



The Basics of Taxes in Accounting





What Makes This Guide Different?

A Unique Approach to Learning Taxes

This isn't your typical accounting textbook. The best way to learn is by seeing how principles apply to real people and real-world situations. Here's what you will learn exclusively in this guide:



Learn Through Relatable Scenarios

Forget dry, generic examples. You'll learn by seeing how taxes apply to the actual hobbies and projects of creative people—like the tax on Patricia's retro video game purchase or Zyrine's catering business selling her famous Sisig.



Gain a Unique 3-Country Perspective

*Master the practical differences in taxes for **Japan, the USA, and the Philippines**. This guide provides a side-by-side comparison you won't find elsewhere, showing you exactly how to handle Japanese Consumption Tax, US Sales Tax, and Philippine VAT.*



Master Calculations (Even if You Dislike Math)

Every tax and payroll calculation is broken down into simple, step-by-step instructions. You'll see exactly how to get to the right numbers without feeling overwhelmed, and even tackle real-world challenges like VAT-inclusive pricing.



Avoid Common International Mistakes

Learn about the most common errors beginners make in multi-country transactions and how you can avoid them from the start.

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Welcome to the World of Taxes

Welcome to the world of taxes! It might sound intimidating, but this guide is designed to make it simple. We're going to break down the essential building blocks of how taxes work across different countries. Think of it as learning the financial rules of the game that every person and business plays. By the end, you'll understand how to calculate taxes on sales and from a paycheck like a pro. Let's dive in.



What Exactly *Are* Taxes?

*A **tax** is a mandatory financial charge imposed by a government on an individual or a company. This revenue is the primary source of funding for public services that build and maintain a functioning society. Both businesses and individuals have a legal obligation to pay taxes based on their economic activities—what they earn, what they sell, and what they own.*





The primary purposes of taxes are:

To Fund Public Services

This is the most direct purpose. Taxes pay for essential infrastructure and services like roads, schools, hospitals, national defense, and public safety (police and fire departments).

To Support Social Safety Nets

Taxes fund crucial social programs. In the U.S., for example, they support Social Security (providing income for retirees) and Medicare (providing healthcare for seniors).

To Promote Economic Stability

Governments can use tax policies as a tool to manage the economy. For instance, they might offer tax credits to businesses to encourage investment in certain industries or lower income taxes to stimulate consumer spending.

📌 **Key Takeaway:** For an accountant, taxes are not just about compliance and filling out forms. A deep understanding of tax law allows you to act as a strategic advisor, helping individuals and companies plan their finances to operate efficiently and legally minimize their tax burden.



Understanding Tax Categories

The Three Main Categories of Taxes

While there are many specific types of taxes, they generally fall into one of three main buckets. Understanding these categories will help you quickly identify how a tax works.



A. Taxes on Consumption (What You Buy)

This is the most common type of tax that people encounter daily. It's added to the price of goods and services you purchase. For governments, these taxes are relatively easy to collect because they are handled at the point of sale by businesses.



