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MİLLÎ EĞİTİM BAKANLIĞI**

MUHASEBE VE FİNANSMAN

**FINANCIAL TERMS AND STOCK
EXCHANGE TERMS 1
222YDK136**

Ankara, 2011

- Bu modül, mesleki ve teknik eğitim okul/kurumlarında uygulanan Çerçeve Öğretim Programlarında yer alan yeterlikleri kazandırmaya yönelik olarak öğrencilere rehberlik etmek amacıyla hazırlanmış bireysel öğrenme materyalidir.
- Millî Eğitim Bakanlığınca ücretsiz olarak verilmiştir.
- **PARA İLE SATILMAZ.**

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EXPLANATION

| | |
|--|--|
| MODÜLÜN KODU | 222YDK136 |
| ALAN | Muhasebe ve Finansman |
| MESLEK/DAL | Finans Hizmetleri Elemanı |
| MODÜLÜN ADI | Finans ve Borsa Terimleri 1 |
| MODÜLÜN TANIMI | Finans ve borsa işlemlerinde kullanılan terimler hakkında bilgi ve beceri kazandıran öğretim materyalidir. |
| SÜRE | 40/32 |
| ÖN KOŞUL | Yabancı Dilde Kurallar ve Yabancı Dilde İletişim Modüllerini başarmış olmak. |
| YETERLİK | Yabancı dilde mesleki konuları dinlemek, konuşmak, okumak ve yazmak. |
| MODÜLÜN AMACI | <p>Genel Amaç: Öğrenci, uygun ortam sağlandığında, borsalarda kullanılan terimleri yabancı dilde hatasız olarak anlayabilecek ve ayırt edebilecektir.</p> <p>Amaçlar:</p> <p>1-Vergi ile ilgili terimleri yabancı dilde yazılı ve sözlü olarak ifade edebileceksiniz.</p> <p>2-Bütçe ile ilgili terimleri yabancı dilde yazılı ve sözlü olarak gerçekleştirebileceksiniz.</p> <p>3-Banka ile ilgili terimleri yabancı dilde yazılı ve sözlü şekilde yapabileceksiniz.</p> |
| ÖĞRENME ORTAMLARI VE DONANIMLAR | <p>Ortam: Sınıf ve/veya işletme.</p> <p>Donanım: Form belgeler, SPK mevzuatı, İMKB bilgileri tanıtım broşürleri, makaleler, süreli yayınlar, bilgisayar, projeksiyon makinası, tanıtım CD leri.</p> |
| ÖLÇME VE DEĞERLENDİRME | Modülün içerisinde yer alan her faaliyetten sonra verilen ölçme araçları ile kazandığınız bilgileri ölçerek kendi kendinizi değerlendireceksiniz. Öğretmen modül sonunda size ölçme aracı (Test, çoktan seçmeli, doğru yanlış, klasik, uygulama, boşluk doldurma ve örnek olay inceleme) uygulayarak, modül uygulamaları ile kazandığınız bilgileri değerlendirecektir. |

PREFACE

Dear Student;

Welcome to this module!

This module is intended for employees who will work at Finance and Stock Exchange departments of the companies and who need to improve their Professional English.

Keeping the customer's satisfaction on top, Foreign Trade departments must increase their market share continuously which will help them to venture into new areas. They also follow up the recent technologies in different fields, integrate those to their business. This enables them to get effective and efficient solutions.

The basic objective is to help Finance and stock exchange department staff improve their foreign language skills in order to communicate with employees and customers who speak English as well as to enable the staff to read all the documents (foreign trade or finance books, magazines about their jobs, etc.) which are written in English.

This module is composed of typical explanations, pictures and, of course, some practical tips which must be known to be able to read, understand, write and speak English in your daily lives.

Warm regards.

LEARNING ACTIVITY 1

AIM

At the end of this learning activity you will be able to learn

- Tax terms.
- Types of taxes in all regimes.
- Turkish tax system.

SEARCH

- Try to learn types of taxes in Turkey. Prepare a chart to show these different taxes.
- Try to learn the ratios of taxes in Turkey. Then explain this information to your friends. Use some newspaper extracts or financial magazines to prove the ratios.

1. TAX TERMS

1.1. What Is Tax?



A tax is an amount of money that you have to pay to the government so that it can pay for public services. You usually pay a percentage of your income as tax, companies pay some of their profits as tax, and the price of most goods and services includes a certain amount of tax.

Taxes consist of direct tax or indirect tax, and may be paid in money or as corvée labor. A tax "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is "any contribution imposed by government whether under the name of toll, tribute, tallage, gabel, impost, duty, custom, excise, subsidy, aid, supply, or other name."

The method of taxation and the government expenditure of taxes raised is often highly debated in politics and economics. Tax collection is performed by a government agency such as Revenue Canada, Revenue Administration in Turkey, the Internal Revenue Service in the United States, or Her Majesty's revenue and Customs in the UK. When taxes are not fully paid, civil penalties (such as fines or forfeiture) or criminal penalties (such as incarceration) may be imposed on the non-paying entity or individual.

1.2. Purposes and Effects

Funds provided by taxation have been used by states and their functional equivalents throughout history to carry out many functions. Some of these include expenditures on war, the enforcement of law and public order, protection of property, economic infrastructure (roads, legal tender, enforcement of contracts, etc.), public works, social engineering, and the operation of government itself. Most modern governments also use taxes to fund welfare and public services. These services can include education systems, health care systems, pensions for the elderly, unemployment benefits, and public transportation. Energy, water and waste management systems are also common public utilities. Colonial and modernizing states have also used cash taxes to draw or force reluctant subsistence producers into cash economies.

Governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population. Historically, the nobility were supported by taxes on the poor; modern social security systems are intended to support the poor, the disabled, or the retired by taxes on those who are still working. In addition, taxes are applied to fund foreign and military aid, to influence the macroeconomic performance of the economy, or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive.

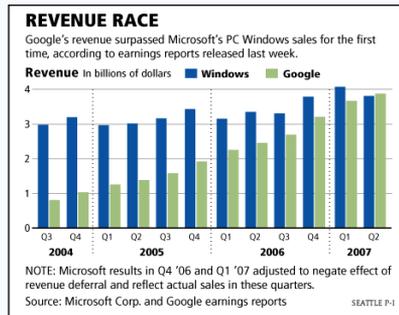


The Four "R"s

Taxation has four main purposes or effects: **R**evue, **R**edistribution, **R**epricing, and **R**epresentation.

1.2.1. The Main Purpose Is Revenue

Taxes raise money to spend on roads, schools and hospitals, and on more indirect government functions like good regulation or justice systems. This is the most widely known function.



