

---

## PREFACE

---

'In this world nothing can be said to be certain, except death and taxes'. It is not surprising that Benjamin Franklin's dictum<sup>1</sup> has been so widely quoted. Taxation of one sort or another can be traced back to the beginning of civilisation. Indeed it might be argued that taxes are the price of civilisation.

Originally taxation was paid in kind – such as a share of the harvest, labour or objects of value. This was, of course, replaced by money as it became the basic means of exchange and increasingly in modern economies it is becoming possible to pay taxes electronically. Historically taxation has frequently been a driving force in administrative developments. For example in Ancient Rome the census was used to record the property of citizens for the purposes of taxation. The Domesday Book was a comprehensive record of ownership and liabilities of land in eleventh-century England and formed the basis of taxation for several centuries. Taxation is often the focus of struggles over resources. King John's demands for increased taxation brought on the crisis of 1215 which led to John's submission and the issue of the Magna Carta. It was a factor leading to the Civil War and the execution of Charles I and it was a major influence on the development of Parliament in the UK. Its role in the American revolution. 'No taxation without representation' is well known, though one might agree with Callender:

That a great reluctance to pay taxes existed in all the colonies, there can be no doubt. It was one of the marked characteristics of the American People long after their separation from England.<sup>2</sup>

In modern economies taxation can absorb up to a half of national income. There is no significant part of a monetary economy which is unaffected by taxation, even if it is officially classified as 'tax-free'. One of the most obvious cases is 'duty-free' products at airports which are rarely priced so as to pass on the full benefit of their tax-free status to the final consumer. As basic economic analysis indicates, the effects of taxation work their way through the system by changes in prices, outputs, incomes and government expenditure.

1. Letter to Jean Baptiste Le Roy, 13 November 1789.
2. G.S. Callender (1909), *Selections from the Economic History of the United States 1765–1860*, p. 23.

The importance of taxation therefore seemed to make it a highly suitable subject for a dictionary of terms. It did not seem appropriate to set out to provide a complete collection of technical terms. That would have taken volumes even for a few tax systems and would not have been of major interest to many beyond those directly involved. Instead, the intention is to provide an explanation or description of terms which are commonly used or which provide interesting insights or curiosities of this most important of economic subjects.

In compiling a book of this sort I have incurred many debts. Edward Elgar has been a tremendously supportive and encouraging publisher and I hope he is pleased with the result. Many valuable contributions and comments have come from Roy Bartlett, Chris Evans, Abe Greenbaum, Robert Mitchell, Professor Christopher Nobes, Professor R.H. Parker, Ian Wallschutzky and many officials from the Australian Tax Office, the Inland Revenue, the Internal Revenue Service and Revenue Canada Taxation.

Simon James  
*University of Exeter*

# A

## 401(k)

Popular US retirement savings account affording tax advantages and named after 401(k) of the Internal Revenue Code.

### *Further reading*

Samwick, A.A. and J. Skinner (2004), 'How will 401(k) pension plans affect retirement income?', *American Economic Review*, **94** (1), 329–43.

## 1040

The 'ten forty' basic tax return widely used in the USA for personal taxation. The first version was introduced in 1913 and, as with returns generally, form 1040 has undergone considerable modification over the years. One interesting aspect has been the use of colour. *Newsweek* (31 October 1977) reported that, according to design texts, the 1040 was coloured in 'baby blue' to signify coolness and serenity while the form 1040A was 'baby pink' which gives a feeling of warmth and friendship.

## 1040EZ

The 'ten forty e-zee' is the simplified version of the 1040 for US wage earners with little or no other income.

## abatement

The cancellation of all or part of an assessed tax.

## ability to earn

One way of viewing an individual's *ability to pay* tax. It has been suggested that it might form a good basis for taxation. However, while it is possible to measure what individuals actually earn, it is impossible to measure what they could earn.

## 2 *ability to pay approach*

### **ability to pay approach**

Sometimes known as the ability to pay principle or the *sacrifice approach*, it has a variety of manifestations but essentially holds that individuals should pay tax according to their means and not according to the benefits they receive from public expenditure. See also *benefit approach*.

#### *Further reading*

Musgrave, R.A. and P.B. Musgrave (1989), 'Approaches to tax equity', chapter 13 in *Public Finance in Theory and Practice*, 5th edn, New York: McGraw-Hill.

### **absolute tax incidence**

1. The distributional effects of imposing a tax while holding the level of public expenditure constant. 2. The burden of a tax compared with a hypothetical situation in which there are no taxes or public expenditure. See also *tax incidence*, *differential tax incidence* and *budget incidence*.

### **abuse of law**

A doctrine equivalent to the distinction between *form and substance*. It enables tax authorities to disallow transactions not based on economic reality.

### **accelerated depreciation**

Writing off the cost of fixed assets more quickly than on a straight line basis which, for example, would depreciate a £100000 asset with a useful life of 10 years at £10000 a year. Accelerated depreciation is often allowed for tax purposes, for example in the UK's system of *capital allowances*.

### **acceptable seal**

A seal used to secure vehicles or storage areas for the purposes of revenue control.



## **accessions tax**

A cumulative tax imposed on the recipients of gifts and legacies. It provides a contrast to an *estate duty*, where tax liability is calculated on the basis of the value of the deceased's estate. Also known as an inheritance tax, or succession tax, it may be levied at progressive rates and the relationship between the deceased and the recipient taken into account. It has been argued that accessions taxes have some advantages over taxes levied on the value of the estate. One advantage is based on an equity argument – that an accessions tax is based on the amounts received by the beneficiary rather than on the size of the estate. The other is that there may be a greater incentive to distribute wealth more evenly since the amount of tax will be lower for beneficiaries who have received less. A disadvantage is that the administrative costs of an accessions tax are likely to be significantly greater than for an estate duty.

### *Further reading*

Sandford, C.T., J.R.M. Willis and D.J. Ironside (1973), *An Accessions Tax*, London: Institute for Fiscal Studies.

## **accountant**

A general term describing someone who prepares and communicates financial and economic information; but the term is normally taken to mean a professionally qualified accountant.

## **accounting**

The recording, analysis and reporting of financial and economic information.

### *Further reading*

Alley, C. and S. James (2005), 'The use of financial reporting standards based accounting for the preparation of taxation returns', *International Tax Journal*, 31 (3), 31–48.

#### 4 *accounting period*

### **accounting period**

The period, usually a year, for which a person or business draws up accounts.

### **accounting standards**

Rules applied to the preparation of published financial statements and accounts, and concerned with the quality of information available to investors and other users of financial information. As pointed out by Whittington, there is a natural tension between the requirements of financial reporting and the needs of a good tax base, and this would appear to require a degree of separate development of accounting standards and tax rules.

#### *Further reading*

McMahon, F. and P. Weetman (1997), 'Commercial accounting principles: questions of fact and questions of tax law', *British Tax Review*, 6–18.

Whittington, G. (1995), 'Tax policy and accounting standards', *British Tax Review*, 452–6.

