

What is what in tax accounting

SUMMARY

- Key Taxation Vocabulary
- Deductible Expenses

INTRODUCTION

Discuss the questions:

1. What government authority is in charge of collecting taxes in your country?
2. What information does a taxpayer report on a personal income tax return?
3. What is the maximum amount of personal income not subject to taxation in your country?
4. What tax measures do governments adopt to attract foreign investors?

READING 1: Key Taxation Vocabulary

The basic role of any accountant is to assist clients with tax return preparation. A tax return is a form on which a **taxpayer** reports details of his **taxable income** and claims **tax allowances** and **tax reliefs**.

The total amount of tax owed is called **tax liability**. It is calculated by applying a **tax rate** to a **tax base**. The tax rate is set by the government's ministry of finance, which **imposes** and **levies** taxes. The UK government department that administers and collects taxes is HM Revenue and Customs, while the government agency responsible for tax collection and **tax law enforcement** in the USA is Internal Revenue Service.

Not all taxpayer's income is subject to taxation – a part of it is **tax-free**. Generally, taxpayers are entitled to a tax-free **personal allowance**, which is the amount subtracted from the income before it is taxed. Governments also offer other forms of tax allowances, which are **concessions** used to reduce a company or individual's taxable income. In some countries, the government policy allows certain groups of organisations, such as charities, cultural or educational organisations to be **exempt from paying tax**. Furthermore, a taxpayer who has paid an excess amount of income tax is entitled to a **tax refund** (or **tax rebate**).

In order to promote a specific behaviour, or help disadvantaged taxpayers, governments may grant **tax credits**. Unlike **deductions** and **exemptions** that reduce the amount of taxable income, tax credits reduce the actual amount of tax owed.

For the purpose of spurring economic growth, governments sometimes offer various forms of tax reliefs. A tax relief is any programme or **incentive** that reduces the amount of tax owed, typically used by governments to attract foreign investors.

BRITISH AND AMERICAN ENGLISH	
UK	US
• HM Revenue and Customs	• Internal Revenue Service

READING COMPREHENSION 1

Answer the questions:

1. How is tax liability calculated?
2. What government authority is in charge of setting a tax rate?
3. Is the entire amount of a taxpayer's income subject to taxation?
4. What happens when a taxpayer pays too much tax?
5. Why do governments offer tax credits?
6. What is the difference between tax credits and tax deductions?
7. Why do governments offer tax reliefs?

SPEAKING 1

1. As a potential investor, you are interested in various aspects of your partner's country taxation system. Find out about the following issues:

- current corporate income tax rate
- tax allowances
- tax exemptions
- tax credits
- tax incentives

2. Report the information to the class.

FOCUS ON VOCABULARY: Prepositions

In Unit 1, you have learnt about collocations or word combinations. Similarly, some adjectives and verbs can be used only with a specific preposition. Sometimes more than one combination is possible depending on the context. These **adjective-preposition** and **verb-preposition** combinations must be learnt by heart.

Match the words to the prepositions:

1. responsible	A. to
2. specialised	B. of
3. deal	C. for
4. in charge	D. on
5. entitled	E. from
6. comply	F. from
7. related	G. in
8. advise	H. with
9. exempt	I. with
10. subtracted	J. to

LANGUAGE TASK

Use the combinations to make sentences:

Example: He is **responsible for** preparing tax returns.

FOCUS ON GRAMMAR: Present Simple Tense

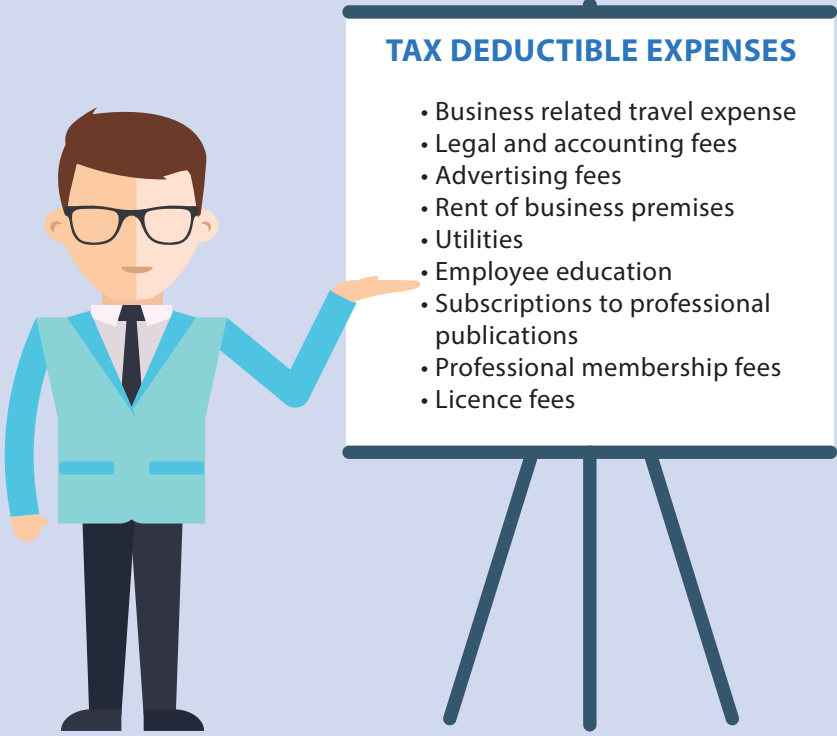
1. Use the prompts below to interview your partner about functions that he or she generally performs in his or her job.

