


## TAXES AND ACCOUNTING



- Do you pay taxes? What kinds?
- What kind of taxes do citizens need to pay?
- Why do we pay taxes?
- Do we pay too much or not enough?
- Is the tax income used wisely by the government?
- How can taxes be avoided?
- What does the work of an accountant involve?
- Would you like to work as an accountant?
- What is the primary role of accounting for companies?

## TAXES

 A **tax** is a compulsory financial charge or another type of **levy imposed on a taxpayer**, an individual or a **legal entity**, by a governmental organization in order to fund government spending and various public expenditures. Tax **compliance** refers to policy actions and individual behaviour aimed at ensuring that taxpayers are paying the right amount of tax at the right time and securing the correct **tax allowances** and **tax reliefs**.<sup>[1]</sup> **Non-compliance**, along with **evasion** of or **resistance to taxation**, is **punishable** by law. Although **concealing assets in tax havens** is an illegal practice that is frowned upon, it still seems to be a common practice.

In order to finance their operations, some countries can levy a **flat percentage rate** of taxation while other countries may impose a **progressive tax** depending on the amount of annual income. Taxes are charged on an individual's **income** and on **corporate income**, and they consist of direct or indirect taxes. The most common types of taxes are **value added tax (VAT)**, **payroll tax**, **property tax**, **inheritance tax**, **capital gains tax** or **duties** and **tariffs** imposed on import and export of goods.<sup>[2]</sup>



Individuals with **tax liability**, such as **self-employed** people or employees with income from outside their employment, need to **file a tax return** at the end of the financial period, listing the amount of money made over the financial year. In the Czech Republic, sole traders must pay advances for **pension insurance** and public **health insurance**. Some of the costs **incurred** throughout the year may be **tax deductible**. These may include **deductions** for children, a non-working spouse, or **mortgage interest**. If the individual's income **exceeds** CZK1 million, they are obliged to register for **VAT**.<sup>[3]</sup>

The completed tax return is forwarded to the relevant **tax authority** where the individual is registered. The authority audits the information and sends the individual a **tax assessment notice**. If the taxpayer has paid too much in taxes, they receive a **tax refund (tax rebate)**.



## ACCOUNTING

Accounting is the process of measuring, processing, and sharing financial and other information about businesses and corporations while keeping the accounting books of the financial transactions of the company. The **accountants** summarize the transactions in the form of journal entries. These entries are used in **bookkeeping**. The books of accounts are prepared for the auditors and various **regulating bodies**. The accountants might follow the Generally Accepted Accounting Principles (GAAP) or the IFRS (International Financial Reporting Standards) principles.<sup>[4]</sup>

The accounts books give an **overview** of the company's financial situation. This is particularly important for **publicly listed companies**, as it determines their value on the market.

There are several types of accounting. **Financial accounting** deals with preparing **interim** and **annual financial statements**. **Managerial accounting** uses the accounts books to prepare reports for management to make decisions on the company strategies, **budgets** and **forecasts**. **Cost accounting** calculates the cost of making a product.

Companies are obliged by law to publish **financial statements** showing how the company is being run and how the money is being used. There are three basic financial statements; **balance sheet**, **profit and loss account**, and **cash-flow statement**.

The **balance sheet** (the statement of financial position) gives the **stakeholders** an understanding of the company's **assets** and its **liabilities** at the end of a particular period. While **assets** show items of **property** or **value**, liabilities are debts that will have to be paid.