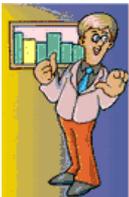
1.2.2. A Second Is Redistribution

Normally, this means transferring wealth from the richer sections of society to poorer sections, and this function is widely accepted in most democracies, although the extent to which this should happen is always controversial.

1.2.3. A Third Purpose of Taxation Is Repricing

Taxes are levied to address externalities: tobacco is taxed, for example, to discourage smoking, and many people advocate policies such as implementing a carbon tax as a way of tackling global warming.

1.2.4. A Fourth, Consequential Effect of Taxation In Its Historical Setting Has Been Representation



The American revolutionary slogan "no taxation without representation" implied this: rulers tax citizens, and citizens demand accountability from their rulers as the other part of this bargain. Several studies have shown that direct taxation (such as income taxes) generates the greatest degree of accountability and better governance, while indirect taxation tends to have smaller effects.

1.3. Proportional, Progressive, and Regressive

An important feature of tax systems is the percentage of the tax burden as it relates to income or consumption. The terms progressive, regressive, and proportional are used to describe the way the rate progresses from low to high, from high to low, or proportionally. The terms can be applied to any type of tax.

A **progressive tax** is a tax imposed so that the tax rate increases as the amount to which the rate is applied increases.

The opposite of a progressive tax is a **regressive tax**, where the tax rate decreases as the amount to which the rate is applied increases.

In between is a **proportional tax**, where the tax rate is fixed as the amount to which the rate is applied increases.

1.4. Direct and Indirect



Taxes are sometimes referred to as direct tax or indirect tax. The meaning of these terms can vary in different contexts, which can sometimes lead to confusion.

In economics, **direct taxes** refer to those taxes that are collected from the people or organizations on whom they are ostensibly imposed. For example, income taxes are collected from the person who earns the income.

By contrast, **indirect taxes** are collected from someone other than the person ostensibly responsible for paying the taxes. In law, the terms may have different meanings. Indirect taxes are imposed on rights, privileges, and activities. Thus, a tax on the sale of property would be considered an indirect tax, whereas the tax on simply owning the property itself would be a direct tax. The distinction can be subtle between direct and indirect taxation, but can be important under the law.

1.5. Tax Burden

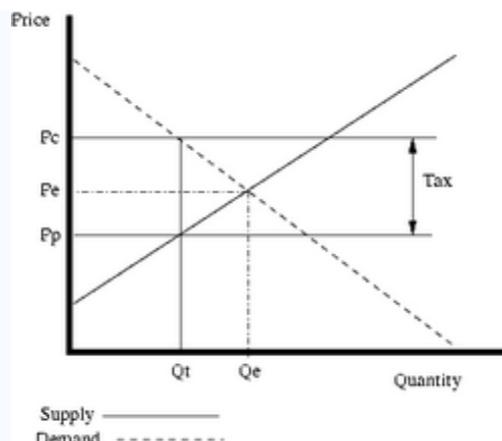


Diagram illustrating taxes effect

Law establishes from whom a tax is collected. In many countries, taxes are imposed on business (such as corporate taxes or portions of payroll taxes). However, who ultimately pays the tax (the tax "burden") is determined by the marketplace as taxes become embedded into production costs. Depending on how quantities supplied and demanded vary with price (the "elasticities" of supply and demand), a tax can be absorbed by the seller (in the form of lower pre-tax prices), or by the buyer (in the form of higher post-tax prices).

If the elasticity of supply is low, more of the tax will be paid by the supplier. If the elasticity of demand is low, more will be paid by the customer. And contrariwise for the cases where those elasticities are high. If the seller is a competitive firm, the tax burden flows back to the factors of production depending on the elasticities thereof; this includes workers (in the form of lower wages), capital investors (in the form of loss to shareholders), landowners (in the form of lower rents) and entrepreneurs (in the form of lower wages of superintendence).

1.6. Types of Taxes

| Comparison of Taxes paid by a household earning the country's average wage | | | | | |
|--|----------------|----------------|-------------------|----------------|----------------|
| Country | Single no kids | Married 2 kids | Country | Single no kids | Married 2 kids |
| Australia | 28.3% | 16.0% | Republic of Korea | 17.3% | 16.2% |
| Austria | 47.4% | 35.5% | Luxembourg | 35.3% | 12.2% |
| Belgium | 55.4% | 40.3% | Mexico | 18.2% | 18.2% |
| Canada | 31.6% | 21.5% | Netherlands | 38.6% | 29.1% |
| Czech Republic | 43.8% | 27.1% | New Zealand | 20.5% | 14.5% |
| Denmark | 41.4% | 29.6% | Norway | 37.3% | 29.6% |
| Finland | 44.6% | 38.4% | Poland | 43.6% | 42.1% |
| France | 50.1% | 41.7% | Portugal | 36.2% | 26.6% |
| Germany | 51.8% | 35.7% | Slovak Republic | 38.3% | 23.2% |
| Greece | 38.8% | 39.2% | Spain | 39.0% | 33.4% |
| Hungary | 50.5% | 39.9% | Sweden | 47.9% | 42.4% |
| Iceland | 29.0% | 11.0% | Switzerland | 29.5% | 18.6% |
| Ireland | 25.7% | 8.1% | Turkey | 42.7% | 42.7% |
| Italy | 45.4% | 35.2% | United Kingdom | 33.5% | 27.1% |
| Japan | 27.7% | 24.9% | United States | 29.1% | 11.9% |

Source: [OECD](#), 2005 data

The Organisation for Economic Co-operation and Development (OECD) publishes perhaps the most comprehensive analysis of worldwide tax systems. In order to do this it has created a comprehensive categorisation of all taxes in all regimes which it covers:

1.6.1. Capital Gains Tax

A capital gains tax is the tax levied on the profit released upon the sale of a capital asset. In many cases, the amount of a capital gain is treated as income and subject to the marginal rate of income tax. However, in an inflationary environment, capital gains may be to some extent illusory: if prices in general have doubled in five years, then selling an asset for twice the price it was purchased for five years earlier represents no gain at all. Partly to compensate for such changes in the value of money over time, some jurisdictions give a favorable capital gains tax rate based on the length of holding.

1.6.2. Consumption Tax

A consumption tax is a tax on non-investment spending, and can be implemented by means of a sales tax or by modifying an income tax to allow for unlimited deductions for investment or savings.

1.6.3. Corporation Tax

Corporate tax refers to a direct tax levied by various jurisdictions on the profits made by companies or associations and often includes capital gains of a company. Earnings are generally considered gross revenue less expenses. Corporate expenses that relate to capital expenditures are usually deducted in full (for example, trucks are fully deductible in the Canadian tax system, while a corporate sports car is only partly deductible). They are often deducted over the useful life of the asset purchase. Generally, industrialized countries also use a regressive rate of tax upon corporate income.



