Module 7

“Taxation”

Contents

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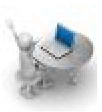
This training material was developed within the framework of the project "New Entrance – Entrepreneurship for Roma". The training material is open and available through the project's e-learning platform for all learners that will register in the platform and are interested in it.

Introduction

The seventh educational unit is about «Taxation».

Purpose

This educational material aims to make an introduction to fundamentals of taxation as well as it attempts to provide some guidelines regarding tax planning.



Learning Outcomes

➢ *In terms of knowledge:*

After finishing the module, the participants will know

- *The fundamentals of taxation*
- *Types and sources of income*
- *Tax planning at the financial statement*

➢ *In terms of skills*

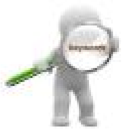
After finishing the module, the participants will understand

- *How taxation of individuals differs from taxation of corporations*
- *What taxable income is*
- *The process of tax planning and preparing financial statements*

➢ *In terms of competences*

After finishing the module, the participants will be able to

- *forecast your firm's yearly taxation*
- *plan your firm's taxation*



Keywords

- Taxation
- Income
- Tax planning

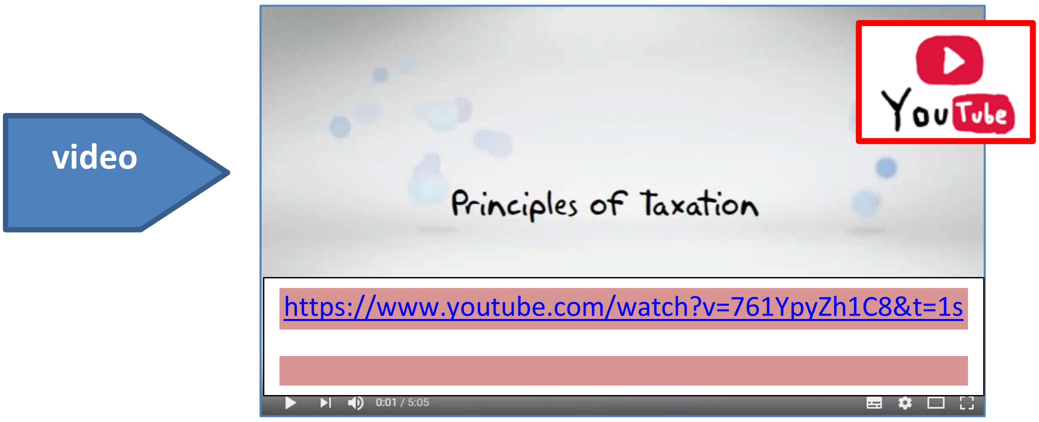
7.1. Fundamentals of taxation

Taxable income is classified as either capital or earned income. The amount of taxable income is calculated on a yearly basis. This is typically a calendar year but this can vary depending on the type of firm and it's financial period.

Direct taxation directly taxes the firm's income or its yearly profits. Direct taxation can affect both capital and earned income. This learning module will address direct income based on various types of firms as well as the source and type of income in question.

Indirect taxation affects the taxation of consumption primarily through the value added tax. Other indirect taxes are real estate taxes, energy taxes, waste taxes, fuel taxes, alcohol taxes and taxes. All of these taxes take the form of value added taxes.

7.2. Principles of taxation



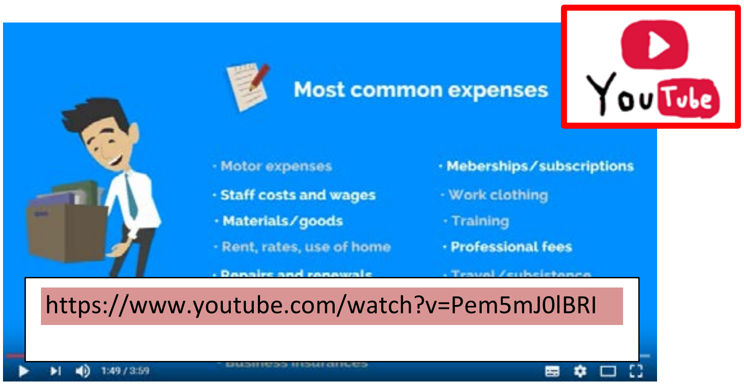
7.3. What is taxable income?