Example Corporation Balance Sheet December 31, 2021			
ASSETS		LIABILITIES	
<b>Current assets</b>		<b>Current liabilities</b>	
Cash and cash equivalents	\$ 2,200	Short-term loans payable	\$ 5,000
Short-term investments	10,000	Current portion of long-term debt	15,000
Accounts receivable - net	39,500	Accounts payable	20,900
Other receivables	1,000	Accrued compensation and benefits	8,500
Inventory	31,000	Income taxes payable	6,100
Supplies	3,800	Other accrued liabilities	4,000
Prepaid expenses	1,500	Deferred revenues	1,500
Total current assets	<u>89,000</u>	Total current liabilities	<u>61,000</u>
Investments	<u>36,000</u>	<b>Long-term liabilities</b>	
Property, plant & equipment - net		Notes payable	20,000
Land	5,500	Bonds payable	375,000
Land improvements	6,500	Deferred income taxes	25,000
Buildings	180,000	Total long-term liabilities	<u>420,000</u>
Equipment	201,000	Total liabilities	<u>481,000</u>
Less: accumulated depreciation	(56,000)	<b>Commitments and contingencies (see notes)</b>	
Property, plant & equipment - net	<u>337,000</u>	<b>STOCKHOLDERS' EQUITY</b>	
Intangible assets		Common stock	110,000
Goodwill	105,000	Retained earnings	220,000
Other intangible assets	200,000	Accum other comprehensive income	9,000
Total intangible assets	<u>305,000</u>	Less: Treasury stock	(50,000)
Other assets	<u>3,000</u>	Total stockholders' equity	<u>289,000</u>
Total assets	<u>\$ 770,000</u>	Total liabilities & stockholders' equity	<u>\$ 770,000</u>

The accompanying notes are an integral part of this statement.

Assets are divided into **current assets** and **fixed assets**. **Current assets** are those that can be relatively easily **liquidated**. These include cash, **securities**, **stocks**, raw materials or **debtors (accounts receivable or receivables)**, **fixed or tangible assets** such as land or machinery, and **intangible assets** including **intellectual property** and **goodwill** of the company. As **tangible assets wear out** and become **obsolete**, they lose value, i.e. **depreciate** and therefore their value is gradually written down until it is **written off**.

**Liabilities** can be divided into **current** and **long-term**. **Current liabilities**, such as **creditors (accounts payable, payables)**, **overdrafts**, **interest payments** or **taxes** need to be paid within a year while the **maturity** of bank loans or **bonds** is longer.

The **profit and loss account (the income statement)** records the money the company makes over the financial

period. It shows the **stakeholder** whether the company made a profit or a loss over that time. It shows the **revenue** and **expenses** of the company. The top line of the statement shows the **revenue** (also **sales** or **turnover**) over the period. From that the company needs to **deduct expenses** for running the business, such as the **cost of goods sold (COGS)**, **selling and general expenses** and **depreciation**. This shows the **operating profit** from which **interest** and other items should be **deducted**. After the company pays **corporate taxes**, they are left with **profit after tax**. Should the company decide to pay out **dividends** to **shareholders**, these would be paid from the **profit after tax**. What the company keeps is called **retained earnings**.

The **cash-flow statement** summarizes the movement of **cash** and **cash equivalents (CCE)** that come in and go out of a company. The CFS measures how well a company manages its cash position, meaning how well the company generates cash to pay its debt obligations and fund its operating expenses. <sup>[5]</sup>



### Listening activity

**Listen to Brooke Harrington, Professor of Sociology at Dartmouth College talk about tax managers and complete the gaps with the words you hear.**

The Panama papers disclosed the names of influential people who opened 1) **offshore accounts** in order to conceal taxes.

Brooke Harrington is a sociologist with a research focus on 2) **wealth management**. For years she had been looking for ways of getting information about the rich and their clients. It took several years of her time and 3) **50,000 dollars** given to her by her institute to succeed. She had to learn about 4) **trust law**, 5) **corporate law**, finance and 6) **accounting** to understand how wealth moves to 7) **tax havens**.

She managed to speak to wealth managers by offering them 8) **anonymity** even though they knew her. According to them, avoiding taxes legally is a 9) **skill**. A quarter of the people interviewed considered taxes to be a 10) **theft** and believed that governments didn't have a moral right to take any of their 11) **assets** as tax.

Half of the people she spoke to believed they were helping their clients and did not see the 12) **morally problematic** aspect of their work.