Japan

Consumption Tax



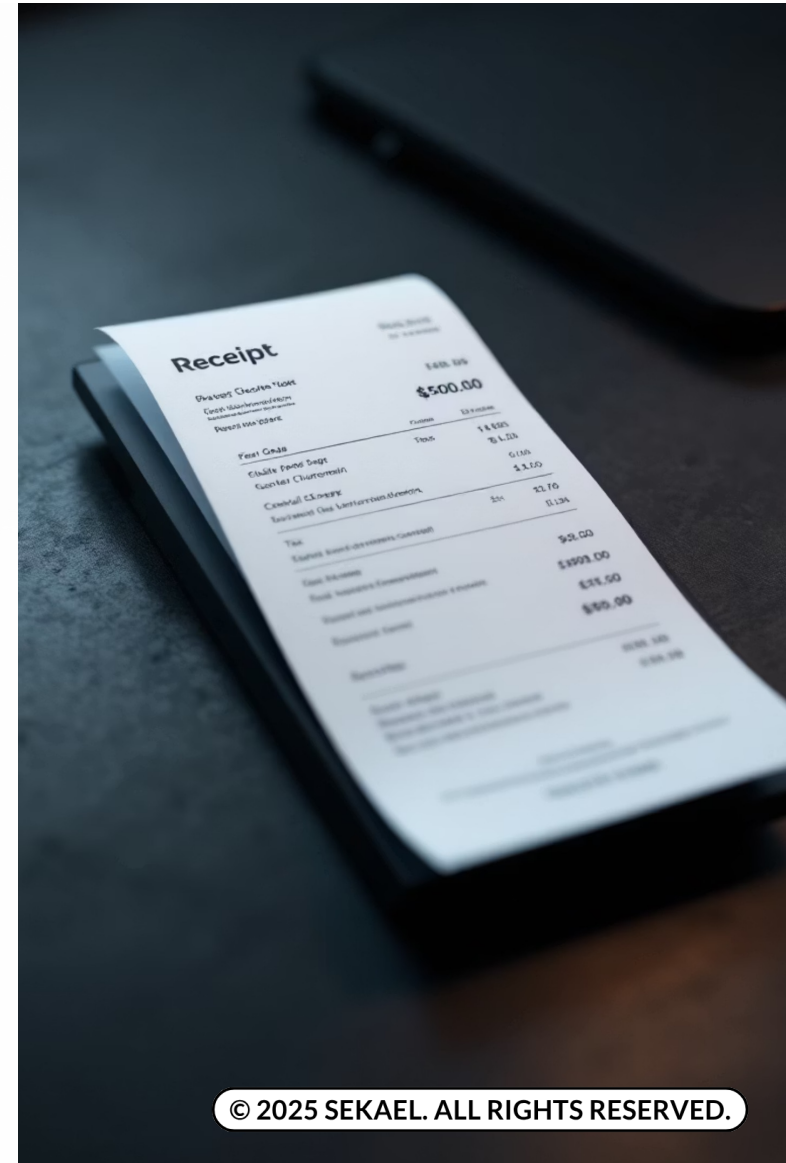
United States

Sales Tax



Philippines

Value-Added Tax (VAT)





B. Taxes on Income (What You Earn)

This is a tax levied on the earnings of individuals and the profits of corporations. Income tax is a major source of revenue for most governments.

For Businesses

*Known as **Corporate Income Tax**, this is a tax on a company's profits (revenue minus expenses).*



For Individuals

*Known as **Individual Income Tax**, this is a tax on wages, salaries, investments, and other forms of personal income.*



C. Taxes Withheld from Payroll (What's Taken from Your Paycheck)

"Withholding" is a system designed to make tax collection smoother and prevent a huge, unexpected tax bill for employees at the end of the year. The employer calculates, deducts, and pays the employee's estimated taxes directly to the government from each paycheck. It's essentially a "pay-as-you-go" system.

Japan

Includes Income Tax, Residence Tax, and Social Insurance premiums.

United States

Includes Federal Income Tax, Social Security & Medicare Taxes (often grouped as "FICA" taxes), and sometimes State Income Tax.

Philippines

Known simply as Withholding Tax.



Fundamentals of Japanese Taxes



Consumption Tax

10%

Standard Rate

8%

Reduced Rate

Rate: The standard rate is **10%**. A **reduced rate of 8%** applies to certain essential items to lessen the burden on consumers. This includes food and beverages (excluding alcoholic drinks and dining out) and newspaper subscriptions.

Calculation: Sales Amount \times 10%

Example: A ¥1,000 shirt will cost ¥1,100. However, ¥1,000 worth of groceries for takeout would only cost ¥1,080.



Income Tax (Progressive Tax)

Japan uses a **progressive tax system**, meaning that as your income increases, the percentage of your income paid in taxes also increases. This is designed to place a smaller burden on lower-income individuals.

Example: Someone earning ¥3 million per year falls into a lower tax bracket (5-10%) than someone earning ¥20 million, who would fall into a much higher bracket (e.g., 40%).





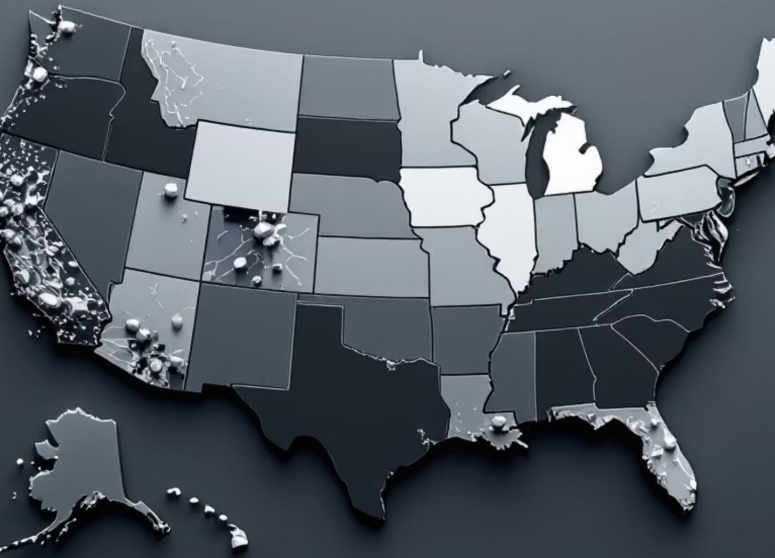
Withholding (源泉徴収 - *gensen-chōshū*)

