SALT, Expensing and Other Tax Terms to Know: QuickTake Glossary

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Few topics in Washington lend themselves to jargon as readily as taxes. President Donald Trump's drive for tax cuts, now gaining steam in the Republican-controlled Congress, might send some readers diving for their dictionaries. Here are some of the terms worth understanding.

State and Local Taxes

To help pay for promised cuts -- including lower rates for corporations and some individuals -- lawmakers are trying to raise revenue elsewhere. A big but well-defended target is the deductibility of state and local taxes (SALT), an expensive and treasured middle- and upper-middle-class tax break that benefits the 30 percent of filers who itemize their tax returns. Eliminating the break in full would raise an estimated $1.3 trillion over 10 years -- an amount Republicans need to offset the deep cuts they've proposed. In a high-tax state like New York, a person who makes $1 million may end up paying $120,000 in state and local taxes, which, if deducted, could save $48,000 in federal taxes, estimates Robert Willens of New York-based Robert Willens LLC.

Corporate Tax Rate

Like most nations, the U.S. levies a graduated federal tax on the net profits of corporations. Since 1993, the top rate has been 35 percent, among the highest in the developed world. (It grows to 39.1 percent when state and local taxes are included). Thanks to deductions and credits, few companies pay that amount: In 2012, the effective rate was about 19 percent, according to the Congressional Budget Office. Trump's stated goal was to slash the top rate to 15 percent, though he may have to settle for something closer to 20 percent.

Pass-Through Entities

Trump has talked of applying the lower corporate rate to pass-through businesses -- those organized as partnerships, limited-liability companies or sole-proprietorships. They currently report any profit ("pass it through") on the owners' personal tax returns, where it's taxed at up to 39.6 percent (for incomes above $418,400). Of almost 30 million U.S. companies, about 95 percent are already pass-throughs. Most law firms, hedge funds and real-estate developers, such as the president's own Trump Organization, are pass-through companies. Treasury Secretary Steven Mnuchin said the proposed lower tax rate would be reserved for pass-through businesses that are "creating manufacturing jobs" and not for "service companies" like accounting firms. He didn't specify how the federal government would carry out this categorizing of businesses.

Corporate Interest Deduction

The U.S. tax code, as written, rewards companies that use debt (rather than equity) to make investments. It does so by allowing companies to deduct their interest payments when calculating their federal taxes. House Speaker Ryan is among the Republicans who say ending this deduction is a way to raise revenue to pay for the rest of the tax-cut plan. But Trump's preference is to maintain the deduction.

Full and Immediate Expensing

When a company invests in new buildings or equipment, it can subtract the cost from its taxable revenue over a number of years. Such spending is known as a capital expenditure; the deduction is called depreciation. House Republicans have called forimmediate expensing -- allowing the entire cost to be subtracted right away. They believe investment will increase, more jobs will be created and the economy will grow faster this way. But the tax break would also be costly: One estimate puts the 10-year loss of tax revenue at $881 billion to $2.2 trillion.

Alternative Minimum Tax

The AMT was created in 1979 to make sure very wealthy households can't take advantage of deductions and credits to the point that they pay little or no federal income tax. But thanks to inflation and the value of certain deductions, such as state and local taxes, some 5 million people now get caught by this minimum tax. (That includes Trump, who paid $38 million in alternative taxes on income of $150 million in 2005, judging by two pages of his leaked tax return.) Despite attempts by Congress to limit the AMT's reach, the number of affected households continues to grow, along with the AMT's unpopularity.

Estate Tax

For Republicans, this is one of the most unpopular parts of the U.S. tax system, which is why they like to call it the "death tax" and emphasize its effect on inheritance of family farms and small businesses. For Democrats, estate taxes are necessary to break up dynastic wealth and help reverse income inequality. Over the next 30 years, U.S. non-spousal heirs are expected to inherit more than $6 trillion. But not many estates pay the tax these days: In 2014, the U.S. collected only $16 billion this way. Current law excludes up to $5.49 million from an individual's taxes, or

$10.98 million for a couple's. After that, the rate is 40 percent, but there are numerous ways, such as trusts, to shield assets. A 2015 congressional study found that 99.8 percent of U.S. deaths in 2013 triggered no estate tax.

Revenue Neutral

This high bar means a proposal has an equal balance of costs and savings, and so will have no net impact on the budget deficit. In his campaign and even recently, Trump had said that his tax plan would be revenue neutral, which suggested it would close enough loopholes and end enough deductions to continue raising the same level of revenue. As outlined, Trump's plan seems highly unlikely to do that. (One cost estimatehas the Trump plan losing $3 trillion to $7 trillion in tax revenue over a decade.) His team says the cuts will unleash such an economic boom that tax revenues will naturally rise as well.

Dynamic Scoring

The twin referees of whether a legislative proposal will add to the federal deficit are the Joint Committee on Taxation and the Congressional Budget Office. They must considerhow tax or policy changes might affect behavior -- like how raising taxes on cigarettes might reduce sales. This is known as dynamic scoring, and it's more art than science. Trump says his plan will encourage companies to expand and hire more workers to put in longer hours, which will lead to stronger economic growth and the payment of new taxes, ultimately offsetting the loss of trillions of tax revenue over 10 years. Lots of Democratic economists -- and even some Republican ones -- disagree with that analysis.

Territoriality

U.S. companies use creative methods to avoid paying the top corporate-tax rate of 35 percent. A favorite is to claim income came from a country -- Bermuda, the Cayman Islands and Ireland are popular -- with much lower tax rates. The U.S. taxes companies on their worldwide income, unlike the rest of the developed world; companies, however, can defer paying taxes on offshore profits that are kept outside the U.S. Such tax-avoidance maneuvers cost the U.S. tens of billions of dollars a year. In addition to lowering the top corporate tax rate, Trump would address this by switching the U.S. to a territorial system, which taxes only earnings from U.S. sales. Profits stashed overseas would be hit with a one-time repatriation tax, at a rate to be determined.

Temporary Tax Cuts

Like George W. Bush at the start of his presidency in 2001, Trump could specify that his tax cuts will expire in 10 years. This would increase the odds of passage in the U.S. Senate, where budget bills that don't increase the deficit beyond 10 years can pass with a simple majority vote. (Other bills require a 60-vote supermajority; Republicans hold 52 seats.) Some businesses may consider a 10-year tax cut too short a period for the long-term commitments they require for investment and expansion decisions. On the other hand, most of Bush's temporary tax cuts for individuals wound up being made permanent.

The Reference Shelf

- A QuickTake explainer on the U.S. budget deficit.
- What's known about Trump's tax plan.
- A 2016 report by the U.S. Government Accountability Office found that almost one-fifth of large American corporations that made a profit in 2012 paid no federal income tax.
- The conservative Tax Foundation looked at seven tax reforms and found that President Ronald Reagan's 1981 tax cut had the biggest long-term benefit, 8 percent growth.
- Michael Tanner at the Cato Institute, which favors limited government, saysTrump's corporate tax cuts could eventually mean higher wages for workers.