The rest of the people tried to educate their clients about 13) **poverty** and 14) **inequality**. One of them, originally working with indigenous people of Panama, tries to make his clients see the problem despite the risk of being 15) **fired**.

Some wealth managers would become 16) **whistle-blowers (leakers)** if they were sure they wouldn't have to 17) **hide / go into hiding / give up their jobs**. Joe Doe, who revealed the Panama Papers owners, continued working in the industry, which, according to Ms Harrington, is a 18) **game changer**.

(based on <https://www.bbc.co.uk/sounds/play/w3csytzk>)



### Video activity

**Watch the video report about Donald Trump's taxes and complete the gaps with the words you hear.**

Donald Trump paid no 1) **income tax** during the final year of his presidency instead reporting a 2) **financial loss** from his sprawling business interests. That's according to 3) **tax filings** released by a democratic controlled Congressional panel after a multi-year legal fight over the former president's personal finances. The records show that Trump's 4) **income** and his 5) **tax liability** fluctuated dramatically during his four years in the White House.

...I built a great company one of the best companies I have some of the greatest 6) **assets** in the world... And the 7) **tax statements** cut against the Republicans long cultivated image as a successful businessman as he mounts another White House bid. Trump and his wife Melania paid some form of 8) **tax** during all four years the documents showed but were able to 9) **minimize** their 10) **tax bill** as income from Trump's businesses was more than offset by 11) **deductions** and 12) **losses**. The committee questioned the legitimacy of some of those 13) **deductions** including one for 916 million dollars. The 14) **records** show that in 2017 the Trumps paid just seven hundred and fifty dollars in 15) **federal income tax** the next year the couple paid nearly 1 million dollars in 2019 they paid 134 thousand dollars and in 2020 they paid nothing.

Lawmakers obtained the 16) **records** after a years-long fight and voted on Tuesday to make them public. A Trump spokesman said the release of the documents was politically motivated. "If this 17) **injustice** can happen to President Trump, it can happen to all Americans without cause," Trump organization spokesman Stephen Chung said on Wednesday. Trump refused to make his 18) **tax returns** public even though all other major party presidential candidates have done so for decades.

**Based on the video, answer the questions.**

1. How much money in income tax did Donald Trump pay in the final year of his presidency?
2. What did the records show?
3. How did he minimise the tax bill?
4. How much money did the Trumps pay in taxes from 2017 to 2020?
5. What did Mr Trump refuse to do?

(based on <https://www.youtube.com/watch?v=Phr-DqIVeGl>)



### Glossary



### Revision time:

Wordwall set – [Taxes](#) – Match the expressions with their definitions

Wordwall set – [Accounting](#) - Match the expressions with their definitions

Wordwall set – [Balance sheet](#) – Drag and drop words into the spaces where they belong

Wordwall set – [Profit and loss account](#) - Drag and drop words into the spaces where they belong

Quizlet set – [Taxes and Accounting](#) – Practise vocabulary on flashcards – translate from Czech to English

Taxes

Sources:

1. HMRC, About compliance checks, CC/FS1a, accessed 31 January 2022
  2. <https://en.wikipedia.org/wiki/Tax>, accessed 4 January 2023
  3. <https://www.expats.cz/czech-news/article/how-to-file-czech-income-taxes-2021>, accessed 4 January 2023
- picture: <https://www.shutterstock.com/cs/image-photo/income-tax-return-deduction-refund-concept-495808516>

**Useful websites:**

- <https://www.investopedia.com/terms/t/taxes.asp>  
<https://www.expats.cz/czech-news/article/how-to-file-czech-income-taxes-2022>

Accounting

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4. <https://economictimes.indiatimes.com/definition/accounting>, accessed 4 January 2023
  5. <https://www.investopedia.com/investing/what-is-a-cash-flow-statement/> accessed 4 January 2023
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picture

<https://www.accountingcoach.com/wp-content/uploads/2013/10/balance-sheet-example@2x.png>