*This is the highly efficient Japanese system where employers deduct taxes directly from an employee's salary. It's comprehensive, covering not just income tax but also **Residence Tax** (a local tax based on the previous year's income) and social insurance premiums (for health and pension).*





Fundamentals of U.S. Taxes



Sales Tax

A key feature of the U.S. is that there is **no national sales tax**. Each state, and sometimes even individual cities or counties, sets its own sales tax rate. This creates a complex landscape for businesses operating across multiple states.



Example: California's state rate is 7.25%, but cities like Los Angeles add their own local sales taxes, bringing the total to 9.5% or higher in some areas. Five states (like Oregon and Montana) have no sales tax at all.



Federal and State Income Tax

In the U.S., you are often taxed twice on your income: once by the federal government and once by your state government.

Federal Income Tax

This is a progressive tax with brackets currently ranging from 10% to 37%.

State Income Tax

*Most states have their own income tax. California's rates go up to 13.3%, while states like Texas, Florida, and Nevada have **no state income tax**. This can significantly impact your take-home pay depending on where you live.*

FICA Taxes (Social Security & Medicare)

A crucial part of U.S. payroll, FICA taxes fund retirement and healthcare benefits. These are separate from income tax and are deducted from every paycheck.

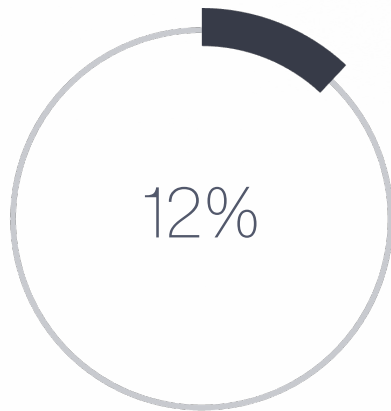


Fundamentals of Philippine Taxes

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VAT (Value-Added Tax)



VAT Rate

Rate: A flat **12%** on most goods and services.

VAT is a tax on the "value added" at each stage of the supply chain. A manufacturer adds value, a wholesaler adds value, and a retailer adds value. The tax is collected at each step, and the final consumer ultimately bears the cost. It is overseen by the Bureau of Internal Revenue (BIR).



Withholding Tax (on Payroll)

The Philippines uses a progressive system for its payroll withholding tax, with rates that increase as income rises, topping out at 32%.

The employer is responsible for withholding and remitting this tax to the BIR.



Corporate Income Tax

*This is a tax on a company's profits. The standard rate is **25%**. To support smaller businesses, some small and medium-sized enterprises (SMEs) with net taxable income not exceeding ₱5 million and total assets not exceeding ₱100 million are eligible for a reduced rate of **20%**.*



Standard Rate: 25%

Applied to most corporations



SME Rate: 20%

For qualifying small and medium enterprises



Summary of Differences by Country

<i>Tax Type</i>	<i>Japan</i>	<i>United States</i>	<i>Philippines</i>
<i>Consumption/Sales/VAT</i>	<i>Consumption Tax 10% (8% reduced)</i>	<i>Sales Tax (0-10% by state, plus local taxes)</i>	<i>VAT 12%</i>
<i>Income Tax</i>	<i>Progressive 5-45%</i>	<i>Federal 10-37% State 0-13.3%</i>	<i>Progressive 0-32%</i>
<i>Payroll Withholding</i>	<i>Income Tax Residence Tax Social Insurance</i>	<i>Federal Tax FICA (Social Security & Medicare) State Tax</i>	<i>Withholding Tax</i>



Putting Theory into Practice

Sample Tax Calculations

Let's see how these tax systems work with real-world examples featuring our creative professionals.



Japan Example



Patricia buys a rare retro video game from a store in Tokyo for \$1,000. This is a standard good, so the 10% tax rate applies.