### **accretion**

The value of a bond bought at a discount as it moves towards its face value at maturity. In the US the *Internal Revenue Service* has specific provisions relating to such adjustments in value.

### **accruals basis**

The principle that income (taxable or otherwise) should be measured on the basis of when transactions occur or values change rather than when cash is actually paid or received. For example, for capital gains tax the principle would involve valuing assets each year rather than when any capital gains or losses were actually realised. See also *realisations basis*.

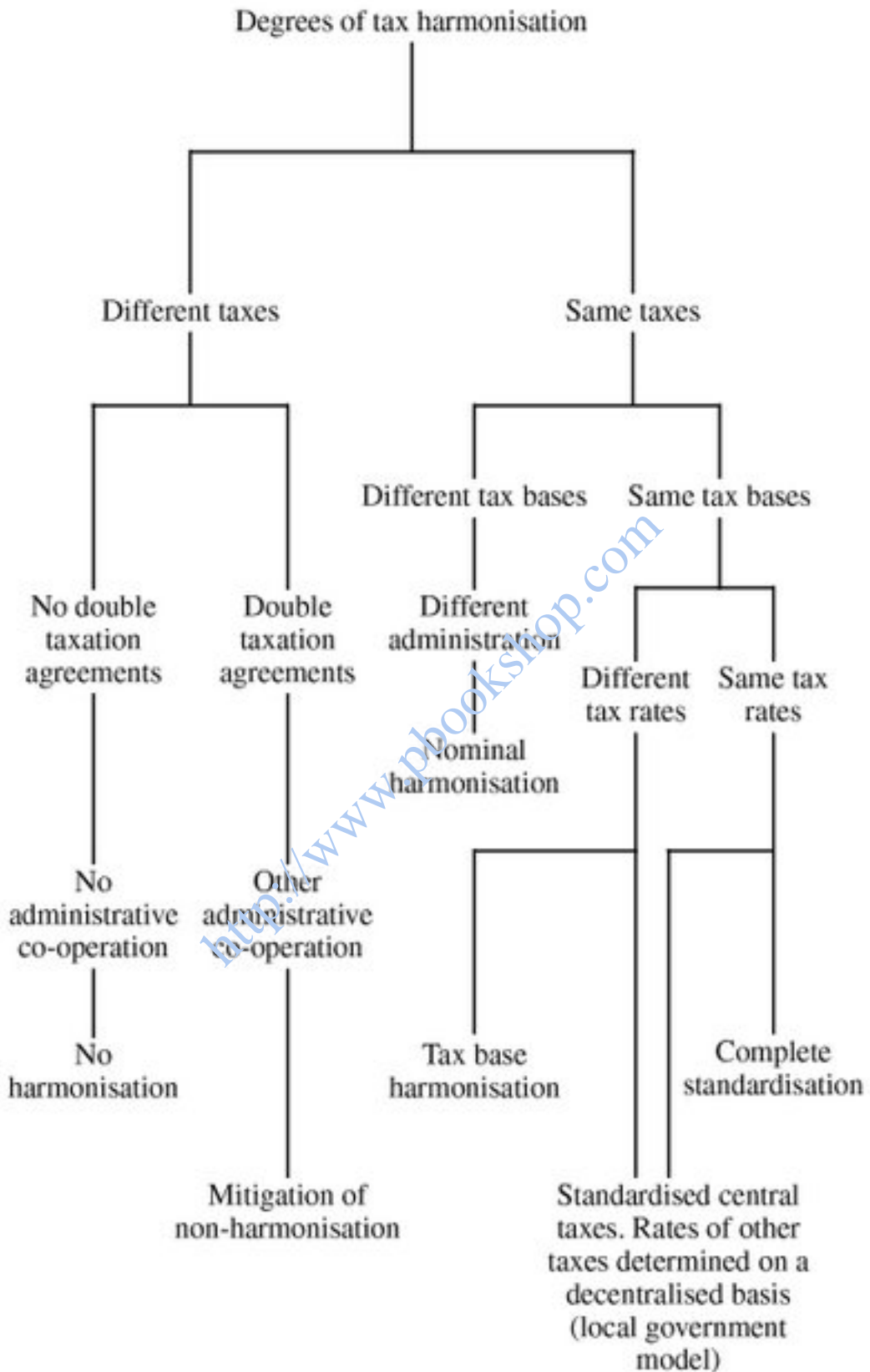


Figure H.1 Possible classification of degrees of harmonisation

## 6 *actual incidence*

### **actual incidence**

The distribution of the burden of a tax in terms of reduced real incomes. The actual incidence may well be different from the *formal incidence* of the tax. See *incidence of taxation*.

### **A-Day**

6 April 2006 – the day new UK tax arrangements regarding pension contributions and benefits took effect. The intention was to simplify the system and encourage individuals to make greater provisions for retirement.

### **additional personal allowance**

An extra *personal allowance* which increased the single allowance up to the value of the *married couple's allowance*. It was mainly for single taxpayers with children but was abolished in 2000.

### **additional voluntary contribution (AVC)**

Additional contributions made by individuals to pension schemes or tax-deferred savings accounts.

### **adjudicator**

The post of Revenue Adjudicator in the UK was established in 1993. The role of the adjudicator is to consider complaints about the way in which *HM Revenue and Customs* has handled a person's tax affairs when the taxpayer is not satisfied with the Revenue's response. The role does not cover disputes concerning areas covered by existing rights of appeal, for example with respect to the interpretation of tax law or the amount of tax charged. Nor does it affect a taxpayer's right to approach the *Ombudsman* through a Member of Parliament.



## 8 *administrative review*

### **administrative review**

A review made by an administrative rather than a judicial body. See also *judicial review*.

### ***ad valorem* taxes**

Taxes levied as a percentage of the price or value of goods and services. See *value added tax*.

### **advance clearance**

See *advance ruling*.

### **advance corporation tax**

An early payment of *corporation tax* in the UK which was required when a company paid dividends to its shareholders. Advance corporation tax was abolished from 1999.

### **advance pricing arrangement**

An agreement between a multinational company and one or more tax authorities on the methods used to determine appropriate prices in *transfer pricing* situations.

### **advance ruling**

A decision issued for the guidance of taxpayers on the tax consequences of a possible future transaction.

**adventure in the nature of trade**

UK term to describe trade which may be taxable. Under this concept a single transaction might be viewed as an adventure in the nature of trade and the profits subject to tax.

**advertising tax**

Tax levied on advertisement hoardings.

**age allowance**

A *personal allowance* granted to elderly people with modest incomes.

**agent**

A person who acts for another. Tax agents deal with their clients' tax affairs for a fee – also known as tax accountants or *tax practitioners*.

**aggregation basis of taxation**

The arrangement by which the incomes of members of a family are aggregated for the purpose of taxation. The usual contrast is with the *individual basis of taxation*. In the UK, when income tax was first introduced in 1799, a married man was responsible for declaring and accounting for his wife's income. In 1806 this arrangement was taken one stage further in that the 'profits' of a married woman were then deemed to be the 'profits' of her husband. This relic remained right up to 1990 when the law still stated that 'A woman's income chargeable to income tax shall ... [for any year] during which she is a married woman living with her husband be deemed for income tax purposes to be his income and not to be her income.' This arrangement was finally ended when the system of independent taxation was introduced in April 1990. See also *income splitting*.

