax basis of a capital asset over its net sales price. There are limitations on the deductibility of a net capital loss.

COD – Cancellation of Debt, also known as a Discharge of Indebtedness; see DOI below.

COLA – Cost of Living Adjustment is an inflation adjustment that is applied to certain tax provisions. For examples, Individual retirement account and pension deductibility limitations are adjusted annually for cost-of-living increases.

CRT – A Charitable Remainder Trust is an irrevocable trust designed to generate income for the donor or designated beneficiaries with the remainder going to one or more designated charities. It can generate an immediate charitable donation deduction for a portion of the trust funding. Trust income is not taxable at the trust level, although distributions to beneficiaries are taxable to the beneficiary.

DOB – Date of Birth, along with a social security number, is required information for all dependents on a federal individual income tax return.

DOD – Date of Death is a critical date for the cut-off of decedent income taxes and the calculation of Income in Respect of a Decedent and estate tax return asset values.

DOI - Discharge of Indebtedness (also known as COD or Cancellation of Debt) is treated as gross income for tax purposes, with some exceptions.

DWT- Dividend Withholding Tax applies to payments made from U.S. source income to foreign individuals.

EFT - Electronic Funds Transfer is the transfer of money from one bank account to another by computer-based systems.

EFTPS - The Electronic Federal Tax Payment System is a free system provided by the U.S. Treasury for the payment of any tax due to the Internal Revenue Service.

EIC or EITC - Earned Income Credit or Earned Income Tax Credit is a refundable credit dependent on income and number of children. A refundable credit can be higher than the taxpayer's tax liability.

EIN - Employer Identification Number is a number assigned by the IRS to a non-individual tax entity, used in federal tax filings and dealings with the IRS.

ETR – Effective Tax Rate is the average tax rate paid on gross income by an individual or on pre-tax income by a corporation. It is computed by dividing the tax paid by the gross income of the individual or pre-tax income of the corporation.

FICA - Federal Insurance Contributions Act created the payroll tax on employers and employees that funds Social Security and Medicare.

FSA – A Flexible Spending Account allows the user to set aside pre-tax dollars to pay eligible health care expenses.

FTD - Federal Tax Deposits apply to payroll taxes withheld from employee pay, as well as the employer's share of payroll taxes.

FUTA – The Federal Unemployment Tax Act created an employer payroll tax on employee wages. Most employers pay both a Federal and a state unemployment tax, with the Federal rate affected by the state rate.

HOH - Head of Household is a filing designation on the individual tax return (Form 1040). It is for an unmarried individual with one or more dependents.

HRA – A Health Reimbursement Arrangement (also referred to as a Health Reimbursement Account) is an employer-funded plan that helps pay for certain out-of-pocket medical expenses and health insurance premiums of employees.

HSA – A Health Savings Account is a medical savings account that uses pre-tax dollars to pay medical expenses for a high deductible health plan.

IRA – An Individual Retirement Account is a retirement savings account. A traditional IRA has tax-deductible contributions, with taxable withdrawals. A Roth IRA has contributions that are not tax deductible, but has tax-free withdrawals.

IRD - Income In Respect of Decedent is the income earned by an estate between the time of death and the time of filing the estate tax return.

ITIN – An Individual Taxpayer Identification Number is a tax-processing number issued by the Internal Revenue Service to individuals who are required to have a U.S. taxpayer identification number, but who do not have and are not eligible to obtain a Social Security Number.

JV – A Joint Venture is a business undertaking by two or more parties, which may be individuals or companies.

LLC - Limited Liability Company is a limited liability entity that can elect to be taxed like a C Corp or like a partnership (pass through).

LLP – A Limited Liability Partnership is a pass-through, unincorporated entity with two or more owners that provides limited liability to the partners.

LLLP – A Limited Liability Limited Partnership is a pass-through, unincorporated entity with two or more owners that allows the general partners to be afforded limited liability for the debts and obligations of the limited partnership.

LTCG – Long Term Capital Gain is a gain from selling a capital asset that has been held for more than one year.

LTCL – Long Term Capital Loss is a loss from selling a capital asset that has been held for more than one year.

LP - Limited Partnership is a pass-through, unincorporated entity with two or more owners where the general partner has unlimited liability and the limited partners have limited liability.

MACRS – Modified Accelerated Cost Recovery System is accelerated depreciation for tax return preparation. It replaced the Accelerated Cost Recovery System (ACRS), which is not separately covered in these acronyms.

MAGI - Modified Adjusted Gross Income is gross income with certain adjustments, most of which raise taxable income. It is used to determine the taxpayer's qualification for a number of credits, benefits, and exclusions.

MFJ - Married Filing Jointly is a filing designation on the individual tax return (Form 1040). It is for two married individuals who chose to file jointly. The tax rates for married filing jointly are lower than for married filing separately.