- *Consumption Tax: $\$1,000 \times 10\% = \100*
- *Total Cost: $\$1,000 + \$100 = \$1,100$*



U.S. Example (California)

Cris goes to a café in Los Angeles. Her bill for coffee and chicken wings comes to \$1,000. In L.A., the sales tax rate is around 9.5%.

- ***Sales Tax: $\$1,000 \times 9.5\% = \95.00***
- ***Total Cost: $\$1,000 + \$95.00 = \$1,095.00$***





Philippines Example



Zyrine's catering business sells \$1,000 worth of her famous Sisig for a local event. As a service provider, she must add 12% VAT.

- *VAT: $\$1,000 \times 12\% = \120*
- *Total Price Charged to Client: $\$1,000 + \$120 = \$1,120$*



Understanding Your Paycheck

Sample Payroll and Withholding Calculations

Before we start, let's define two key terms:



Gross Pay

*The total amount of money an employee earns **before** any taxes or other deductions are taken out.*



Net Pay (or Take-Home Pay)

*The amount of money an employee receives in their paycheck **after** all deductions have been subtracted.*



Japan Payroll Example



Gross Pay

\$3,000



Income Tax Withheld

$\$3,000 \times 5\% = \150



Net Pay

\$2,850



(Note: This excludes Residence Tax and social insurance for simplicity.)



United States Payroll Example



Gross Pay:

\$3,000



Federal Tax (10%)

\$300



Social Security (6.2%)

\$186



Medicare (1.45%)

\$43.50

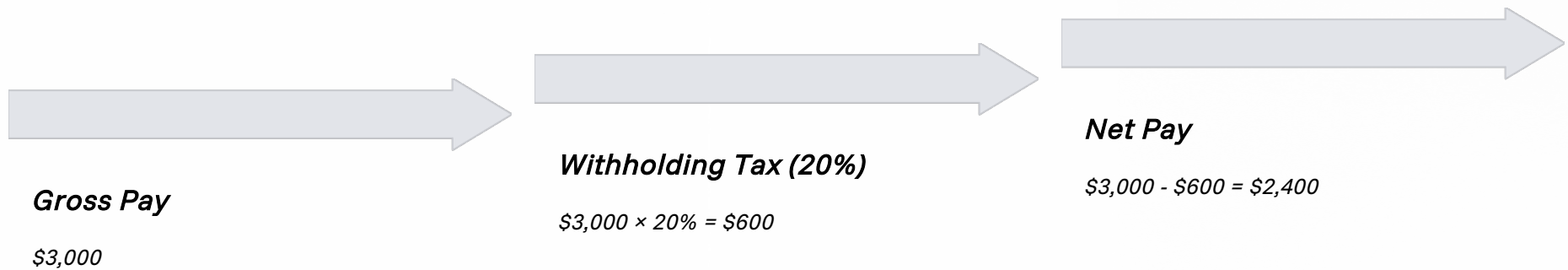
Total Deductions:

$\$300 + \$186 + \$43.50 = \529.50

Net Pay:

$\$3,000 - \$529.50 = \$2,470.50$

Philippines Payroll Example





Pro Tips to Avoid Common Mistakes



Always Verify the Rate

Tax rates are not static. They can change due to new laws, and in the U.S., they can vary from one city to the next. Never assume—always verify the current, local rate.



Understand "Tax-Inclusive" vs. "Tax-Exclusive" Pricing

A price tag that is "tax-exclusive" means the tax will be added at the register. A "tax-inclusive" price (common with VAT) means the tax is already built into the final price. This is a critical difference for bookkeeping.



Keep Meticulous Records

Good record-keeping is your best defense against errors and audits. Save all receipts, invoices, and payroll records. For businesses, this is non-negotiable.



Never Miss a Deadline

Governments impose strict deadlines for filing and paying taxes. Missing them can result in heavy penalties and interest charges. Mark your calendar with all relevant tax deadlines.



Consult Local Professionals

*For international business, it's **crucial** to consult with a local professional to ensure you are complying with the specific tax laws of each country you operate in.*



Test Your Knowledge Practice Problems

Apply what you've learned. Fully explained answers are provided below.