## **AGI**

*Adjusted gross income.*

## **agricultural levy**

A levy made in accordance with the European Common Agricultural Policy in respect of certain imported goods.

## **agricultural relief**

A relief on the agricultural value of farmland for the purposes of *inheritance tax*.

## **air passenger duty**

A tax on passenger flights commencing in the UK.

## **alcabala**

Spanish sales tax levied from the 12th century until the 19th century.

## **alcohol taxation**

Alcohol is a prime target for taxation in some countries on account of its alleged harmful effects and inelastic demand. The subject of taxation is usually ethyl alcohol. Alcohol to be used for commercial purposes without incurring duty is mixed with additives to make it unfit for drinking. Methylated spirits might contain about 10 per cent of pyroxylic spirit.

### *Further reading*

Cook, P.J. and M.J. Moor (1994), 'This tax's for you: the case for higher beer taxes', *National Tax Journal*, **47** (3), 559–73.

Cnossen, S. (2007), 'Alcohol taxation and regulation in the European Union', *International Tax and Public Finance*, **14** (6), 699–732.

- Irvine, I.J. and W.A. Sims (1993), 'The welfare effects of alcohol taxation', *Journal of Public Economics*, **52** (1), 83–100.
- West, S.E. and I.W.H. Parry (2009), 'Alcohol–leisure complementarity: empirical estimates and implications for tax policy', *National Tax Journal*, **62** (4), 611–33.
- Young, D.J. and A. Bielińska-Kwapisz (2002), 'Alcohol taxes and beverage prices', *National Tax Journal*, **55** (1), 57–73.

## **alimony**

Payments made by a spouse or former spouse as part of the arrangements of separation or divorce. In the UK such payments are more usually referred to as *maintenance*. Under some income tax regimes such payments, if compulsory, may be granted tax relief.

## **allocative function**

One of the economic roles of government. The allocative function involves tax and expenditure relating to specific goods and services which it is thought might not be provided in appropriate quantities if markets were left to function independently. See also *distribution function* and *stabilisation function*.

## **allowance for corporate equity (ACE)**

A proposal to allow a deduction for equity, equivalent to interest, in calculating a company's taxable profits. As with the *comprehensive business income tax*, this proposal is intended to achieve tax neutrality between equity and debt finance. See also *corporate taxation*.

### *Further reading*

- Isaac, J. (1997), 'A comment on the viability of the allowance for corporate equity', *Fiscal Studies*, **18** (3), 303–18.

## **allowances**

The amounts of income a person can receive before being subject to income tax. See *personal allowances*.



## 12 *alternative minimum tax (AMT)*

### **alternative minimum tax (AMT)**

An arrangement designed to make sure that a minimum level of tax is paid, whatever the total amount of a taxpayer's deductions.

#### *Further reading*

Burman, L.E., W.G. Gale, J. Rohaly and B.H. Harris (2002), 'The individual AMT: problems and potential solutions', *National Tax Journal*, **55** (3), 555–96.

### **American Taxation Association (ATA)**

Founded in 1974, the American Taxation Association became the Tax Section of the American Accounting Association in 1978. Membership is open to those with an interest in tax education and research and the ATA publishes the *Journal of the American Tax Association (JATA)*.

### **amnesty**

In the case of tax, the opportunity to disclose to the authorities previously unpaid tax liability without attracting penalties.

#### *Further reading*

Alm, J. and W. Beck (1993), 'Tax amnesties and compliance in the long run: a time series analysis', *National Tax Journal*, **46** (1), 53–60.

Torgler, B., C.A. Schaltegger and M. Schaffner (2003), 'Is forgiveness divine? A cross-culture comparison of tax amnesties', *Swiss Journal of Economics and Statistics*, **139** (3), 375–96.

### **amortisation**

Accounting method of spreading the cost of an asset over its useful life. See also *depreciation*.

### **AMT**

*alternative minimum tax.*

14 *anonymous letters***anonymous letters**

As those who have worked in tax offices are aware, it is not unknown for the revenue authorities to receive letters alleging tax irregularities. Signed by a 'well wisher', 'honest taxpayer' or from an aggrieved spouse, neighbour, employee or business partner, the information is not always accurate but can lead to an investigation. Someone boasting about tax they have evaded can lead another taxpayer to share the good news with the tax office. You have been warned.

**anti-avoidance measures**

In the UK and other jurisdictions there are now extensive anti-avoidance provisions in tax legislation and there may be more to come. The principle derived from the *Duke of Westminster* case indicated that courts should not look behind the legal *form* of a transaction to examine its substance. If the form was satisfactory then the transaction should have been allowed even if it were an entirely artificial event created only for the purpose of tax avoidance. However later decisions have taken more account of the substance of the transaction. See also *fraus legis doctrine* and *Ramsey principle*.

*Further reading*

Freedman, J. (2004), 'Defining taxpayer responsibility: in support of a general anti-avoidance principle', *British Tax Review*, 332–57.  
 Maters, C. (1994), 'Is there a need for general anti-avoidance legislation in the United Kingdom?', *British Tax Review*, 647–73.

**anti-dumping duty**

A levy imposed by a country on imports which it considers to be priced below the cost of production or unfairly subsidised in the exporting country.

**APA**

*Advance pricing arrangement.*

## B

### **bachelor duty**

A tax on unmarried men and sometimes on unmarried women. It is another way of achieving a tax concession for married couples.

### **back duty**

Tax that is assessed by the tax office where tax has not been paid because of some fault on the part of the taxpayer – whether neglect or fraud.

### **back taxes**

Another name for *back duty*.

### **backward bending supply curve of labour**

The hypothesis that, as wages rise, after some point workers take part of their extra income in the form of additional leisure and work less. Therefore tax reductions might also encourage some people to work less. In Figure B.1 (overleaf), the graph shows the relationship between after-tax wage rate on the vertical axis and hours of work shown on the horizontal axis. As the after-tax wage rate rises, hours of work also rise until these reach a maximum at point M. As wages rise further, hours of work fall. Thus, for example, a person with an after-tax wage of W1 would wish to work H1 hours of work. If a reduction in tax caused the after-tax wage to increase to W2 the individual might choose to enjoy their higher level of income at least partly by reducing hours of work to H2. See also *labour supply*.

#### *Further reading*

James, S. and C. Nobes (2011), *The Economics of Taxation: Principles, Policy and Practice*, 11th edn, Birmingham: Fiscal Publications.