1.6.4. Excises

An excise is not a function of the value of the product being taxed. Excise taxes are based on the quantity, not the value, of product purchased. Excises on particular commodities are frequently hypothecated. For example, a fuel excise (use tax) is often used to pay for public transportation, especially roads and bridges and for the protection of the environment. A special form of hypothecation arises where an excise is used to compensate a

party to a transaction for alleged uncontrollable abuse; for example, a blank media tax is a tax on recordable media such as CD-Rs, whose proceeds are typically allocated to copyright holders. Critics charge that such taxes blindly tax those who make legitimate and illegitimate usages of the products; for instance, a person or corporation using CD-R's for data archival should not have to subsidize the producers of popular music.

Excises (or exemptions from them) are also used to modify consumption patterns (social engineering). For example, a high excise is used to discourage alcohol consumption, relative to other goods. This may be combined with hypothecation if the proceeds are then used to pay for the costs of treating illness caused by alcohol abuse. Similar taxes may exist on tobacco, pornography, etc., and they may be collectively referred to as "sin taxes". A carbon tax is a tax on the consumption of carbon-based non-renewable fuels, such as petrol, diesel-fuel, jet fuels, and natural gas. The object is to reduce the release of carbon into the atmosphere.



1.6.5. Income Tax

An income tax is a tax levied on the financial income of persons, corporations, or other legal entities. Various income tax systems exist, with varying degrees of tax incidence. Income taxation can be progressive, proportional, or regressive. When the tax is levied on the income of companies, it is often called a corporate tax, corporate income tax, or corporation tax. Individual income taxes often tax the total income of the individual (with some deductions permitted), while corporate income taxes often tax net income (the difference between gross receipts, expenses, and additional write-offs).



The "tax net" refers to the types of payment that are taxed, which included personal earnings (wages), capital gains, and business income. The rates for different types of income may vary and some may not be taxed at all. Capital gains may be taxed when realized (e.g. when shares are sold) or when incurred (e.g. when shares appreciate in value). Business income may only be taxed if it is significant or based on the manner in which it is paid.

Some types of income, such as interest on bank savings, may be considered as personal earnings (similar to wages) or as a realized property gain (similar to selling shares). In some tax systems, personal earnings may be strictly defined where labor, skill, or investment is required (e.g. wages); in others, they may be defined broadly to include windfalls (e.g. gambling wins).

Personal income tax is often collected on a pay-as-you-earn basis, with small corrections made soon after the end of the tax year. These corrections take one of two forms: payments to the government, for taxpayers who have not paid enough during the tax year; and tax refunds from the government for those who have overpaid. Income tax systems will often have deductions available that lessen the total tax liability by reducing total taxable income. They may allow losses from one type of income to be counted against another. For example, a loss on the stock market may be deducted against taxes paid on wages. Other tax

systems may isolate the loss, such that business losses can only be deducted against business tax by carrying forward the loss to later tax years.

1.6.6. Inheritance Tax

Inheritance tax, estate tax, and death tax or duty are the names given to various taxes which arise on the death of an individual.

1.6.7. Poll Tax

A poll tax, also called a per capita tax, or capitation tax, is a tax that levies a set amount per individual. Poll taxes are administratively cheap because they are easy to compute and collect and difficult to cheat. Economists have considered poll taxes economically efficient because people are presumed to be in fixed supply. However, poll taxes are very unpopular because they are strongly regressive (poorer people pay a higher proportion of their income than richer people). In addition, the supply of people is in fact not fixed over time: on average, couples will choose to have fewer children if a poll tax is imposed.

1.6.8. Property Tax



A property tax is a tax imposed on property by reason of its ownership. A property tax is usually levied on the value of property owned, usually real estate. Property taxes may be charged on a recurrent basis (e.g., yearly). A common type of property tax is an annual charge on the ownership of real estate, where the tax base is the supposed value of the property.

1.6.9. Retirement Tax

Some countries with social security systems, which provide income to retired workers, fund those systems with specific dedicated taxes. These often differ from comprehensive income taxes in that they are levied only on specific sources of income, generally wages and salary (in which case they are called payroll taxes). A further difference is that the total amount of the taxes paid by or on behalf of a worker is typically considered in the calculation of the retirement benefits to which that worker is entitled.



1.6.10. Sales Tax

Sales taxes are a form of excise levied when a commodity is sold to its final consumer. Retail organizations contend that such taxes discourage retail sales. The question of whether they are generally progressive or regressive is a subject of much current debate. People with higher incomes spend a lower proportion of them, so a flat-rate sales tax will tend to be regressive. It is therefore common to exempt food, utilities and other necessities from sales

taxes, since poor people spend a higher proportion of their incomes on these commodities, so such exemptions would make the tax more progressive. This is the classic "You pay for what you spend" tax, as only those who spend money on non-exempt (i.e. luxury) items pay the tax.

1.6.11. Tariffs



An import or export tariff (also called customs duty or impost) is a charge for the movement of goods through a political border. Tariffs discourage trade, and they may be used by governments to protect domestic industries. A proportion of tariff revenues is often hypothecated to pay government to maintain a navy or border police. The classic ways of cheating a tariff are smuggling or declaring a false value of goods. Tax, tariff and trade rules in modern times are usually set together because of their common impact on industrial policy, investment policy, and agricultural policy.

A trade bloc is a group of allied countries agreeing to minimize or eliminate tariffs against trade with each other, and possibly to impose protective tariffs on imports from outside the bloc.

A customs union has a common external tariff, and, according to an agreed formula, the participating countries share the revenues from tariffs on goods entering the customs union.

1.6.12. Toll

A toll is a tax or fee charged to travel via a road, bridge, tunnel or other route. Historically tolls have been used to pay for state bridge, road and tunnel projects. They have also been used in privately constructed transport links. The toll is likely to be a fixed charge, possibly graduated for vehicle type, or for distance on long routes.

Shunpiking is the practice of finding another route to avoid payment of tolls. In some situations where tolls were increased or felt to be unreasonably high, informal shunpiking by individuals escalated into a form of boycott by regular users, with the goal of applying the financial stress of lost toll revenue to the authority determining the levy.



1.6.13. Transfer Tax

Historically, in many countries, a contract needed to have a stamp affixed to make it valid. The charge for the stamp was either a fixed amount or a percentage of the value of the transaction. In most countries the stamp has been abolished but stamp duty remains.