- monitor tax legislation
- ensure compliance with taxation authority requirements
- involved in resolving legal disputes
- fill in tax returns
- advise management on tax impact of corporate strategies
- keep clients informed on tax changes that affect their business

2. Report the information to the class.

Example: I regularly monitor tax legislation, while my partner doesn't monitor tax legislation.

READING 2: Tax Deductible Expenses



TAX DEDUCTIBLE EXPENSES

- Business related travel expense
- Legal and accounting fees
- Advertising fees
- Rent of business premises
- Utilities
- Employee education
- Subscriptions to professional publications
- Professional membership fees
- Licence fees

Every business organisation, either large or small, **incurs** some expenses in course of their work. Those expenses may be related to business trips, payment of advertising costs, new software, legal fees, rents, **utilities**, etc. Being able to deduct expenses from the total income is important for both **incorporated businesses** and **sole proprietors**, as it reduces the amount of tax owed.

Tax deductible expenses are those expenses that can be **subtracted from** taxable income to reduce the amount of income that is **subject to taxation**. To be entitled to **claim deductions**, a company or individual must make sure that those expenses are directly related to earning of income and have a legitimate business purpose. Deductions may cover the entire amount of the expense incurred or a certain percentage of it.

Generally, a business expense is recognised as **tax deductible** if it meets two criteria: it must be both ordinary and necessary for the business. However, this definition is rather vague and **tax codes** of different countries allow different types of expenses to be deducted from taxable income.

The business expense items that are typically tax deductible include business-related travel expense, client entertainment, **employee benefits**, rent of business premises, utilities, legal and accounting fees, advertising fees, bank charges, employee education and training, insurance costs, **subscriptions** to professional publications, professional **membership fees**, licence fees, etc.

In addition to claiming business expense, tax deductions can sometimes be obtained by making charitable donations or participating in socially-beneficial programmes, such as those promoting environmentally-friendly practices, for instance. In such cases, the government authorities use tax deductions to promote specific behaviour and encourage taxpayers to take part in a particular activity.

READING COMPREHENSION 2

Answer the questions:

1. What are tax deductible expenses?
2. What criteria must tax deductible expenses meet in order to be recognised by tax authorities?
3. How can governments use tax deductions to promote specific practices?

SPEAKING 2

What type of business expense is recognised as tax deductible in your country?

WRITING TASK

Write a short report based on the information you provided in **Speaking 1** Section of the Book.

BUILDING UP A NEW VOCABULARY

1. Match the words to their meaning:

1. Tax Credit	A. an expense that can be subtracted from gross income to reduce the amount of income subject to tax
2. Taxable Income	B. any programme or incentive that reduces the amount of tax owed by an individual or business entity
3. Personal Allowance	C. the total amount of tax that an entity or individual is legally obligated to pay
4. Tax Refund	D. the amount of income that is used to calculate an individual's or an entity's income tax due
5. Tax Liability	E. free from obligation to pay a tax
6. Impose Tax	F. to introduce a tax and make it compulsory
7. Tax Deductible Expense	G. an income that is subject to taxation after all deductions
8. Tax Base	H. an amount of money that a taxpayer is able to subtract from the amount of tax owed
9. Exempt from Tax	I. a return of excess amounts of tax, when the tax liability is less than the taxes paid
10. Tax Relief	J. tax-free amount subtracted from an income

2. Translate the words into your language.

UNIT 2 ESSENTIAL VOCABULARY

taxpayer	taxable income	tax liability
tax relief	tax allowance	personal allowance
tax base	tax-free	tax rate
tax deductions	tax exemptions	tax refund
tax credit	incentive	incorporated businesses
sole proprietor	deductible expenses	subject to taxation