**Definitions:**

<b>Taxes</b>
Tax - money paid to the government that is based on your income or the cost of goods or services you have bought
Levy - an amount of money, such as a tax, that you have to pay to a government or organization
Impose - to officially force a rule, tax, punishment, etc. to be obeyed or received
Legal entity - a company or organization that has legal rights and responsibilities, for example the right to make contracts and the responsibility to pay debts
Compliance - the act of obeying an order, rule, or request
Tax allowance - the amount of income on which you do not have to pay tax
Tax relief - the system of allowing someone not to pay tax on a part of their income
Non-compliance - the fact of not obeying a rule or law, especially one that controls a particular industry, or type of work or activity
Tax evasion - ways of illegally paying less tax than you should
Resistance - the act of fighting against something that is attacking you, or refusing to accept something

Taxation - the system of taxing people
Punishable – e.g. crime that can be punished
Conceal - to prevent something from being seen or known about
Assets - something valuable belonging to a person or organization that can be used for the payment of debts
Tax haven - a place where people pay less tax than they would pay if they lived in their own country
Flat percentage rate - a tax that is the same for everyone
Progressive tax - a tax in which the rate of tax is higher on larger amounts of money
Income - money that is earned from doing work or other investment
Corporate income - the money left over after a corporation pays all of its expenses
Value added tax (VAT) - a consumption tax on goods and services that is levied at each stage of the supply chain where value is added, from initial production to the point of sale
Payroll tax - a tax paid on the wages and salaries of employees to finance social insurance programs, healthcare, and unemployment insurance
pension insurance - an investment-led life insurance policy that helps policyholders to accumulate money over the investment years that provides for a comfortable retirement
health insurance - an agreement in which an insurance company agrees to pay for some or all of your medical expenses in exchange for a monthly premium payment
Inheritance tax - a tax paid on the value of the property, money, and other assets of someone who has died
Capital gains tax – a tax on the profits made from selling property or investments
Duty - a tax paid to the government, especially on things that you import into a country
Tariff - a tax or duty to be paid on a particular class of imports or exports
Tax liability - an amount of tax that a person or business must pay
Self-employed – a person not working for an employer but finding work for themselves or having their own business
File - to officially record something for an authority or a court of law
Tax return - a form that some people must fill in to give information about how much they have earned in a year
Pension - an amount of money paid regularly by the government or a private company to a person who does not work anymore because they are too old or have become ill
Insurance - an agreement in which you pay a company money and they pay your costs if you have an accident, injury
incur - to be made to lose money or have to pay a charge
Tax deductible - If an amount of money that you spend is tax-deductible, it can be taken away from the total amount of income you must pay tax on.
Deduction - an amount that is taken away from the money you are paid before you officially receive it
Mortgage - an agreement that allows you to borrow money from a bank or similar organization, especially in order to buy a house, or the amount of money itself
Interest - money that is charged by a bank or other financial organization for borrowing money
Exceed - to be greater than a number or amount, or to go past an allowed limit
Tax authority - an organization with official responsibility for collecting taxes
Tax assessment notice – information about the value determined to pay in tax
Taxpayer – a person who pays a percentage of their income to the government as tax
Tax refund - a payment made to a taxpayer for any excess amount paid in taxes to the federal or state government
Tax rebate - a payment made to a taxpayer for any excess amount paid in taxes to the federal or state government

## **Accounting**

Accountant – a professional who keeps or examines the records of money received, paid, and owed by a company or person
advance - money paid before something happens
Bookkeeping - the job or activity of keeping an exact record of the money that has been spent or received by a business or other organization
Regulating (regulatory) body - an organization whose job is to control an activity or process or regulations themselves
Overview - a short description of something that provides general information about it, but no details
Publicly listed company - a company whose shares can be bought and sold by the public