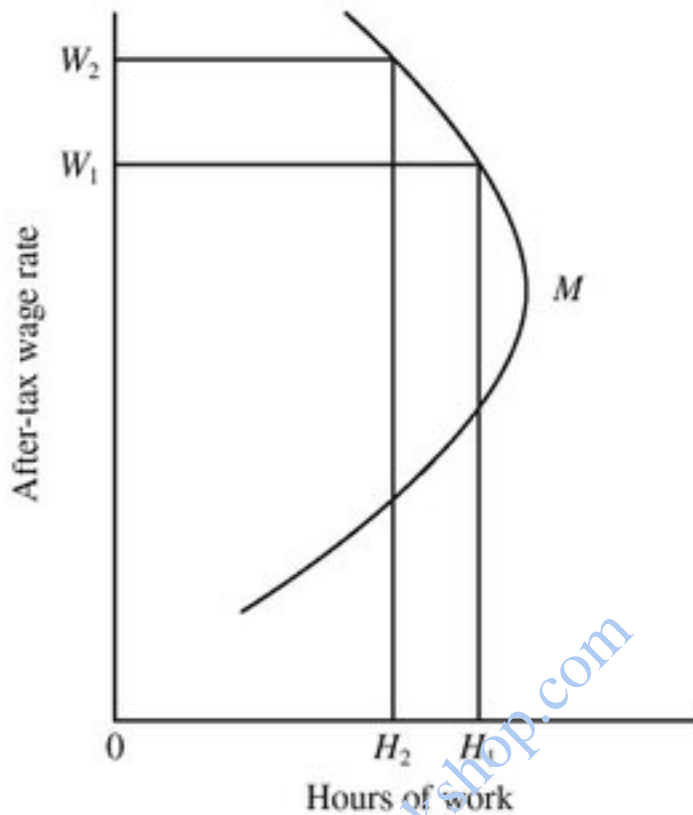
26 *bad debt*

Figure B.1 A backward bending supply curve of labour

### bad debt

An account or loan which it is not possible to collect and which is therefore written off.

### bad debt relief

Tax relief in respect of *bad debts*.

### balanced budget

A government budget where revenue approximately equals expenditure. In some cases it may be a legal requirement that public expenditure should not exceed revenue.



## Board of Stamps

Constituted in 1694 to administer *stamp duties*. See also *Board of Taxes*.

## Board of Taxes

Established in 1784 to manage the 'assessed taxes' levied on luxuries such as carriages and racehorses. It was amalgamated with the Board of Stamps in 1833 to become the Board of Stamps and Taxes, and with the Board of Excise in 1849 to become the Board of *Inland Revenue*. The administration of excise duties was transferred to *Customs & Excise* in 1909. In 2005 the Inland Revenue and Customs & Excise were merged to form *HM Revenue and Customs*.

## bodies of persons

Collective term used for the purposes of taxation. Except where the circumstances are inappropriate, bodies of persons means any body politic, corporate or collegiate, and any company, fraternity and society of persons whether corporate or not corporate. – T.A. 1988, s. 832 (1).

### *Further reading*

Avery Jones, J.F. (1991). 'Bodies of persons', *British Tax Review*, 453–65.

## 'bomb crater effect'

This term describes the possibility that an individual's willingness to comply with the tax system decreases following an audit by the tax authorities. The term comes from the observation that troops in battle take cover in the craters of recent explosions thinking it unlikely that subsequent shells will fall in exactly the same place. Similarly it is conjectured that some taxpayers think a tax audit will not soon be followed by another one. This possibility is based on experimental evidence and it is not known how significant such an effect might be in practice. See also *echo effect*.

36 *bond**Further reading*

Mittone, L. (2006), 'Dynamic behaviour in tax evasion: an experimental approach, *Journal of Socio-Economics*, **35** (5), 813–35.

**bond**

A financial guarantee to secure the payment of duty.

**bonded warehouse**

A secure warehouse where taxable goods may be stored without payment of tax. Frequently there are two locks, the key to one being kept by the tax department. The owner of the warehouse or the trader may be required to put up a *bond* to cover any tax loss in case the goods are removed without tax being paid.

**bond washing**

The practice of turning taxable income into capital by selling a security 'cum interest' or 'cum dividend' and repurchasing it 'ex interest' or 'ex dividend'. The income from the security is then payable to someone else and this should be reflected in a lower repurchase price. If capital gains are taxed less heavily than income there may be some tax advantage in this practice, but under many tax regimes such advantages are restricted or prevented altogether.

**bootlegging**

*Smuggling*. The term originally came from producing, transporting or selling alcohol illegally and the practice of smugglers carrying alcohol in their boots. It has subsequently been used also to describe the smuggling of tobacco and other products.

## border tax adjustments

International tax provisions to avoid double taxation or under taxation of goods traded between countries.

### *Further reading*

Lockwood, B. and J. Whalley (2010), 'Carbon-motivated border tax adjustments: old wine in green bottles?', *The World Economy*, **33** (6), 810–19.  
Messere, K. (1979), 'A defence of present border tax adjustment practices', *National Tax Journal*, **32** (4), 481–92.

## Boston Tea Party

One of the iconic events in the process of attaining American Independence. Colonists rejected the British tax on tea and in December 1773 a group of them boarded three ships containing taxed tea and threw it into Boston Harbour. See also *no taxation without representation* and *Tea Party*.

### *Further reading*

Labaree, B.W. (1964), *The Boston Tea Party*, Oxford: Oxford University Press.

## bottom of the harbour schemes

These schemes obstructed the collection of tax by arranging for the tax to be payable by a company or trustee which was stripped of all its assets. The expression comes from the assumption that the relevant books and documents disappeared – possibly to the bottom of the harbour. These schemes took root in Australia in the 1970s but are now largely obsolete as a result of legislation.

## bracket creep

The process by which inflation pushes taxpayers into higher tax bands if the different tax brackets are not indexed to price changes. See also *fiscal drag*.

## Centre 1

The first of what were to be a small number of large computer centres for the administration of *PAYE* in the UK. It is located in East Kilbride and deals with *PAYE* in Scotland. That particular arrangement was not followed in later developments where the policy shifted towards centralising the computers but not the tax offices.

## certainty

This is one of the requirements of a 'good' tax since it facilitates rational economic decision making. Taxpayers should be able to calculate with certainty the amount of tax they would be liable to pay in different circumstances.

## CGT

*Capital gains tax.*

## Chancellor of the Exchequer

The Finance Minister in the UK.

## charities

Non-profit organisations run for the benefit of others, especially those in need. Charities may benefit from certain tax concessions, and taxpayers may be able to reduce their tax liabilities by donating to them.

### *Further reading*

- Auten, G.E., J.M. Cilke and W.C. Randolph (1992), 'The effects of tax reform on charitable contributions', *National Tax Journal*, **45** (3), 267–90.
- Boatsman, J.R. and S. Gupta (1996), 'Taxes and corporate charity: empirical evidence from micro-level panel data', *National Tax Journal*, **49** (2), 193–213.
- Ghosh, I.J. and M.H. Robson (1993), 'Charity and consideration', *British Tax Review*, 496–503.
- Yetman, M.H. and R.J. Yetman (2003), 'The effect of nonprofits' taxable activities on the supply of private donations', *National Tax Journal*, **56** (1), 243–58.



50 *charter*

## **charter**

A written document recognising rights and so on. See also *taxpayers' charter* and *Magna Carta*.