1.6.14. Value Added Tax



A value added tax (VAT), also known as 'Goods and Services Tax' (G.S.T), or 'Impuesto Indirecto sobre la Prestacion de Servicios' (I.S.I.), Single Business Tax, or Turnover Tax in some countries, applies the equivalent of a sales tax to every operation that creates value. To give an example, sheet steel is imported by a machine manufacturer. That manufacturer will pay the VAT on the purchase price, remitting that amount to the government. The manufacturer will then transform the steel into a machine, selling the machine for a higher price to a wholesale distributor. The manufacturer will collect the VAT on the higher price, but will remit to the government only the excess related to the "value added" (the price over the cost of the sheet steel). The wholesale distributor will then continue the process, charging the retail distributor the VAT on the entire price to the retailer, but remitting only the amount related to the distribution mark-up to the government. The last VAT amount is paid by the eventual retail customer who cannot recover any of the previously paid VAT. For a VAT and sales tax of identical rates, the total tax paid is the same, but it is paid at differing points in the process.

1.6.15. Wealth (Net Worth) Tax

Some countries' governments will require declaration of the tax payers' balance sheet (assets and liabilities), and from that exact a tax on net worth (assets minus liabilities), as a percentage of the net worth, or a percentage of the net worth exceeding a certain level. The tax is in place for both "natural" and in some cases legal "persons".

1.7. Turkish Tax System

In Turkey, multi-tax system is applied. The Turkish tax regime can be classified under three main headings;

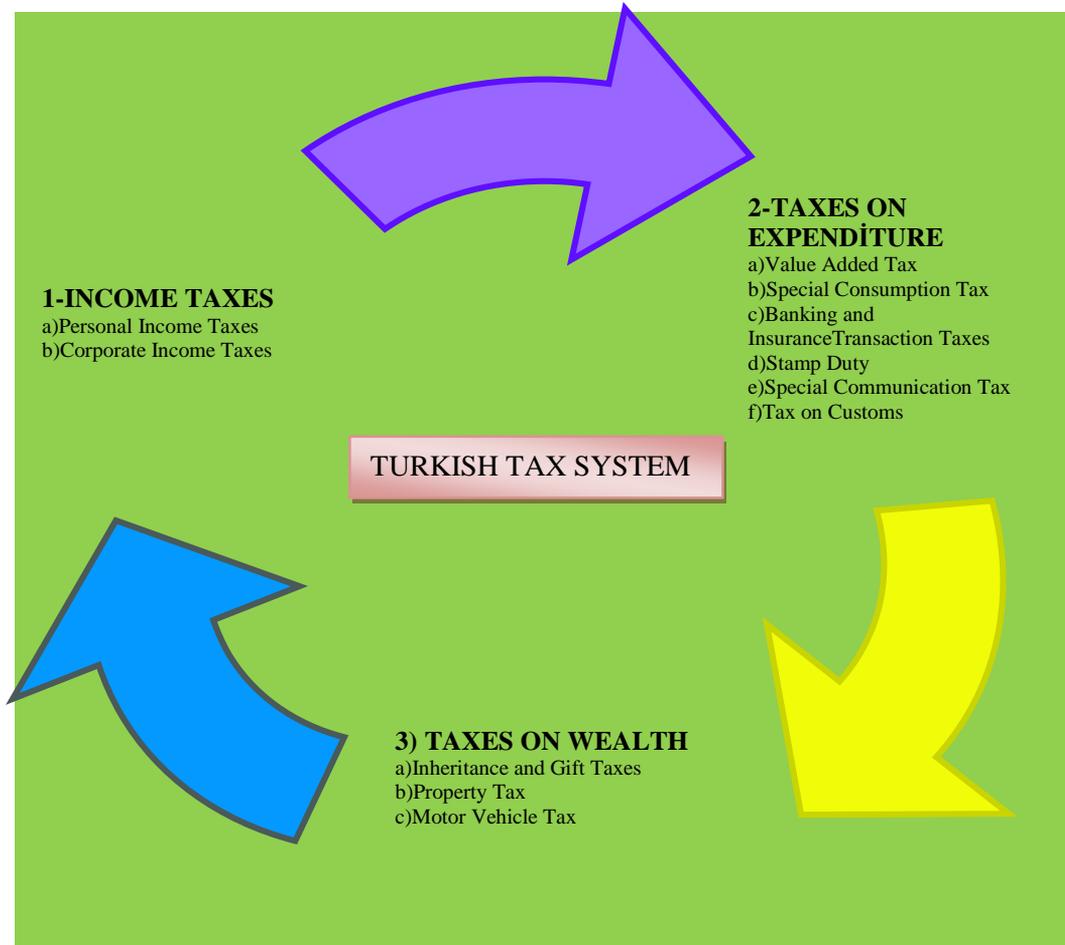


Figure 1.1: Turkish Tax System

1.7.1. Income Taxes

1.7.1.1. The Personal Income Tax

- **The Subject and Elements of Income Tax**

Income is described as the net amount of profits and earnings obtained by natural persons in one calendar year. The elements of income are classified in seven categories. These are;

- Income from commercial activities,
- Income from agriculture,
- Income from professionals,
- Wages and salaries,
- Income from capital investment (interest and dividends),

- Income from immovable assets and rights,
- Other income and earnings.
- **The Taxpayer of Income Tax**

Natural persons who earn one of or all of those kinds of income are subject to Personal Income Tax. Those people who obtain these kinds of income are Personal Income Tax payers.

An individual in Turkey is liable for tax on his income as an employee and on income as a self-employed person. In the case of an individual who answers the test of a “permanent resident”, the tax will be calculated on his or her income earned in Turkey and overseas. A foreign resident who is employed in Turkey pays tax only on his or her income in Turkey. To be considered Turkish resident, residence of over 6 months in Turkey during any calendar tax year must be established. A foreigner who spends less than a continuous period of six months in Turkey during a calendar year and whose customary home is not in Turkey or who, although staying for more than six months, has come to Turkey for a specific and temporary assignment (e.g. businessman, expert, press or radio, TV correspondent) is regarded as non-resident and is taxed only on his income from employment in Turkey.

- **Declaration of Personal Income Tax**

In Turkish Tax System taxation of income is based on declaration. There are three types of tax return.

a) Annual Tax Return



The annual declaration is used for consolidation of the profits and earnings derived from various sources in the course of one calendar year. An individual whose income is only from a wage is not obligated to file an annual return. The employer deducts tax from the employee and transfers it to the tax authority every month. The annual tax return for each calendar year shall be presented by the 15th day of the March of the following year. The declarations of those who permanently leave the country during a calendar year shall be presented 15 days prior to departure, and in the event of death, within 4 months of the date of decease.

b) Withholding Tax Return

Withholding is defined as a tax return which is used for declaring to tax office total taxes withheld by employers and other people’s withholding taxes together with their amounts of net taxable income.

