

UNIT 2

INTRODUCTION TO THE UNIT

The first part of Unit 2 introduces the key taxation terms and concepts. It is essential for students to understand those terms clearly, as they will be repeatedly used in the subsequent units.

The second part of Unit 2 focuses on deductible expenses. The rules for recognition of deductible expenses differ from country to country and are subject to constant changes; however, the aim of the Unit is to help students acquire the relevant vocabulary that can be used effectively regardless of the local rules.

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 proprietors | deductible expenses | subject to taxation |

SUMMARY

| | |
|-----------------------------|---|
| Reading 1: | Key Taxation Terminology |
| Reading 2: | Tax Deductible Expenses |
| Focus on Vocabulary: | Prepositions |
| Language Task: | Matching Verbs to Prepositions |
| Focus on Grammar: | Present Simple Tense |
| Writing Task: | Presenting different aspects of a country's taxation system |

1. INTRODUCTION

Use the introductory questions to elicit a discussion on the content of income tax return, tax allowances, tax exemptions, tax credits, and tax incentives. Let students develop their own ideas and do not suggest answers at this stage. Possible answers are given below.

- 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?**
Details of taxable income, allowances and tax reliefs.
- 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?**
They offer various forms of tax reliefs or tax incentives.
- 5. How do governments help disadvantaged taxpayers?**
Governments may grant tax credits in addition to personal allowance.
- 6. How do governments help charities, other humanitarian, cultural or educational organisations?**
In some cases, they allow them to be exempt from paying tax.

2. READING 1

STEP 1: Continue the discussion started in the previous section to introduce the key vocabulary:

- 1. What do we call a person or entity that is subject to taxation?**
A Taxpayer.
- 2. What do we call the total amount of tax that an entity or individual is legally obligated to pay?**
Tax Liability.
- 3. What do we call the amount of income that is subject to taxation?**
Taxable Income.
- 4. What do we call the amount of personal income that is not subject to taxation?**
Tax Allowance / Personal Allowance.
- 5. What do we call the amount of income that is subject to taxation after all deductions?**
A Tax Base.
- 6. What do we call the percent of income paid as tax?**
A Tax Rate.
- 7. What government authority is in charge of setting a tax rate?**
The Ministry of Finance.

Unit 2

8. **When an individual, business or other organisation is not obligated to pay taxes, we say they are:**
Exempt from paying tax.
9. **What happens when a taxpayer pays an excess amount of tax?**
He is entitled to a tax refund.

STEP 2: Possible comprehension problems:

-
- | | | |
|---------------------|---------------------------|-----------------------|
| • tax owed | • impose and levy taxes | • tax law enforcement |
| • be entitled to | • subtracted | • concessions |
| • charities | • disadvantaged taxpayers | • grant tax credits |
| • exceed the amount | • refundable tax credits | |
-

STEP 3: Reading Comprehension 1

1. **How is tax liability calculated?**
By applying a tax rate to a tax base.
2. **What government authority is in charge of setting a tax rate?**
The Ministry of Finance.
3. **Is the entire amount of a taxpayer's income subject to taxation?**
No, some of it is tax free.
4. **What happens when a taxpayer pays too much tax?**
He is entitled to a tax refund.
5. **Why do governments offer tax credits?**
To promote specific behaviour or help disadvantaged taxpayers.
6. **What is the difference between tax deductions and tax credits?**
Tax deductions reduce the amount of taxable income, while tax credits reduce the amount of tax owed.
7. **Why do governments offer tax reliefs?**
To attract foreign investors.

3. SPEAKING 1

Let students work freely and do not overcorrect.

4. FOCUS ON VOCABULARY: Prepositions

Give some examples of verb-preposition and adjective-preposition combinations. Explain that English prepositions do not always correspond to the prepositions in their language and that they must be learnt by heart. Point out that 'responsible' can be used with both 'to' and 'for', depending on the context.

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

5. LANGUAGE TASK

Put students into groups or pairs. If necessary, give some prompts in form of questions:

- How do you deal with pressure at work?
- Who is specialised in tax accounting in your company?
- Who is in charge of tax return preparation in your company?
- How many days holiday are you entitled to?
- Do you have to comply with company rules?
- Is your work related to tax accounting?

6. FOCUS ON GRAMMAR: Present Simple Tense

At this level, students should be entirely familiar with the use of Present Simple Tense. However, if necessary, give a brief introduction. In a stronger class, encourage students to ask additional questions. Monitor and correct possible mistakes.

7. READING 2

STEP 1: Before reading the text, ask the questions below. Possible answers are given below.

1. **What expenses does your company incur in performing its business activities?**
2. **Can you deduct those expenses from taxable income?**
3. **Are all expenses tax deductible?**
No.
4. **What business expenses are tax deductible?**
Those directly related to earning of income.
5. **Does your company offer employee benefits?**
6. **What employ benefits would you like to have?**

NOTE 1: Stress the importance of collocations such as: *incur expenses, generate profit, earn income, deduct expenses.*

NOTE 2: If relevant, revise different types of business organisations (*sole proprietorship, partnership, private limited company, public limited company*) before reading the text.

STEP 2: Possible comprehension problems:

-
- | | | |
|------------------------|-------------------------------|---------------------------|
| • incur expenses | • utilities | • incorporated businesses |
| • sole proprietors | • legitimate business purpose | • meet criteria |
| • vague | • tax code | • employee benefit |
| • charitable donations | | |
-

STEP 3: Reading Comprehension 2

1. **What are tax deductible expenses?**
The expenses that can be subtracted from taxable income to reduce the amount of income that is subject to taxation.
2. **What criteria must tax deductible expenses meet in order to be recognised by tax authorities?**
They must be ordinary and necessary for the business.
3. **How can governments use tax deductions to promote specific practices?**
Tax deductions are used to encourage taxpayers to participate in programmes that provide social benefit.

8. SPEAKING 2

Students provide answers based on local tax regulations.

9. WRITING TASK

Assign the writing task for homework.

10. BUILDING UP A NEW VOCABULARY

Match the words to their meaning:

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