Interim - a part of a company's business year, rather than the whole year
Annual - happening once every year
Financial statement - a report provided by a company for its shareholders and investors that shows details of its financial situation, and includes documents such as the profit and loss account and balance sheet
Financial accounting - a type of accounting that deals with providing financial reports about a company's profits, debts, cash flow, etc. so that investors, banks, etc. can measure the company's performance
Managerial accounting - the activity of preparing and using financial information about a company in order to support management decisions
Cost accounting - the process in which all the costs of a business activity or production process or activity are examined in order to help managers decide how to make profits or save money
Budget - a plan to show how much money a person or organization will earn and how much they will need or be able to spend
Forecast - to say what you expect to happen in the future
Balance sheet - a statement that shows the value of a company's assets (= things of positive value) and its debts
Profit and loss account - a document that shows a company's profit or loss in a particular period
Cash-flow statement - a document that shows the money coming into and going out of a company during a particular period
Stakeholder - a person such as an employee, customer, or citizen who is involved with an organization, society, etc. and therefore has responsibilities towards it and an interest in its success
Liability - the amount of money that a person or organization owes
Property - a building or area of land, or both together
Value - how much something is worth in money or other goods for which it can be exchanged
Current assets - an asset such as cash, raw materials, parts, or products that are still being made, which a company will use up or sell during the same year
Security - a financial investment such as a bond or share that is traded on a financial market
Stock - a supply of something for use or sale
Debtor (accounts receivable or receivables) - money that is owed to a company and that is shown in its accounts as an asset
Fixed assets - land, buildings and equipment that are owned and used by a company
Tangible asset - a physical asset whose value can be easily measured, such as cash, property, goods, or machinery
Intangible asset – something valuable that a company has that is not material, such as a good reputation
Goodwill - part of a company's value that includes things that cannot be directly measured, for example, its good reputation or its customers' loyalty
Obsolete - no longer used or needed, usually because something newer and better has replaced it
Depreciate – to lose value, especially over time
Depreciation -the process of losing value
Current liability - a payment that a company must make within 12 months
Creditor (accounts payable, payables) - the amounts in a company's accounts that show money owed by the company
Overdraft - an amount of money that a customer with a bank account is temporarily allowed to owe to the bank, or the agreement which allows this
Revenue (sales, turnover) - money that a company receives, especially from selling goods or services
Expenses - an amount of money that a person or business spends in order to do something
Deduct - to take away an amount or part from a total
Cost of good sold (COGS) - the amount of money that a company spends in order to make and sell products in a particular financial period, for example, on wages and raw materials
Selling expenses - the costs of marketing and selling a product or service
General expenses - money that a company spends on organizing and controlling its activities generally rather than on a particular product or service that it produces
Operating profit - a company's profit from its normal business activities, not including any earned from investments or sales of assets, calculated by taking operating expenses away from gross income
Profit after tax - the earnings of a business after all income taxes have been deducted
Dividend - part of the profit of a company that is paid to shareholders
Shareholder - a person or organization that owns shares in a company

Retained earnings - the part of a company's profit in a particular period that it decides to keep, rather than paying it to shareholders as a dividend

Cash equivalent - money in a company's bank accounts and other assets that can easily be changed into money

Cash - money rather than shares, bonds, etc.

wear out - to use something so much or for so long that it is no longer usable

bond - an official paper given by the government or a company to show that you have lent them money that they will pay back to you at a particular interest rate

maturity - the time when an insurance agreement or investment becomes ready to be paid

Whistle-blower - a person who tells someone in authority about something illegal that is happening, especially in a government department or a company

Inequality - the unfair situation in society when some people have more opportunities, money, etc. than other people

Game-changer - an event, idea, or procedure that effects a significant shift in the current way of doing or thinking about something

Theft - the act of dishonestly taking something that belongs to someone else and keeping it

Leaker - someone who allows secret information to become generally known

Fire sb - to remove someone from their job, either because they have done something wrong or badly, or as a way of saving the cost of employing them

Offshore accounts – accounts of companies and banks based in a different country with different tax rules that cost less money

Injustice - a situation in which there is no fairness and justice