## **Chartered Institute of Taxation**

The UK's Institute of Taxation was formed in December 1930 and gained its Royal Charter in 1994. The institute's coat of arms shows a shield with a chequerboard since in former times a chequered table cloth had been used to check computations, and a wheatsheaf marked with a Roman X to signify the old *tithe*. The shield is supported by two owls to signify the wisdom of tax officials and tax practitioners respectively, standing on an even balance. The members are qualified to advise on tax matters. There are two classes of membership: Chartered Tax Adviser, denoted by the letters CTA; and Fellow, denoted by the letters CTA(Fellow). In addition to its role as a professional body, the Institute promotes research and informed discussion on tax matters.

## **chartered tax adviser (CTA)**

A class of membership of the *Chartered Institute of Taxation*.

## **chattels**

A tangible, movable asset. Examples include items of furniture. See also *immovable property*.

## **child allowance**

A *personal allowance* for dependent children. In the UK, child tax allowances have been replaced by cash payments in the form of child benefit. See also *child tax credit*.

**child tax credit**

A *tax credit* that may be determined by the number of dependent children in a family and the level of income.

**church tax**

A levy made by an officially recognised religion on its members on the basis of legislation.

**CIT**

*Comprehensive income tax.*

**classical system of taxation**

A corporate system of taxation under which profits are subject to corporation tax and then distributed profits are subject to personal income tax in the hands of the shareholders. It had been thought that it was desirable to encourage companies to plough their profits back into the business and this could be achieved by the imposition of higher rates of tax on distributed profits. However, more sophisticated thinking suggests that it might be better not to discriminate against distributed profits because economic performance may be improved if profits were re-invested in companies with the best future prospects. See *imputation system*.

**classification of taxes**

Taxes may be defined in many ways, for example between current taxes on the flow of something and capital taxes on the stock of something. The OECD Classification is given in Table C.1 (overleaf). See also *blob analysis* and *tax*.

Table C.1 (continued)

---

	4520	Other non-recurrent taxes
4600		Other recurrent taxes on property
5000		Taxes on goods and services
5100		Taxes on production, sale, transfer, leasing and delivery of goods and services
	5110	General taxes
	5111	Value added taxes
	5112	Sales taxes
	5113	Other general taxes on goods and services
	5120	Taxes on specific goods and services
	5121	Excises
	5122	Profits of fiscal monopolies
	5123	Customs and import duties
	5124	Taxes on exports
	5125	Taxes on investment goods
	5126	Taxes on specific services
	5127	Other taxes on international trade and transactions
	5128	Other taxes on specific goods and services
	5130	Cannot be allocated between 5110 and 5120
5200		Taxes on use of goods, or on permission to use goods or perform activities
	5210	Recurrent taxes
	5211	Paid by households in respect of motor vehicles
	5212	Paid by others in respect of motor vehicles
	5213	Other recurrent taxes
	5220	Non-recurrent taxes
5300		Cannot be allocated between 5100 and 5200
6000		Other taxes
	6100	Paid solely by business
	6200	Paid by other than business or unidentifiable

---

## 72 DDP

**DDP**

Delivered duty paid.

**DDU**

Delivered duty unpaid.

**deadweight loss**

The loss of economic efficiency caused by a tax-distorting economic behaviour. Also known as the *excess burden* of taxation.

*Further reading*

Feldstein, M. (1999), 'Tax avoidance and the deadweight loss of the income tax', *Review of Economics and Statistics*, **81** (4), 674–80.

Feldstein, M. (2008), 'Effects of taxes on economic behavior', *National Tax Journal*, **61** (1), 131–9.

**death duties**

Taxes imposed on property passing at death. There are different forms of death duty. One approach is to calculate the tax on the basis of the value of the deceased's estate – as with *estate duty*. The other main type is to base the tax on the amount received by the beneficiaries – an *accessions tax* or *inheritance tax*. It has been suggested that death duties could be easy to avoid – Will Rogers commented that 'you won't catch those old boys dying so promiscuously like they did'. However, the idea that wealthy individuals would avoid such taxes by giving away their wealth before they were likely to die seems to have little empirical support. Nevertheless, perhaps it can still be described as a voluntary tax paid only by those who disliked their relatives more than they disliked paying tax.

*Further reading*

Conway, K.S. and J.C. Rork (2006), 'State "death" taxes and elderly migration – the chicken or the egg?', *National Tax Journal*, **59** (1), 97–128.

Tiley, J. (2007), 'Death and taxes', *British Tax Review*, 300–19.



## **debt dumping**

In enterprises operating internationally, moving *bad debt* to a group company in a higher-taxed country in order to gain the maximum tax advantage of the *write-off*.

## **deduction at source**

See *withholding at source*.

## **deductions**

Items which may be subtracted from gross income to give taxable income.

## **deed of covenant**

A written commitment to pay another person or an organisation a specified amount of money at regular intervals for a specified number of years, or until some event such as the death of one of the parties. Historically deeds of covenant could be used to transfer taxable income from one person to another. This allowed scope for tax *avoidance* by transferring income, say, to other members of the family who faced lower tax rates. In more recent years, the scope for using covenants in this way has been restricted.

## **deep discount bonds**

Bonds which yield little or no interest but are sold below the redemption value. Investors therefore receive a capital gain as the bond approaches its redemption date. This may be advantageous if capital gains are taxed more lightly than are interest payments. They may also be known as zero coupon bonds.

74 *deferral of taxation***deferral of taxation**

The situation where tax payments may be postponed. This may form part of *tax planning* or because the tax system deliberately incorporates the opportunity to defer taxation for policy purposes, for example *accelerated depreciation* provisions may be intended to encourage investment. Another reason is simplicity, for instance capital gains tax which may be deferred until the gains are realised. The deferral of taxation can have significant economic benefits for taxpayers and has been compared to an interest-free loan from the government.

**deferred earnings**

Sometimes used to describe a pension earned during a period of employment.

**deferred taxation**

Taxation attributable to differences in timing between profits recorded in financial accounts and profits established for the purposes of taxation.

*Further reading*

Citron, D.B. (2001), 'The valuation of deferred taxation: evidence from the UK partial provision approach', *Journal of Business Finance & Accounting*, 28 (7–8), 821–52.

**deflection of tax liability**

Where an individual's or company's tax liability is transferred to someone else.

**delinquent tax**

Tax which should have been paid but has not been. The defaulting individual may be described as a 'delinquent taxpayer'.

## 96 *equivalent taxable yield*

of fairness such as *horizontal equity* or examining particular approaches such as the *ability to pay* and *benefit approaches* to taxation. The other aspect is the *incidence of taxation* which is concerned with the distribution of the tax burden across society.

## **equivalent taxable yield**

The return from a tax-free investment expressed as if it were a return from a taxable investment.

## **error relief**

See *mistake relief*.

## **ESC**

*Extra-statutory concession.*

## **estate duty**

A tax on property left at death. The earliest taxes of this nature appear to have been levied in Egypt in the second century BC. In Britain, the earliest version dates from the introduction of *probate duty* in 1694. The modern version was enacted in 1894. It was replaced by *capital transfer tax* in 1975. This in turn was modified in 1986 to become *inheritance tax*, which has much in common with the pre-1975 estate duty.

