

Exclusive Enrolled Agent Terminology Handbook

This handbook provides a comprehensive list of key terms and definitions for the Enrolled Agent (EA) Special Enrollment Examination (SEE), covering Part 1 (Individuals), Part 2 (Businesses), and Part 3 (Representation, Practices, and Procedures). It is designed to support candidates preparing for the EA exam by offering clear, concise explanations of critical tax concepts. Use this as a quick-reference tool to reinforce your understanding and ensure exam readiness.

Part 1: Individuals

Term	Definition
Adjusted Gross Income (AGI)	Total gross income minus specific adjustments (e.g., educator expenses, student loan interest). AGI determines eligibility for certain deductions and credits.
Dependent	A qualifying child or relative meeting IRS criteria (e.g., residency, support tests) for tax exemptions or credits.
Earned Income	Income from wages, salaries, tips, or self-employment, distinct from unearned income like interest or dividends.
Filing Status	Determines tax rates and standard deductions (e.g., Single, Married Filing Jointly, Head of Household).
Itemized Deductions	Specific expenses (e.g., medical, charitable contributions) claimed instead of the standard deduction to reduce taxable income.
Taxable Income	AGI minus deductions (standard or itemized) and exemptions, used to calculate tax liability.
Tax Credit	A dollar-for-dollar reduction in tax liability (e.g., Child Tax Credit, Earned Income Tax Credit).
Withholding	Income tax deducted from an employee's paycheck by the employer, remitted to the IRS.
Dual Status Alien	An alien who is both a nonresident and resident alien during the same tax year, common in years of arrival or departure.

Term	Definition
Resident Alien	Meets either the green card test or substantial presence test; may choose to be treated as a U.S. resident for part of the year.
Green Card Test	A taxpayer is a resident for tax purposes if a lawful permanent resident of the U.S. at any time during the year.
Substantial Presence Test	Resident if physically present in the U.S. for at least 31 days in the current year and 183 days over three years (current year days, 1/3 of prior year, 1/6 of two years prior).
Provisional Income Thresholds for SS Benefits Exclusion	Determines taxability of Social Security benefits; thresholds: MFJ \$32,000–\$44,000; others \$25,000–\$34,000; MFSLT \$0.
Insurance Proceeds Excluded from Gross Income	Includes disability pay, accident insurance proceeds substituting lost income, and damages for emotional distress from physical injury.
Insurance Proceeds Included in Gross Income	Punitive damages, even if connected to physical injury, are included in gross income.
Unemployment Compensation	Included in gross income for tax purposes.
Disability Pay	Excluded from gross income if related to physical injury or illness.
Punitive Damages	Included in gross income, unless connected to physical injury.
Health/Accident Plan Benefits	Excluded from gross income if paid by employer and connected to physical injury.
Compensation for Lost Wages	Excluded from gross income if due to physical injury or illness.
Series EE U.S. Savings Bonds Interest Exclusion	Interest may be excluded if used for qualified educational expenses; exclusion phases out based on AGI thresholds (e.g., Single \$79,550–\$94,550; MFJ \$119,300–\$149,300).
Tax Home Factors	Includes business performed near main home, duplicated living expenses due to travel, and family residence at main home.

Term	Definition
Personal Use of Dwelling Unit	Not considered personal use if rented at fair rental value to any person, including relatives.

Part 2: Businesses

Term	Definition
Basis	The original cost of an asset, adjusted for depreciation, improvements, or other factors, used to calculate gain or loss on sale.
C Corporation	A business entity taxed separately from its owners, subject to corporate income tax rates.
Depreciation	Allocation of an asset's cost over its useful life for tax purposes (e.g., Modified Accelerated Cost Recovery System, MACRS).
Net Operating Loss (NOL)	Occurs when business deductions exceed income, potentially carried back or forward to offset taxable income.
Partnership	A business owned by two or more individuals, with income and losses passing through to partners' personal tax returns.
S Corporation	A corporation electing to pass income, losses, and credits through to shareholders, avoiding double taxation.
Schedule C	Form used by sole proprietors to report business income and expenses.
Self-Employment Tax	Social Security and Medicare taxes paid by self-employed individuals on net earnings, typically 15.3%.
Business Entity Types	Includes sole proprietorship (not separate from owner), corporation, partnership, and S corporation.
Employer Identification Number (EIN)	A unique number required for a proprietorship that incorporates or other business entities for tax purposes.
LLC Advantages over S Corp	Includes inclusion of entity-level liabilities in tax basis and flexibility in types of owners and ownership interests.

Term	Definition
Default Classification of Domestic LLC	Classified as a partnership for tax purposes if two or more members and Form 8832 is not filed.
Accounting Methods	Includes cash method (report when received/paid), accrual method (report when earned/incurred), and hybrid method.
Accounting Method Changes	No Form 3115 needed for correction of math errors in accounting method changes.
Unacceptable Accounting Method	Using cash method for income and accrual for expenses is not permitted.
Entities Using Cash Method	Generally allowed except for corporations with long-term contracts; includes family farming corporations with $\leq \$25M$ gross receipts, entities with no inventories $\leq \$5M$ average gross receipts, and qualified personal service corporations.
Cash Basis Income Reporting	Report income when actually or constructively received, in cash or property.
Accrual Method Income Reporting	Report income in the year earned and expenses in the year incurred; advance payments for services >3 years reported in year received.
Inventory Accounting Method	Generally requires the accrual method for businesses with inventory.