Those are required to withhold taxes;

- Public administrations and institutions,
- Public commercial concerns and other incorporations,

- Commercial companies and business partnerships,
- Associations, religious and charitable foundations,
- The commercial operations of associations and religious and charitable foundations,
- Those securing investment funds,
- Tradesman and self-employed individuals who are required to report their true income,
- Farmers whose agricultural earnings are determined on the basis of a balance-sheet or an agricultural trading account.

Taxes withheld at source are declared to the tax office by the evening of the 20th day of the following month. These taxes are paid due to the evening of the 26th day of this month.

c) Special Tax Return

Non-resident taxpayers do not have to give an annual tax return. They have to fill special tax return. The special tax return is used for the reporting of certain profits and earnings by taxpayers subject to limited tax liability.

1.7.1.2. The Corporate Income Tax

▪ The Subject of Corporate Income Tax

Earnings and profits of corporations are the subject of corporate tax.

The elements of income subject to corporate income tax are;

- Income from commercial activities,
- Income from agriculture,
- Income from professionals,
- Wages and salaries,
- Income from capital investment (interest and dividends),
- Income from immovable assets and rights,
- Other income and earnings. Taxable event is the obtainment of corporate profits/earnings.

▪ Taxpayer of Corporate Income Tax

The following entities are the taxpayers of the corporation income tax:

- Capital companies,
- Cooperative companies,
- State Economic Enterprises (public corporations),
- Economic entities owned by foundations and associations,
- Joint Ventures.

Whether a company is subject to full or limited tax liability depends on its status of residence. A company, whose statutory domicile or place of management are established in Turkey (resident company), will have full tax liability; in this case, worldwide income is taxable. If a non-resident company conducts business through a branch or a joint venture, it will have limited tax liability; i.e. fully subject to corporate tax on profits earned in Turkey on an annual basis. If there is no presence in Turkey, withholding tax will generally be charged on income earned; for example, for services provided in Turkey. However, if there is an avoidance of double taxation treaty, reduced rates of withholding tax may apply.

Corporate income tax is applied at 20 % rate on the corporate earnings. Taxpayers (except income from commercial activities and agriculture in limited tax liability) pay provisional tax at the rate of corporate tax, these payments are deducted from corporate tax of current period.

▪ Declaration of Corporate Income Tax

In general, the Corporate Income Tax is assessed on the basis of the declaration (tax return) by the person having the responsibility for his taxes.

The Corporate Income Tax declaration can be grouped into 3 categories:

a) The Annual Corporate Income Tax Return

The annual tax return is applicable for the reporting of net corporate profits realized in the course of one accounting period. The corporate income tax returns are submitted to tax office with which the taxpayer is associated during the fourth month following the month in which the accounting period closes. Corporate income taxpayers have to fill and sign their tax returns and submit them to tax offices between the 1st and 25th days of the fourth month following the close of the related fiscal year. Corporate income tax can be paid until the end of the month in which the tax return is to be filled.

b) Special Tax Return

Non-resident foreign corporations which have limited tax liability use special tax return for reporting certain profits and earnings. Special tax return is given in 15 days from the obtainment of earnings and profits.



c) Withholding Tax Return

Those who are obliged to make tax withholding are required to file a brief tax return to tax Office associated with the place of payment or accrual of the payments which they have made during the month, or of the profits and revenues on which they have caused accrual to take place, as well as of the taxes which they have withheld from these, by the evening of the 20th day of the following month and they should pay by the evening of the 26th day of this month.

1.7.2. Taxes on Expenditure

1.7.2.1. Value Added Tax (VAT)

The Turkish Tax System levies value added tax on the supply and the importation of goods and services. The Turkish name for VAT is KDV and is introduced in 1985.

▪ The Subject of VAT



Transactions carried out in Turkey are the subject of the VAT. Taxable transactions include the supply of goods and services, importation of goods and services and other activities. The following transactions carried out in Turkey are subject to VAT:

- Supply of goods and services within the scope of commercial, industrial, agricultural or independent Professional activities,
- Importation of all kinds of goods and services,
- Other activities.

▪ The Taxpayer of VAT

VAT taxpayers are those engaged in taxable transactions, irrespective of their legal status or nature and their position with regard to other taxes. Withholding agents are those calculate and pay the tax to the related tax office on the name of taxpayer.

▪ Tax Rates in VAT

Three different rates are applied to varied goods and services groups in VAT.

▪ Declaration of VAT

Taxation in VAT is based on tax returns declared in writing by taxpayers. Even if they do not have taxable transactions within taxation period they have to declare tax return. Taxpayers who are subject to the monthly periods must file and submit their returns to the related tax office by the evening of the 20th day of the following month. For quarterly period, they must file and submit their returns by the evening of the 20th day of the following three months.

1.7.2.2. Special Consumption Tax (Excise Duty)

Goods in the lists attached to the Special Consumption Tax Law are the subject of the tax. For goods in the lists, Special Consumption Tax is charged only once.

There are mainly 4 different product groups that are subject to special consumption tax at different tax rates:

- List I is related to petroleum products, natural gas, lubricating oil, solvents and derivatives of solvents.
 - List II is related to automobiles and other vehicles, motorcycles, planes, helicopters, yachts.
 - List III is related to tobacco and tobacco products, alcoholic beverages and cola.
 - List IV is related to luxury products.
- The Taxpayers of the Special Consumption Tax

Taxpayers are different according to the lists. They are;

- For List I; manufacturers and importers of the petroleum products,
- For List II; merchants of motor vehicles, exporters for using or sellers through auction,
- For List III; manufacturers, exporters or sellers through auction of tobacco, alcoholic beverages and cola,
- For List IV manufacturers, exporters or sellers through auction of luxury products.

1.7.2.3. Banking and Insurance Transaction Tax (BITT)

All transactions of bank and insurance companies and bankers are the subject of the tax. There will be the tax upon the money, which they collect under the name of interest, commission and expenditure because of the services they produced on behalf of them. Taxpayers are banks, insurance companies and bankers. Financing companies, lenders and factoring companies are also taxpayers. Taxation period in BITT is each month of the calendar year. Taxpayers declare their taxable transactions up to the evening of the 15th day of the following month.



1.7.2.4. Stamp Tax

A wide range of documents in the List I attached to the Stamp Tax Law are the subject of the tax. These documents are related to acts, conclusions, official reports, papers related to commercial transactions, receipts. When these documents are prepared, tax arises. Taxpayers are persons who have signed these documents. Tax is levied as a percentage of the value of the document. Stamp tax can be paid in four ways by sticking revenue stamp, by putting printed stamp, in respond of receipt and by stoppage.

1.7.2.5. Special Communication Tax



Services of cell phone, cable radio and television broadcasts and telecommunication are generally the subject of the tax. Taxable event is the carrying out these services. Taxpayers are enterprises that present these services. Taxation period is each month of the calendar year. Taxes collected in

each month are declared and paid by the evening of the 15th day of the following month.