### *Further reading*

Whalley, J. (1974), 'Estate duty as a "voluntary" tax: evidence from stamp duty statistics', *Economic Journal*, **84** (335), 638–44.

## **estimated assessments**

A revenue *assessment* based on incomplete information from the taxpayer. Such assessments may be set at a sufficiently high level in order to provoke the taxpayer to make an appeal and to disclose the required

information. If the taxpayer simply pays an estimated assessment without providing the relevant information, the tax office may assume it was too low and so raise a higher assessment the following year.

## estimated tax

1. Tax payable in advance of the determination of the taxpayer's actual liability. It is sometimes known as *provisional tax*. 2. A company's calculation of its future tax liability.

## ethics

A set of moral principles or the rules of conduct recognised in a particular profession. Tax ethics has developed partly as an offshoot of the more general topic of legal ethics. This in turn has grown in importance for several reasons. These were highlighted in the 1974 Watergate scandal in the USA, in which almost all of those involved in the break-in and later prosecuted were lawyers. The American Bar Association now requires 'the duties and responsibilities of the legal profession' to be part of the accreditation for law schools. In taxation there are several issues. One is that tax practitioners' aims of minimising their clients' tax liabilities might not always be fully compatible with a code of professional conduct and wider moral considerations. Another issue is that ethical attitudes might affect the willingness of individuals to comply with a tax system.

### *Further reading*

- Reckers, P.M.J., D.L. Sanders and S.J. Roark (1994), 'The influence of ethical attitudes on taxpayer compliance', *National Tax Journal*, 47 (4), 825–36.
- Ross, S. (1992), 'Tax ethics education in the United States and Australia', *Australian Tax Forum*, 9 (1), 27–49.
- Wolfman, B. and J.P. Holden (1985), *Ethical Problems in Federal Tax Practice*, 2nd edn, Charlottesville: Michie Bobbs-Merrill Law Publishers.
- Wolfman, B., J.P. Holden and K.L. Harris (1991), *Standards of Tax Practice*, Chicago: CCH.



## 98 European Taxation

**European Taxation**

Published by the *International Bureau of Fiscal Documentation*, this journal contains articles analysing legal and policy developments throughout Europe.

**eurotax**

A tax raised to fund the European Union.

**evasion**

Tax evasion is the illegal manipulation of one's affairs with the intention of escaping tax. It is traditionally contrasted with legal *avoidance* of taxation.

*Further reading*

- Allingham, M.G. and A. Sandmo (1972), 'Income tax evasion: a theoretical analysis', *Journal of Public Economics*, **1**, 323–38.
- Battacharya, D.K. (1994), 'Tax evasion and tax revenue loss: a further examination', *Public Finance*, **49** (2), 159–67.
- Hansen, D.R., R.L. Crosser and D. Laufer (1992), 'Moral ethics v. tax ethics – the case of transfer pricing among multinational corporations', *Journal of Business Ethics*, **11** (9), 679–86.
- Sandmo, A. (2005), 'The theory of tax evasion: a retrospective view', *National Tax Journal*, **58** (4), 643–63.
- Slemrod, J. (2007), 'Cheating ourselves: the economics of tax evasion', *Journal of Economic Perspectives*, **21** (1), 25–48.
- Tanzi, V. and P. Shome (1993), 'A primer on tax evasion', *IMF Staff Papers*, **40** (4), 807–28.
- Jung, Y.H., A. Snow and G.A. Trandel (1994), 'Tax evasion and the size of the underground economy', *Journal of Public Economics*, **54** (3), 391–402.

**excess burden**

The economic cost of a tax less the revenue received by the government. It arises because taxes may distort an economic system and cause taxpayers to do things that they would not otherwise do only in order to avoid taxation. Science fiction provides a vivid illustration – in Douglas Adams'

100 *exempt supply*

## **exempt supply**

Goods which are outside a system of *value added tax*. Suppliers are not therefore required to charge their customers VAT but they cannot reclaim tax paid on their inputs, unlike *zero-rated supplies*.

## **expenditure tax**

A tax on consumption. A personal expenditure tax is based on each individual's consumption expenditure. In principle at least, it could be levied at progressive rates together with *personal allowances* in the same way as income tax. It need not involve a detailed calculation of everyone's spending. Figures for income are already available to the tax authorities and, at its simplest level, income minus saving equals consumption. More generally, income could be added to capital receipts and borrowing to give a person's spending power. The next stage is to deduct items such as spending on capital assets, lending and repayment of debt. The figure that is left should represent consumption expenditure. Where personal expenditure taxes have been implemented they have not proved to be a great success. It is, however, a tax which excites economists from time to time. John Revans argued for it in 1847 and John Stuart Mill did so before the Select Committee on Income Tax and Property Tax in 1861. In the twentieth century its cause was championed by Alfred Marshall in 1917, Pigou in 1928, Fisher in 1937, Kaldor in 1955 and the Meade Committee in 1978. It is probably due for another run shortly. See also *Hobbes*.

### *Further reading*

- Kaldor, N. (1955), *An Expenditure Tax*, London: Unwin University Books.  
 Marshall, A. (1917), 'The equitable distribution of taxation', reprinted in A.C. Pigou (ed.) (1925), *Memorials of Alfred Marshall*, London: Macmillan.  
 Meade, J.E. et al. (1978), *The Structure and Reform of Direct Taxation*, London: Allen & Unwin for the Institute for Fiscal Studies.  
 Pigou, A.C. (1928), *A Study in Public Finance*, London: Macmillan.  
 Revans, J. (1847), *A Percentage Tax on Domestic Expenditure to Supply the Whole of the Public Revenue*, London: Hatchard.

## **expenses**

In a tax context, these are costs involved in earning income and which may, therefore, be deducted from that income before tax is calculated.

**gross profits tax**

A crude tax which may be levied at low rates on gross profits.

**GST**

*Goods and services tax.*

<http://www.pbookshop.com>

## H

### **Hall–Rabushka flat tax**

An early version of the much discussed *flat tax* which would be levied at a single rate. Their book first appeared under the title *Low Tax, Simple Tax, Flat Tax* in 1983 and the second edition simply entitled *The Flat Tax* was published in 1995. Hall and Rabushka claimed the tax returns for their tax could fit on a postcard. See also *flat tax*.

#### *Further reading*

Hall, R. and A. Rabushka (1995), *The Flat Tax*, 2nd edn, Stanford, CA: Hoover Institution Press.

### **handles**

See *tax handles*.

### **Harcourt, Sir William (1827–1904)**

The creator of the estate duty, the modern version of death duties, which he introduced in 1894.

### **hardship**

In taxation, revenue authorities sometimes have the power to grant tax relief if taxpayers would otherwise face financial hardship.