MFS – Married Filing Separately is a filing designation on the individual tax return (Form 1040). It is for two married individuals who choose to file separately. The tax rates for married filing separately are higher than for married filing jointly.

MRD - A Minimum Required Distribution is another name for a Required Minimum Distribution. See RMD below.

MSA – A Medical Savings Account is similar to a Health Savings Account, but the MSA is limited to self-employed individuals or employer groups with 50 or less employees enrolled in a High Deductible Health Plan. An Archer MSA is a tax-exempt custodial account or trust set up with a financial institution such as an insurance company or bank.

MTR - Marginal Tax Rate is the tax percentage paid on the next dollar of earnings. Because of the progressive tax system, it is usually higher than the average tax rate, except for those taxpayers who have high enough income to disallow all of their deductions.

NOL – Net Operating Loss is the amount by which tax deductible expenses exceed taxable revenue. The calculation for tax purposes is not identical to a net loss computed for financial accounting purposes.

OID - Original Issue Discount is the discount on a municipal bond at the time of issue, which adjusts the stated interest rate to the market interest rate. It is used to determine how much of the proceeds from a municipal bond are tax-free interest versus taxable capital gain.

REIT – A Real Estate Investment Trust is a company that owns (equity REIT) or finances (mortgage REIT) real estate. Shareholders generally pay the tax on REIT taxable income, which is generally all paid to them as dividends.

RMD - Required Minimum Distribution is an amount that must be distributed from a taxable pension account. These generally occur when an individual reaches full retirement age, which is currently 66 years old. Failure to take a minimum distribution triggers substantial penalties, in addition to the tax collected on what should have been distributed. It does not apply to Roth IRAs, because the proceeds from these accounts are not taxable when distributed.

SE - Self Employment is a term applied to working individuals who are not employees. It includes individuals working full- or part-time who are sole proprietors, independent contractors, or partners in a partnership that carries on a trade or business.

SEP or SEP Plan – A Simplified Employee Pension Plan allows contributions for the business owner and employees to an Individual Retirement Account or Annuity set up for each plan participant, referred to as a SEP-IRA. Except for higher contribution limits, a SEP-IRA follows the rules for a traditional IRA.

SIMPLE – A Savings Incentive Match Plan for Employees, also known as a SIMPLE IRA, is an employer-provided Individual Retirement Account that allows employees to set aside pre-tax money for retirement.

SL - Straight-Line Depreciation is a method that writes off the original cost of an asset, minus its expected residual or salvage value, equally over the expected life of the asset. For tax purposes the expected life must be either the Asset Depreciation Range (ADR) recovery period or the Modified Accelerated Cost Recovery System (MACRS) recovery period.

SMLLC - Single Member LLC is a limited liability company with one shareholder/owner, who may be an individual or entity.

SSI - Supplemental Security Income is a Federal cash supplement for aged, blind, and disabled people, who have little or no income. It is not part of Social Security.

SSN – A Social Security Number is a nine-digit number issued to U.S. citizens, permanent residents, and temporary working residents. It required for every individual included on a tax return. A dependent exemption cannot be taken for an infant without a social security number. (For individuals who are required to have a U.S. taxpayer identification number, but who do not have and are not eligible to obtain a Social Security Number, see ITIN above.)

STCG – Short Term Capital Gain is a gain from selling a capital asset that has been held for one year or less.

STCL – Short Term Capital Loss is a loss from selling a capital asset that has been held for one year or less.

S Corp – An S Corporation is a pass-through entity, meaning the earnings, whether or not distributed, are generally taxed only once at the shareholder level. (There can be some taxes assessed at the company level.)

TIN – A Taxpayer Identification Number is an identification number used by the Internal Revenue Service for tax purposes. For specific types, see EIN (Employer Identification Number), ITIN (Individual Taxpayer Identification Number), and SSN (Social Security Number) above. PTIN (Preparer Taxpayer Identification Number) and ATIN (pending Adoptions Tax identification Number) are not separately covered in these acronyms.

TOD - Transfer on Death applies to property that is transferred to the recipient upon the death of the owner without going through probate, after providing proof of death and identification of the recipient. An individual's share of joint property is generally transferred on death to the surviving joint owner.

UBIT - Unrelated Business Income Taxes apply to the income of a tax exempt organization from a trade or business that is not substantially related to its tax free purpose.

UNICAP - Uniform Capitalization requires certain costs that are expensed under generally accepted accounting principles to be capitalized as part of inventory for tax purposes. For producers these include some pre-production costs (e.g., purchasing) and post-production-pre-sale costs (e.g., storage). For some purchasers, these include some post-production-pre-sale costs (e.g., storage).

UTMA - Uniform Transfers to Minors Act specifies and simplifies the treatment of assets transferred to a minor. The tax treatment of the transfer and income generated by the assets is beyond the scope of this article. It is an extension of the Uniform Gift to Minors Act (UGMA), which is not separately covered in these acronyms.

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