

MMA Definitions & Formula Sheet - Taxation

Key Terms:

Taxation:

Taxation is a term for when a taxing authority, usually a government, levies or imposes a tax. The term "taxation" applies to all types of involuntary levies, from income to capital gains to estate taxes. Though taxation can be a noun or verb, it is usually referred to as an act; the resulting revenue is usually called "taxes."

Taxes:

Taxes are involuntary (compulsory) fees levied on individuals or corporations and enforced by a government entity - whether local, regional or national - in order to finance government activities. In economics, taxes fall on whomever pays the burden of the tax, whether this is the entity being taxed, like a business, or the end consumers of the business's goods.

Some Types of Taxes (There are many others):

1. **Income Tax:** An income tax is a tax that governments impose on income generated by businesses and individuals within their jurisdiction. By law, taxpayers must file an income tax return annually to determine their tax obligations. Income taxes are a source of revenue for governments. They are used to fund public services, pay government obligations, and provide goods for citizens.

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Income Tax Formulae:

- ❖ *The Taxable Income = The gross income – Deductions (Tax free expenses)*
- ❖ *The net income = The gross income – The tax paid*

2. **Cooperate Tax:** A corporate tax is a levy placed on the profit of a firm to raise taxes. After operating earnings are calculated by deducting expenses, including the cost of goods sold (COGS) and depreciation from revenues, enacted tax rates are applied to generate a legal obligation the business owes the government. Rules surrounding corporate taxation vary greatly around the world and must be voted upon and approved by the government to be enacted.
3. **Property Tax:** Property tax is a real estate ad-valorem tax, calculated by a local government, which is paid by the owner of the property. The tax is usually based on the value of the owned property, including land. The local governing body will use the assessed tax to fund water and sewer improvements, provide law enforcement and fire service and other items deemed necessary.
4. **Sales Tax:** A sales tax is a consumption tax imposed by the government on the sale of goods and services. A conventional sales tax is levied at the point of sale, collected by the retailer, and passed on to the government. A business is liable for sales taxes in a given jurisdiction if it has a nexus there, which can be a brick-and-mortar location, an employee, an affiliate, or some other presence, depending on the laws in that jurisdiction.

Some Types of Sales Tax (There are many others):

- 1. Nexus:** Nexus is generally defined as a physical presence, but this "presence" is not limited to having an office or a warehouse; having an employee in a state can constitute a nexus, as can having an affiliate, such as a partner website that directs traffic to your business' page in exchange for a share of profits.
- 2. Excise Tax:** Excise Tax is an indirect tax on the sale of a particular good or service such as fuel, tobacco and alcohol. Indirect means the tax is not directly paid by an individual consumer — instead, the Internal Revenue Service (IRS) levies the tax on the producer or merchant, who passes it onto the consumer by including it in the product's price.
- 3. Value Added Tax (VAT):** VAT is a consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale. The amount of VAT that the user pays is on the cost of the product, less any of the costs of materials used in the product that have already been taxed. This percentage varies depending on the country and state. Currently in Trinidad and Tobago VAT is 12.5%

Sales Tax Formulae:

Formulae for finding Cost Price of an item (exclusive of VAT) when given the Selling Price and VAT %

This formula is similar to the formula for calculating the Cost Price of an Item given the Profit % and the Selling Price!

Given Selling Price & VAT %:

$$\text{❖ } C.P \text{ (exclusive of VAT)} = \left(\frac{100}{100 + \text{VAT \%}} \right) \times S.P$$

OR

$$\text{❖ } C.P \text{ (exclusive of VAT)} = \left(\frac{S.P}{100 + \text{VAT \%}} \right) \times 100$$

OR

$$\text{❖ } C.P \text{ (exclusive of VAT)} = \left(\frac{S.P \times 100}{100 + \text{VAT \%}} \right)$$

Formulae for finding Selling Price of an item (inclusive of VAT) when given

Cost Price and VAT %

This formula is similar to the formula for calculating the Selling Price of an Item given the Profit % and the Cost Price!

Given Cost Price & VAT %:

$$\text{❖ } S.P \text{ (inclusive of VAT)} = (100 \% + \text{VAT \%}) \times C.P$$

OR

$$\text{❖ } S.P \text{ (inclusive of VAT)} = \left(\frac{100 + \text{VAT \%}}{100} \right) \times C.P$$

OR

$$\text{❖ } S.P \text{ (inclusive of VAT)} = (100 + \text{VAT \%}) \times \left(\frac{C.P}{100} \right)$$

For more information on taxes click here: <https://www.investopedia.com>