1.7.2.6. Customs Duty

Goods imported from abroad are the subject of the tax. Taxable events are free circulation of goods, registration of customs declaration, and temporary importation in case of partial exemption. Taxpayer is principally person who declares to the customs office. Customs duties are assessed on written declaration by the taxpayer and paid within 10 days dating from communication.

1.7.3. Taxes on Wealth

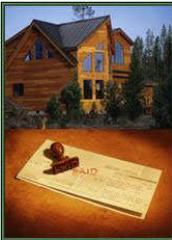
1.7.3.1. Inheritance and Gift Tax

The transition of goods, which belong to Turkish citizens, and goods, which are within Turkey from one to another without return, and by inheritance or in another way are the subject of the tax. Taxpayer is the person who acquires goods by inheritance or gratuitously. Turkish citizens who gain possession outside of Turkey without payment are also subject to this tax. Inheritance and gift tax is assessed on the declaration submitted by respondent. In the case of inheritance, the declaration will be submitted in four months starting with the date of death as a rule of law. If the death occurs in Turkey and the taxpayer is outside of Turkey, the declaration period is extended to six months. In the case of occurrence of death and being of taxpayers outside of Turkey, the declaration period will be again four months. However, when the death occurs in a foreign country and the taxpayer is in another foreign country, the declaration period is extended eight months. In the case of transmissions by gratuitous, the declaration will be submitted in one month following the date of acquirement of the properties.



1.7.3.2. Real Estate Tax

a) Building Tax



Buildings in Turkey are the subject of the tax. Taxable events are the ownership of the building, setting up usufruct or acting as owner of the building. Taxpayer is owner of the building, if exist, owner of the usufruct, or if no one of these exists, person who acts as owner of the building. Tax assessment is made by the related municipality. The tax is 25 assessed and accrued upon the annual declaration. The real estate tax is paid in two installments. The first installment in the months of March, April and May and the second one in December will be paid.

b) Land Tax

Lands in Turkey are the subject of the tax. Taxable events are the ownership of the land, setting up usufruct or acting as owner of the building. Taxpayer is owner of the land, if exist, owner of the usufruct, or if no one of these exists, person who acts as owner of the land. Tax assessment is made by the related municipality. The tax is assessed and accrued upon the annual declaration. The land tax is paid in two installments. The first installment in the months of March, April and May and the second one in December will be paid.



1.7.3.3. Motor Vehicle Tax



The subject of the tax is motor vehicle. Taxable event is registration of the motor vehicles in the traffic, municipality and docks. Taxpayers are real and legal persons who have motor vehicles that are registered to their own names in the traffic, municipality and docks register and the civilian air-vehicle register maintained by the Ministry of Transportation. Tax is assessed and accrued annually in the beginning of January. The Motor Vehicle taxes are paid in two equal installments, in January and July, every year.

EVALUATION

A- QUESTIONS

Circle the correct answer

1. Taxation has four main purposes or effects. Which isn't one of them?

- A) Revenue
- B) Redistribution
- C) Repricing
- D) Reproducing

2. is a tax imposed so that the tax rate increases as the amount to which the rate is applied increases.

- A) A regressive tax
- B) A progressive tax
- C) A proportional tax
- D) Direct taxes

3. An import or export (also called customs duty or impost) is a charge for the movement of goods through a political border.

- A) Tariff
- B) Trade
- C) Tax
- D) Toll

4. A is a tax or fee charged to travel via a road, bridge, tunnel or other route.

- A) Tariff
- B) Trade
- C) Tax
- D) Toll

5. Which isn't a type of taxes on expenditure in Turkish tax system?

- A) Value Added Tax
- B) Special Consumption Tax
- C) Property Tax
- D) Stamp Duty

6. Which is a type of tax on wealth in Turkish tax system?

- A) Motor Vehicle Tax
- B) Special Consumption Tax
- C) Property Tax
- D) Stamp Duty

7. The elements of income are classified in seven categories in Turkish Tax system. Which isn't one of them?

- A) Income from commercial activities,
- B) Income from agriculture,
- C) Income from professionals,
- D) Income from public administrations and institutions

8. Non-resident taxpayers do not have to give an annual tax return. They have to fill

- A) A balance-sheet
- B) Special tax return.
- C) Withholding tax return
- D) Annual tax return

9. Which is a taxpayer of the corporation income tax?

- A) Naturel Persons
- B) Tradesman
- C) Joint Ventures
- D) Self-employed individuals

10. The Turkish Tax System levies on the supply and the importation of goods and services.

- A) Special tax return
- B) Corporate Income Tax
- C) The annual tax return
- D) Value added tax

B. Write TRUE or FALSE

| LEARNING PROCESS | TRUE  | FALSE  |
|---|---|--|
| 1- In economics, direct taxes refer to those taxes that are collected from the people or organizations on whom they are ostensibly imposed. | | |
| 2- In Turkey, multi-tax system is applied. The Turkish tax regime can be classified under four main headings. | | |
| 3- Earnings and losses of corporations are the subject of corporate tax. | | |
| 4- Capital companies are taxpayers of corporate income tax. | | |
| 5- All transactions of bank and insurance companies and bankers are the subject of banking and insurance transaction tax. | | |
| 6- Customs duties are assessed on written declaration by the taxpayer and paid within 20 days dating from communication. | | |
| 7- The motor vehicle taxes are paid in two equal installments, in march and october, every year. | | |
| 8- Stamp tax can be paid in four ways by sticking revenue stamp, by putting printed stamp, in respond of receipt and by stoppage. | | |
| 9- Importation of all kinds of goods and services is subject to vat. | | |
| 10- Inheritance and gift taxes and special communication tax are taxes on wealth. | | |

EVALUATION CRITERIA

Evaluate yourself with a friend of yours. If you need, go to the learning activity and repeat the subject that you believe you couldn't learn.

| The Student's | | The examination's | |
|--|--|--|---|
| Name-Surname: | | Starting Time : | |
| Class : | | Finishing Time : | |
| Number : | | Used Time : | |
| CRITERIA | | | |
| LEARNING PROCESS | | YES  | NO  |
| Did you remember what tax is? | | | |
| Did you remember purposes and effects of taxation? | | | |
| Did you remember the four 'R's | | | |
| Did you remember direct and indirect taxes? | | | |
| Did you remember tax burden? | | | |
| Did you remember capital gains tax? | | | |
| Did you remember consumption tax? | | | |
| Did you remember excises? | | | |
| Did you remember income tax? | | | |
| Did you remember inheritance tax? | | | |
| Did you remember poll tax? | | | |
| Did you remember property tax? | | | |
| Did you remember retirement tax? | | | |
| Did you remember sales tax? | | | |
| Did you remember tariffs? | | | |
| Did you remember toll? | | | |
| Did you remember transfer tax? | | | |
| Did you remember value added tax? | | | |
| Did you remember wealth (net worth) tax? | | | |

| | | |
|--|--|--|
| Did you remember income taxes in Turkey? | | |
| Did you remember taxes on expenditure in Turkey? | | |
| Did you remember taxes on wealth in Turkey? | | |

LEARNING ACTIVITY 2

AIM

At the end of this learning activity you will be able to

- Learn budget terms.
- Learn different budgeting techniques.
- Learn how to make a budget format.
- Learn the steps of a budgeting process.