### **harmonisation of tax**

The process of removing differences between tax systems. In the increasingly extensive literature, various definitions are employed but few seem to encompass the range of meanings ‘harmonisation’ has acquired in a tax context. There are several possible dimensions including the taxes levied, the tax bases, the rates of tax and the ways in which taxes are



administered. One approach is to derive a possible classification and this is done in Figure H.1 (overleaf). At one extreme there is no harmonisation at all, at the other extreme there is complete standardisation of taxes. Starting from the left of Figure H.1, the extreme situation of no harmonisation could be mitigated by double taxation agreements and other administrative co-operation. The first substantive step towards harmonisation is for countries to have the same tax systems. Further steps are to implement the same tax bases, the same tax rates and the same methods of administration. If all those steps are taken, the other extreme of harmonisation would be reached: complete standardisation. However there could be an element of decentralisation with, for instance, the rates of some taxes determined locally – described as the local government model in Figure H.1.

#### *Further reading*

- Daly, M. and J. Weiner (1993), 'Corporate tax harmonisation and competition in federal countries: some lessons for the European Community?', *National Tax Journal*, **46** (4), 441–61.
- Fry, B.S. and R. Eichenberger (1996), 'To harmonise or to compete? That's not the question', *Journal of Public Economics*, **60** (3), 335–49.
- James, S. (1999), 'The future international tax environment and European tax harmonisation: a personal view,' *European Accounting Review*, **8** (4), 731–47.
- Kopits, G. (ed.) (1992), *Tax Harmonisation in the European Community*, Washington, DC: International Monetary Fund.
- McLure, C.E. Jr. (2009), 'Harmonizing corporate income taxes in the European Community: rationale and implications', *Tax Policy and the Economy*, **23** (1), 151–95.

## **havens**

See *tax havens*.

## **Hawley–Smoot tariff**

US *tariff* introduced in 1930 on virtually all imports in order to promote domestic production and employment. As predicted, other countries retaliated, the amount of international trade fell and the result was to worsen the Great Depression.

*Further reading*

Layfield, F. (1976), Chairman, *Local Government Finance: Report of the Committee of Enquiry*, Cmnd 6453, London: HMSO.

**lease**

A contract whereby the lessee hires a specific asset from the lessor who retains ownership of the asset. There can be tax advantages in leasing an asset instead of buying it. For example, the lessor might be able to make better use of tax provisions for *depreciation*. Part of the benefit may then be passed on to the lessee through lower lease payments.

**least aggregate sacrifice**

A variation of the *sacrifice approach* which suggests that taxation should be taken from those with the lowest marginal *utility* of income.

**leverage**

US term for 'gearing' but becoming more commonly used in the UK. It describes the relationship between the funds provided by shareholders in an enterprise and funds requiring a fixed return, such as bonds and preference shares.

*Further reading*

Briffett, R. (1990), 'Leverage and the changing concept of adequate capitalisation', *British Tax Review*, 12–35.

**levy**

A form of taxation. Originally it referred particularly to a tax raised for a specific purpose and charged at a given rate per taxpayer. In former times it has also been used in respect of fines, but now is often synonymous with taxation.

## **lien for taxes**

As part of its tax collection procedures, a tax authority may attach a lien (legal claim) on the property of a person who owes taxes.

## **lifetime incidence analysis**

The analysis of the distribution of the tax burden over taxpayers' lifetimes.

### *Further reading*

Fullerton, D. and D.M. Rodgers (1993), *Who Bears the Lifetime Tax Burden?* Washington, DC: Brookings Institution.

## **LIFO**

*Last in, first out.*

## **limited liability**

A legal arrangement such that, should a limited liability company fail, the shareholders' liability is limited to the amount of capital they have invested.

## **limited liability partnerships**

An incorporated body which affords limited liability but for tax purposes is treated as a *partnership*.

## **Lindahl tax**

The idea that individuals pay for the supply of a *public good* by a tax which reflects their marginal benefit. As public goods, such as national defence, are consumed collectively there has been much debate regarding how they should be financed. In 1919, Erik Lindahl proposed a system

whereby individuals pay different levels of tax according to their marginal benefits. In theory, this would lead to an efficient level of production of public goods where the sum of individuals' marginal benefits was equal to the marginal cost of supplying the public good. However there remains the 'free-rider' problem – individuals hope to let others pay for public goods by not revealing their own preferences.

*Further reading*

Lindahl, E. (1919), 'Just taxation – a positive solution' (translated), in R.A. Musgrave and A.T. Peacock (eds), *Classics in the Theory of Public Finance*, 1958, London: Macmillan.

## linear tax system

A tax system which consists of a tax-free allowance and income in excess of this allowance is subject to a single rate of tax. In the Figure L.2, taxpayers could receive up to  $OT$  in income before tax is levied. Above  $T$  all additional income is subject to the same *marginal rate of tax*. The single rate of tax has led some to suppose that this is a *proportional tax*. This is not so. After the tax threshold  $T$  is reached, although the marginal tax rate remains the same, the average rate of tax rises as income rises. This means that the proportion of income taken in tax rises as income rises and it is therefore a *progressive tax*. However, it is true that it is less progressive than a tax levied at a series of higher marginal rates.

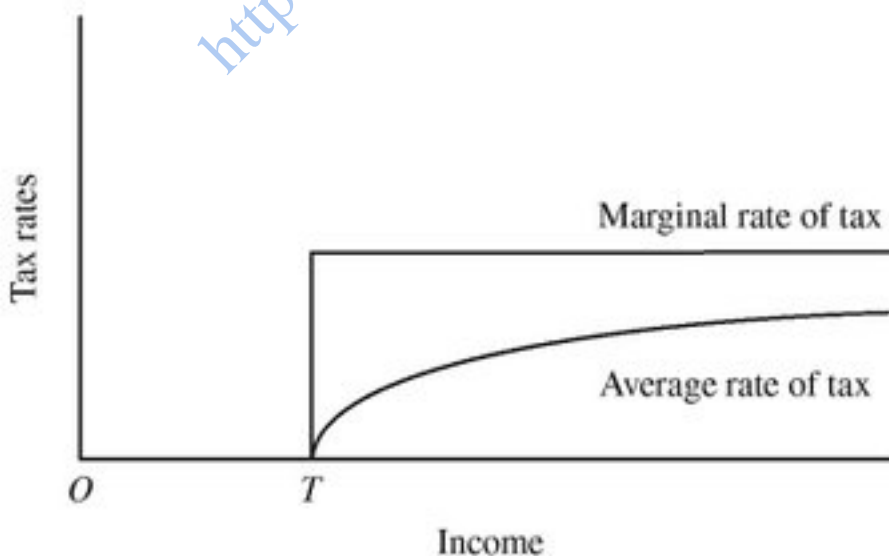


Figure L.2 Linear tax schedule



166 *liquor taxation*

## **liquor taxation**

See *alcohol taxation*.

## **literacy**

See *tax literacy*.

## **literal interpretation of the law**

The view that the law should be interpreted literally without reference to other matters. It is sometimes found in extreme form, for example as stated by Lord Cairns in *Partington v. Attorney-General* [1869] LR 4 HL 100 at p. 122:

If a person sought to be taxed comes within the letter of the law he must be taxed, however great the hardship may appear to the judicial mind to be. On the other hand, if the Crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free, however apparently within the spirit of the law the case might otherwise appear to be.