Part 3: Representation, Practices, and Procedures

Term	Definition
Circular 230	Treasury Department regulations governing tax practitioners, outlining duties and ethical standards for Enrolled Agents.
Due Diligence	The responsibility of tax professionals to ensure accuracy and compliance in preparing tax returns or claims.
Enrolled Agent (EA)	A federally licensed tax practitioner authorized to represent taxpayers before the IRS.

Term	Definition
Power of Attorney (Form 2848)	Authorizes an EA to represent a taxpayer in IRS matters; includes a declaration of Circular 230 awareness.
Preparer Tax Identification Number (PTIN)	A unique number required for anyone preparing federal tax returns for compensation.
Statute of Limitations	The period (generally three years from filing) during which the IRS can audit a return or the taxpayer can amend it.
Taxpayer Advocate Service	An IRS program assisting taxpayers with unresolved tax issues or hardships.
Understatement of Tax	Reporting less tax liability than owed, potentially leading to penalties if substantial or due to negligence.
Preparer Information to Maintain	Includes taxpayer's name, tax ID number, taxable year, preparer's name, and type of return or claim for refund.
Annual Filing Season Program Requirements	Requires 18 hours of continuing education: 6 hours federal tax refresher (with test), 10 hours federal tax law, 2 hours ethics; active PTIN; consent to Circular 230 Subpart B and section 10.51.
Reliable Tax Law Sources	Includes Internal Revenue Code, Treasury Regulations, Revenue Rulings, Revenue Procedures, Written Determinations, Announcements, Notices, Court Rulings, Congressional Bills, and Committee Reports.
Form 433-F Requirement	Required for installment agreements if the taxpayer owes less than \$50,000.
IRS Lien Release Timeline	30 days after the taxpayer satisfies the tax due.
IRS Tax Lien Filing	Filed when tax is assessed and not paid within 10 days of the bill.
IRS Collection Period	10 years after tax assessment.
CNC (Currently Not Collectible) Status	IRS suspends collections if collecting causes hardship as defined by the IRS.

Term	Definition
Circular 230 Public Rosters	Lists sanctioned individuals/entities, monetary penalties, enrolled agents, enrolled retirement plan agents, registered tax return preparers, disqualified appraisers, and qualified CE providers.
Offer in Compromise Requirements	Requires filing all tax returns, making estimated payments for the current year, making federal tax deposits for the current quarter (if a business owner with employees), and completing all forms on Form 656.
E-File Forms	Includes Individual: 1040; Partnership: 1065, 1065B; Corporations: 1120, 1120F, 1120S; Estate and Trust: 1041; Extensions: 2350, 2848, 7004, 8868; Employment Tax: 940, 941, 943, 944, 945; Exempt Organizations: 990, 1120POL; Excise Tax: 2290, 720, 8849.
E-File Provider Updates by Letter	Includes changes like selling/transferring/discontinuing e-file business, contact information, form types to be e-filed, and transmission protocols.
Representation Without Power of Attorney	Immediate family (spouse, child, sibling, parent) can represent but cannot sign power of attorney for others.
Form 2848 Declaration	Representative declares awareness of Circular 230 regulations under penalties of perjury.

General Terms

Term	Definition
Audit	IRS examination of a taxpayer's return to verify accuracy and compliance.
Estimated Tax Payments	Quarterly payments made by individuals or businesses to cover expected tax liabilities.
Gross Income	All income from any source before adjustments, deductions, or exemptions; includes unemployment compensation and certain scholarships.
Taxable Event	A transaction (e.g., sale of property) that triggers a tax liability.
Ability to Pay	A tax fairness concept stating that people with different wealth or income should pay tax at different rates.

Term	Definition
Appeal	A request for a review of an IRS decision or proposed adjustment.
Authorized IRS e-file Provider	A business authorized by the IRS to participate in the e-file program, including Electronic Return Originators (EROs), Transmitters, and Software Developers.
Benefits Received	A tax fairness concept stating that people should pay taxes in proportion to benefits received from government services.
Dependency Exemption	An amount claimed for a qualifying child or relative, reducing income subject to tax; amount varies yearly.
Direct Deposit	Allows tax refunds to be deposited directly to a taxpayer's bank account using account and routing numbers.
Direct Tax	A tax that cannot be shifted to others, such as federal income tax.
Earned Income Tax Credit (EITC)	A refundable credit for low-income workers meeting specific income and eligibility criteria.
Electronic Filing	Transmission of tax information to the IRS using telephones or computers, either self-prepared or via a tax professional.
Electronic Return Originator (ERO)	An authorized IRS e-file provider that originates electronic submission of tax returns, potentially charging a fee.
Excise Tax	A tax on the sale or use of specific products or transactions, such as gasoline or luxury goods.
Exemption	An amount claimed for taxpayers, spouses, or dependents, reducing taxable income; includes personal and dependency exemptions.
FICA (Federal Insurance Contributions Act) Tax	Funds Social Security and Medicare benefits, also known as payroll taxes.
Form W-4	Employee's Withholding Allowance Certificate, used by employers to determine income tax withholding.
Head of Household	Filing status for unmarried taxpayers who maintain a home for a qualifying person, offering lower tax rates.

Term	Definition
Horizontal Equity	A concept that people in the same income group should be taxed at the same rate.
Income Taxes	Taxes on earned (salaries, wages) and unearned (interest, dividends) income, levied on individuals and businesses.
Independent Contractor	A self-employed person whose work results, not methods, are controlled by the recipient of services.