A business generates income when a good or part of a good is turned over to the customers. The recipient does not need be the final user or end customer for the good, as they can be a retailer, for example. According to the legislation governing the taxation on industrial and commercial activity income is defined as the tax year's earnings whether the income was received as money, bills or something of financial value. The payable income can be generated whether the firm directly receives money or not. This income can have tax implications whether the firm has or has not received money.

7.3.1. Expenses and taxation

Tax expenses under the legislation on the taxation of commercial activity include, for example:

- ✓ The something received costs of investment assets and their interest
- ✓ Salaries, pension benefits and employment costs
- ✓ Leasing of property and furnishings
- ✓ Other expenses, fixed as well as variable
- ✓ Interest and taxes



7.4. The taxation of the entrepreneur

An entrepreneur or a **one and only trader** is taxed in the same way as a natural person with respect to all earned and capital income. This tax liable person's fiscal year is always the calendar year. This person's bookkeeping, if done by an accounting firm, is always double entry.

A business owner must ensure that the accounting templates he/she is going to use will allow him/her to include the amount of the tax return for each entry/invoice.

A person practicing a profession or trade may keep up single entry bookkeeping that notes the expenses of each business transaction, interest, taxes as well as income received and the use of goods for one's own use. Single entry bookkeeping is always based on **increase.**

7.5. The taxation of corporations

Stock companies as well as foundations and cooperatives are considered corporations. Corporations are tax liable entities in and of themselves. Their taxable income is not distributed amongst owners as earned or capital income like is the case with other forms of companies. Corporations are themselves liable for their taxes. The following will, however, only address the taxation of private stock companies.

A company can basically distribute dividends to its owners in the amount that it has free capital. However, the amount of money that can be distributed cannot simply be directly derived from the financial statement, as this first must be adjusted.

According to the legislation, the basis for the distribution of assets is the latest certified and audited financial statement, and not simply the latest financial statement. The distribution of dividends may thus occur in the event of free capital based on a financial statement that is dated on another date than the end of the previous fiscal period. This allows for dividends to be paid out based on the current fiscal year even though it may be the company's first fiscal year.

7.6. Tax planning

"The preparing of a financial statement is central part of a firm's financial planning. Preparing a financial statement involves tax planning in order to find the least expensive taxation option for the firm as well as to avoid any problems regarding taxation".

7.7. Key factors of tax planning

The key factors of tax planning are:

- ✓ predicting the consequences of taxation,
- ✓ finding methods by which to lower the tax burden,
- ✓ minimizing the taxation of owners,
- ✓ planning the timing of the payment of taxes and monitoring firm liquidity,
- ✓ preventing uncontrollable situations

Learning activities

TASK 1

After reading the training material, please write down the definitions of both direct and indirect taxation.

Direct taxation ……… ………
Indirect taxation ……… ………

TASK 2

After reading the training module, please read carefully the following sentences and circle the correct answer.

1. Tax expenses under the legislation on the taxation of commercial activity include:
   a. Sponsorships
   b. Fundraising
   c. Marketing
   d. Salaries, pension benefits and employment costs

2. The key factors of tax planning are
   a. predicting the consequences of taxation
   b. planning marketing strategy
   c. including salaries
   d. calculated on a yearly basis

3. The preparing of a financial statement
   a. isn’t necessary for a business
   b. is central part of a firm’s financial planning
   c. occupies with the market analysis
   d. searches for investors

4. A company can basically
    a. pay the salaries to its employees every year
    b. prepare a performance based financial statement
    c. distribute dividends to its owners in the amount that it has free capital
    d. refuse to pay its taxation to the government