Practice Problems

- (Japan) Jenelie buys K-drama merchandise online from a Japanese store for \$500. With a 10% consumption tax, what is the total price she will pay?
- (U.S., Texas) Patricia is in Houston, Texas, where the sales tax is 8.25%. She buys new art supplies for \$800. What is her total at the register?
- (Philippines) Cris buys a new set of driving gloves for her car in the Philippines for \$600. The price tag says "VAT Inclusive." How much of that \$600 is the actual VAT?
- (Payroll, Japan) Jenelie earns a gross salary of \$2,500 from a part-time job in Japan. If her income tax rate is 5%, what is her net pay (take-home pay)?
- (Payroll, U.S.) Patricia takes on a remote contract job based in the U.S. that pays her a gross salary of \$4,000. Calculate her net pay after deducting Federal Tax (10%), Social Security (6.2%), and Medicare (1.45%).
- (Payroll, Philippines) Zyrine works as a part-time video editor in the Philippines. Her gross pay for a project is \$1,200, and her withholding tax is 10%. What is her net pay for this project?



Answers and Explanations

Let's walk through these together.



A1. (Japan - Jenelie's Merchandise)



- **Price of items:** \$500
- **Tax Calculation:** $\$500 \times 10\% (0.10) = \50
- **Total Cost:** \$500 (Price) + \$50 (Tax) = **\$550**

Jenelie's total cost for her merchandise is \$550.



A2. (U.S. - Patricia's Art Supplies)

- **Price of items:** \$800
- **Tax Calculation:** $\$800 \times 8.25\% (0.0825) = \66
- **Total Cost:** $\$800 \text{ (Price)} + \$66 \text{ (Tax)} = \mathbf{\$866}$

| **Patricia will pay \$866 at the register.**



A3. (Philippines - Cris's Driving Gloves)

This one is a bit trickier, so follow closely. The \$600 price already includes the 12% VAT.

1

Find the pre-tax price

The total price represents 112% (100% of the price + 12% VAT). To find the original price, we divide the total by 1.12.

$$\$600 \div 1.12 = \$535.71$$



Find the VAT amount

You can find this by subtracting the pre-tax price from the total price.

$$\$600 \text{ (Total)} - \$535.71 \text{ (Pre-Tax Price)} = \$64.29$$

Of the \$600 Cris paid, \$64.29 was the Value-Added Tax.



A4. (Payroll - Jenelie's Part-Time Job)

- **Gross Pay:** \$2,500
- **Tax Withholding Calculation:** $\$2,500 \times 5\% (0.05) = \125
- **Net Pay Calculation:** $\$2,500 \text{ (Gross Pay)} - \$125 \text{ (Taxes Withheld)} = \textbf{\$2,375}$

Jenelie's take-home pay is \$2,375.



A5. (Payroll - Patricia's U.S. Contract)

Step 1: Calculate each tax deduction from the Gross Pay of \$4,000.

Federal Tax: $\$4,000 \times 10\% (0.10) = \400

Social Security: $\$4,000 \times 6.2\% (0.062) = \248

Medicare: $\$4,000 \times 1.45\% (0.0145) = \58

Step 2: Add all deductions together.

$\$400 + \$248 + \$58 = \706 (Total Deductions)

Step 3: Subtract total deductions from Gross Pay.

$\$4,000 - \$706 = \mathbf{\$3,294}$ (Net Pay)

Patricia's take-home pay is \$3,294.



A6. (Payroll - Zyrine's Editing Project)

- **Gross Pay:** \$1,200
- **Tax Withholding Calculation:** $\$1,200 \times 10\% (0.10) = \120
- **Net Pay Calculation:** $\$1,200 \text{ (Gross Pay)} - \$120 \text{ (Taxes Withheld)} = \textbf{\$1,080}$

Zyrine's take-home pay for this project is \$1,080.



12. Guide Summary

You've made it through the fundamentals of international taxes! Let's recap the essentials.



The Core Formula is Universal:

While tax systems vary by country, the fundamental calculation is always $\text{Taxable Amount} \times \text{Tax Rate}$. Your primary job is to identify the correct amount and the correct rate.



Key Country Differences:

- **Japan:** Features a standard 10% consumption tax and a highly structured "pay-as-you-go" payroll withholding system.
- **United States:** Is defined by its lack of a national sales tax, leading to complex variations by state and city. Income is also often taxed at both federal and state levels.
- **Philippines:** Key features include a flat 12% VAT on most transactions and a progressive withholding tax on salaries.



Accuracy is Everything

Whether calculating sales tax or processing payroll, handling deductions and applying the correct rates are essential for compliance and financial health.

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You now have a solid foundation in the mechanics of tax systems from an international viewpoint. This is a critical building block for any accounting professional. In the next guide, we'll dive into Payroll Processing and Workflow to see how these calculations are put into practice in a real business environment.