A further authority sometimes cited on the point is Rowlatt, J. in *Cape Brandy Syndicate v. IRC* [1921] 1 KB 64 at p. 71:

In a taxing Act one has to look merely at what is clearly said. There is no room for any intendment. There is no equity about a tax. There is no presumption as to a tax. Nothing is to be read in, nothing is to be implied. One can only look fairly at the language used.

See also *Pepper v. Hart*.

## **local government finance**

The ways in which local authorities, whether city, district or region, can be financed. They could be financed by direct grants from central government. However, it has been argued that local authorities should not be too reliant on central funding. This might reduce their independence, reduce local choice regarding local levels of public expenditure and make them

less accountable to local taxpayers. There may be some scope for charging for local authority services but this may be limited by the nature of these services, for example it is not easy to charge for the provision of local *public goods*. This leaves local taxation. In considering which might be the best local taxes, the normal criteria for taxation apply – *efficiency*, *equity* and *incentives*. However, there are some additional criteria for good local taxes. One is that the tax base must be substantial and spread relatively evenly across different local authorities. Another is that, if local areas are to be able to exercise some choice in the level of local spending, the tax should be capable of being levied at different rates in different areas. See also the *Layfield Report* and the *Tiebout model*.

### **local income taxes**

Local income taxes are used to finance local government in many countries. They have the advantage of being related to *ability to pay*.

### **local sales tax**

A possible form of *local government finance*. It has the disadvantage that, if it is levied at different rates in different local authority areas, taxpayers in high tax areas will have an artificial incentive to shop in low tax areas.

### **locked-in**

An individual or enterprise is said to be locked into an asset if the sale of that asset would trigger a liability to tax. This may happen when a tax is levied on a *realisations basis* as is usual with *capital gains tax*. It is less likely to happen when a tax is levied on an *accruals basis*.

### **lodge**

Australian term for submitting or filing a return with the tax authorities.

**pollution tax**

A tax designed to confront a person or company causing pollution with a sum equivalent to the social costs they are imposing on others. See also *external effect*.

**popular tax**

Widely thought to be an oxymoron. However, in a debate in the Canadian Parliament in 1917, Sir Thomas White stated that, 'In such experience as I have had with taxation – and it has been considerable – there is only one tax that is popular and that is the tax that is on the other fellow'.

**post-cessation receipts**

Income which arises after a business has ceased and which has not been included in the final accounts.

**post-transactions rulings**

Tax *rulings* given after a transaction is undertaken.

**postwar credits**

Compulsory saving introduced in the UK during the Second World War in order to reduce consumption and release resources for the war effort. The idea came from John Maynard Keynes who considered it to have the additional advantage of stimulating expenditure if there were a postwar slump. Such a scheme has some of the features of a tax and it is perhaps surprising that it has not been used more often.

**poverty trap**

The situation where the combined effects of direct taxation and the withdrawal of income-related benefits as income rises mean that a person

earning more has little or no extra *disposable income*. See also *unemployment trap*.

## **PPP**

*Personal pension plan.*

## **practitioners**

See *tax practitioners*.

## **preceding year basis of assessment**

The arrangement whereby income is charged to tax in any one year on the basis of the preceding year's taxable income. See also *current year basis of assessment*.

## **preferential tariff**

A *tariff* imposed at lower rates either on the imports from particular countries or on particular goods.

## **pre-populated tax returns**

Tax returns already at least partly completed by the tax authorities using information from third parties and other sources. Denmark was involved with this process as early as 1988 and developed it further during the 1990s. The application of technology in this way has also been adopted by other countries and more are likely to follow. Pre-populated tax returns are able to include details of most major sources of income together with the tax withheld, asset sales and purchases, specific deductions that are obtained from third party sources or calculated according to a formula, personal tax allowances, tax credits and the calculations of tax payable or refundable. The role of the taxpayer is, of course, to confirm that the



206 *Prest, A.R. (1919–85)*

information entered on the tax return in this way is correct and to supply any further information required.

*Further reading*

Highfield, R. (2006), 'Pre-populated income tax returns' in M. McKerchar and M. Walpole (eds), *Further Global Challenges in Tax Administration*, Fiscal publications, 331–58.

## **Prest, A.R. (1919–85)**

Economist who contributed to the discussion of many aspects of taxation. He will be remembered by many students for his textbook *Public Finance in Theory and Practice*, which was the best in the field for many years.

## **presumptive taxation**

Taxation which uses indirect methods to establish tax liability. Presumptive methods may be used in the absence of reliable accounts or to simplify taxation.

*Further reading*

Thuronyi, V. (1996), 'Presumptive taxation', chapter 12 in V. Thuronyi (ed.), *Tax Law Design and Drafting*, vol. 1, Washington, DC: International Monetary Fund.

## **pre-transaction rulings**

Tax *rulings* given before a transaction is carried out.

## **principal payment**

In a loan repayable in instalments, it is that part of the payments representing the repayment of capital as opposed to the payment of interest.

**privacy**

See *confidentiality* and *tax privacy*.

**private ruling**

A ruling granted to a particular taxpayer by the tax authorities. See *rulings*.

**probate**

The official proving of a will.

**probate duty**

A tax on property passing by will. In the UK probate duty was introduced in 1694 and merged with *estate duty* in 1894.

**probate value**

The value of a deceased person's estate for the purposes of *inheritance tax*.

**profit**

Revenue minus cost.

*Further reading*

Pagan, J.C. (1992), 'Measurement of commercial profit for tax purposes', *British Tax Review*, 75–81.

**profit and loss account**

A financial statement of a firm's income, expenses and profit.

**profit-related pay (PRP)**

Pay which is related to a company's profits, usually in addition to normal wages and salaries. It is argued that there are advantages to this arrangement since workers may identify more directly with the commercial success of their firm. There may also be a greater flexibility in difficult times since a reduction in profit-related pay may avoid the need to reduce the number of jobs. In recognition of such possible benefits, tax arrangements have been introduced to encourage the development of profit-related pay.

**progressive tax**

A tax which takes a higher proportion of higher incomes than it does of lower incomes. A tax may take more in absolute terms from the rich than it does from the poor and still not be progressive, if it does not take a bigger proportion of the higher incomes. In technical terms, the definition of a progressive tax is that the *marginal rate of tax* exceeds the *average rate of tax*.

**property**

*Assets* of individuals or enterprises. Often taken to mean particular types of assets, most commonly land and buildings.

**property tax**

A tax based on the value of property, though it is often limited to certain types of property such as land and buildings. In some countries it is an important source of *local government finance*. See also *Proposition 13*.

*Further reading*

Anderson, N.B. (2006), 'Property tax limitations: an interpretive review', *National Tax Journal*, **59** (3), 685–94.

Carroll, R.J. and J. Yinger (1994), 'Is the property tax a benefit tax? The case of rental housing', *National Tax Journal*, **47**, (2), 295–316.

Lutz, B.F. (2008), 'The connection between house price appreciation and property tax revenues', *National Tax Journal*, **61** (3), 555–72.