SEARCH

- Try to make a budget for your imaginary company. Present your budget process to your classmates.
- Make a presentation to prove that budgeting is very important for a company.

2. BUDGET TERMS

2.1. What Is A Budget?



A **budget** is a document that translates plans into money - money that will need to be spent to get your planned activities done (expenditure) and money that will need to be generated to cover the costs of getting the work done (income). It is an estimate, or informed guess, about what you will need in monetary terms to do your work.

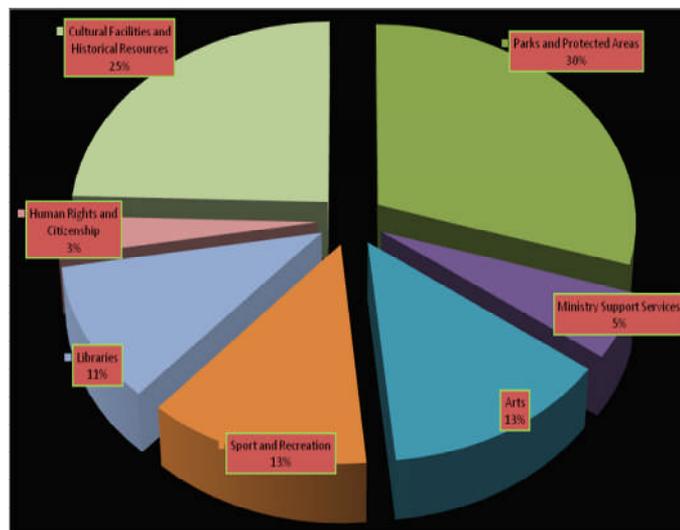
A budget is **not**:

- Written in stone : where necessary, a budget can be changed, so long as you take steps to deal with the implications of the changes. So, for example, if you have budgeted for ten new computers but discover that you really need a generator, you could buy fewer computers and purchase the generator.
- Simply a record of last year's expenditure, with an extra 15% added on to cover inflation. Every year is different. Organisations need to use the budgeting process to explore what is really needed to implement their plans.

- Just an administrative and financial requirement of donors. The budget should not be prepared as part of a funding proposal and then taken out and dusted when it is time to do a financial report for the donor. It is a living tool that must be consulted in day to day work, checked monthly, monitored constantly and used creatively.
- An optimistic and unrealistic picture of what things actually cost - don't underestimate what things really cost in the hopes that this will help you raise the money you need. It is better to return unspent money to donors than to beg for a 'bit more' so you can complete the work.

Two key questions you should be able to answer about budgeting are:

- Why budget? and
- Who should be involved in budgeting?



2.1.1. Why Budget? Why Is It Important For An Organisation, Project Or Department To Have A Budget?

The budget is an essential management tool. Without a budget, you are like a pilot navigating in the dark without instruments.

- The budget tells you how much money you need to carry out your activities.
- The budget forces you to be rigorous in thinking through the implications of your activity planning. There are times when the realities of the budgeting process force you to rethink your action plans.
- Used properly, the budget tells you when you will need certain amounts of money to carry out your activities.
- The budget enables you to monitor your income and expenditure and identify any problems.

- The budget is a basis for financial accountability and transparency. When everyone can see how much should have been spent and received, they can ask informed questions about discrepancies.
- You cannot raise money from donors unless you have a budget. Donors use the budget as a basis for deciding whether what you are asking for is reasonable and well-planned.

2.1.2. Who Should Be Involved In Budgeting?

Budgeting is a difficult and responsible job. Your organisation's ability to do what it has planned to do and to survive financially depends on the budgeting process. Whoever does the budgeting must:



- Understand the values, strategy and plans of the organisation or project;
- Understand what it means to be cost effective and cost efficient;
- Understand what is involved in generating and raising funds.

To ensure you have all these understandings, it is usually a good idea to have a small budgeting team. This may only mean that one person does a draft budget which is then discussed and commented on by the team.

Where staff are competent to take full responsibility for the financial side of the organisation or project, the following would normally be involved in the budgeting process:

- The Finance Manager and/or Bookkeeper;
- The Project Manager and/or Director of the organisation or department.



Where staff lack confidence to do the budgeting, then Board members can be brought in.

Some Boards have a Finance Committee or a Budget Sub-Committee. It is a good idea to have someone on your Board with financial skills. S/he can then help the staff with budgeting.

The budget is the business of everyone in the organisation. At the very least, senior staff should understand the budget, how it has been drawn up, why it is important, and how to monitor it.

Where an organisation has branches and/or regions, or several departments, then each branch, region or department should draw up the budget for its own work. These budgets then need to be consolidated (put together) in an overall budget for the organisation. Each branch, region or department should be able to see how its budget fits into the overall budget, and should be able to monitor its budget on a monthly basis. Financial monitoring works best when those closest to the spending take responsibility for the budget.

2.2. The Operational Plans

Your operational plans are the plans for the actual work. They are also called action plans or business plans. In a normal planning cycle, the organisation or project will begin with a strategic planning process. Here you look at the problem that needs to be addressed and the specific role of your organisation or project in addressing it. This then is related to what actual activities need to be undertaken to achieve the planned impact. This is the operational plan and it is the operational plan that needs to be costed. You cannot prepare a budget until you know what it is you are planning to do. Operational costs will only be incurred when you do the actual work. They are also known as **direct costs**.

