

# Tax Fundamentals

**Tax Return** – form(s) filed by taxpayers to report income, expenses and other pertinent tax information.

Total or **Gross Income** – money, goods, services and property a person receives that must be reported, including:

- Earned Income: (Active) wages, salaries, tips and self-employment
- Unearned Income: (Portfolio) interest, dividends and retirement plans
- Passive Income: Rental properties, limited partnerships

**Adjusted Gross Income (AGI)** – is gross income minus some specific **adjustments** to income.

**Deductions** – certain expenses the IRS allows that reduce the amount of income subject to taxation.

**Taxable Income** – is income after all eligible **deductions** that is used to calculate taxes owed.

**Taxes** – required payments of money to governments that are used to provide public goods and services for the benefit of the community as a whole.

**Tax Credit** – a dollar-for-dollar reduction in the tax. Can be directly applied to reduce taxes owed on tax return.

**Payments** – amounts withheld or periodically paid to timely satisfy taxes owed.

**Refund** – money owed to taxpayers when their total tax payments are greater than their total taxes owed.

**Total or Gross  
Income**

-

**Adjustments  
and  
Deductions**

=

**Taxable  
Income**

**Tax**

-

**Credits  
and  
Payments**

=

**Tax Due  
or  
Refund**



- Be aware of common tax terms and the overall tax return process
- Distinguish various types of income
- Differentiate tax adjustments and deductions
- Recognize how taxes, tax credits and tax payments interrelate
- Utilize your resources and ask questions

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