The planning cycle should look something like this:

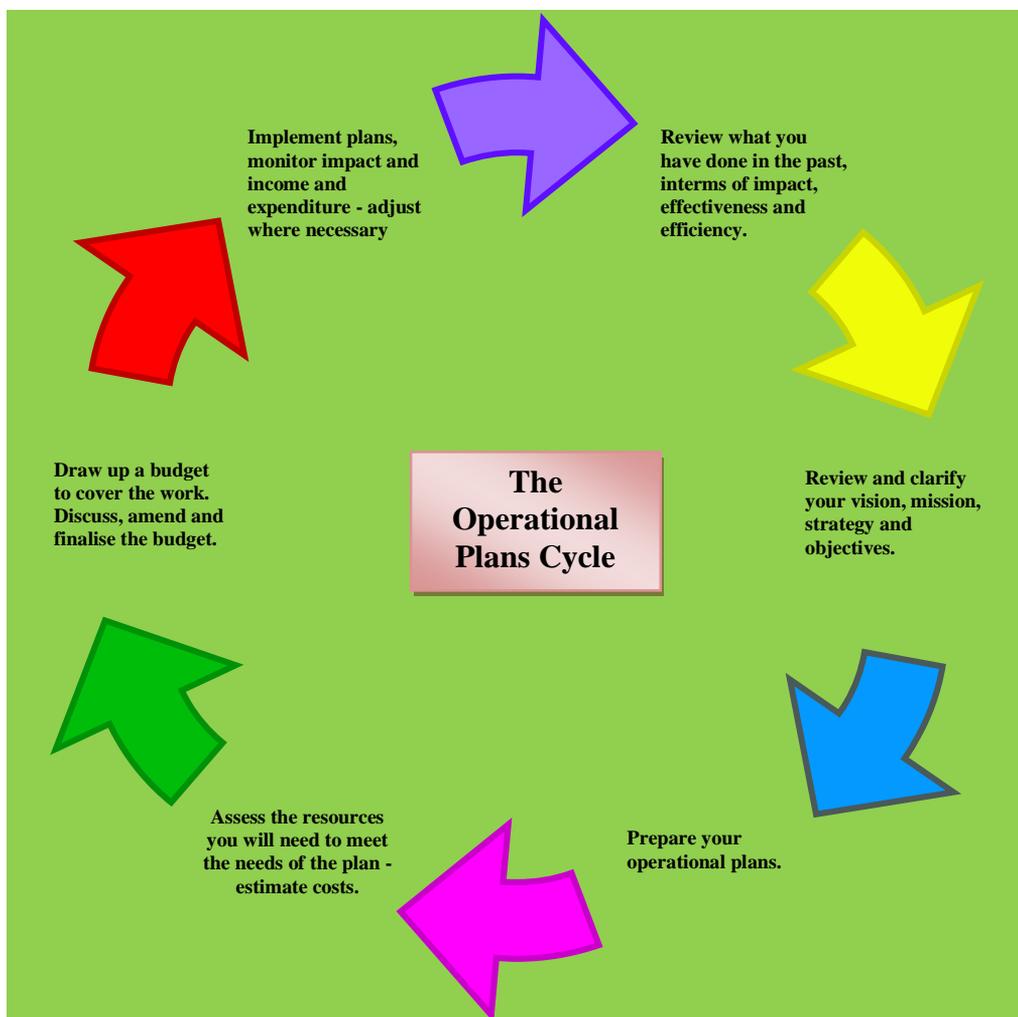


Figure 2.1: The operational plans cycle

2.3. Estimating Costs – Categories

The cost estimate is what helps you determine realistically what it will cost to implement your operational plan.

When you carry out your plans you will probably need to make use of a wide range of inputs. Inputs include people, information, equipment, skills. Most of these inputs will have a cost attached to them. These are the costs you need to estimate in order to develop a budget.

Careful cost estimation helps in the following ways:

- It helps you develop an accurate budget; and
- It helps you to monitor and control the actual costs of carrying out activities.

The costs you need to estimate fall into the following categories:

- **Operational costs** - the direct costs of doing the work e.g. the cost of hiring a venue, or of printing a publication, or of travelling to the sites where fieldwork needs to take place. Here you would include materials, equipment, transport and services.
- **Organisational costs** (also called core costs) - the costs of your organisational base, including management, administration, governance. Once you have decided on the best organisational set-up to support your operational plans, you will incur the organisational expenses on a regular basis - even if you do not carry out your plans or have activity levels as high as you had hoped. So, for example, if you hire premises for four projects but only manage to carry out two, you will still have to pay rent for the extra space. If you have hired a full-time receptionist on the same belief, you will still have to pay her salary, even if she is under-utilised.
- **Staffing costs** - these are the costs for your core staff - the people involved in management, the people doing work that cuts across projects. These costs include their salaries and any benefits such as medical aid or pension fund payments for which the organisation is responsible. You can charge staff costs out to the various projects on which the staff members work. So, for example, if your Publications Officer is going to spend half her time working on publications for a particular project, then you can include half her salary and benefits in your costing for the project. If your Director is going to spend 15% of her time providing management support to the head of the same project, then 15% of her time and benefits can also be charged to the project.
- **Capital costs** - these are costs for large-investments“ which, while they may be necessary because of a project or projects, will remain organisational assets even after the projects are over. Vehicles and equipment such as computers and photocopiers fit here. They may be used by all projects, or they might only be

required for a specific project. Depending on how you intend to use the equipment, you might budget for it under operational costs or under organisational costs.

Why does it matter which category you choose to estimate your costs under?

Because many donors prefer to fund operational costs (or, as they sometimes put it, direct project costs) rather than core organisational or staffing costs.

Frameworks for estimating costs

NOTE: Depending on the needs of your organisation or project, your headings may be a bit different. This should give you some guidelines.

Estimating operational costs:

| Activity: | Unit cost | Quantity | Total cost of item |
|---|--|---|--|
| <ul style="list-style-type: none"> • Materials • Equipment • Services • Transport | The unit cost is the cost of a single item, or one unit. e.g. Cost per day, per kilometer, perperson | This is the number of units (how many) you will need for the activity. e.g. 200 training packs, 130 days of trainers. time. | Multiply the total number of units by the unit cost. |
| Total cost for Activity | | | The sum of all the individual costs |

Estimating organisational cost:

Once you have done your estimates here, you may decide to assign a percentage of the various items to specific departments or projects. This is acceptable practice.

| | 2008 | 2009 | 2010 |
|--|------|------|------|
| Management: Salaries/benefits: Donor liaison: Governance liaison: Public relations: Fundraising: Human resourcing | | | |
| Administration: Salaries/benefits: Equipment: Software: Stationery: | | | |
| Governance and organisational development: Board meetings: Organisational processes: Resource centre | | | |
| Overheads: Office rental: Electricity and water: Insurance: Maintenance: Legal fees and audit fees: | | | |
| Annual totals: | | | |
| Total: | | | |

2.4. Budgeting Rules

These are not rules that are fixed for all time. They offer some guidelines that will help you deal with common situations.

- It is usual for long-term projects and organisations to prepare a budget which makes projections for several years at a time. While it is usually only the budget for the forthcoming year that is really quite accurate, the projections for the following years gives some indication of the levels of funding that are likely to be needed. Some allowance is usually made for inflation for subsequent years, as well as for the anticipated activities which may differ from the first year. A three-year budget should be based on a three-year plan.
- Contributions in kind (not money, but goods) should be included as a note to the budget (for more on notes see the consolidated budget in the examples). Although they are not part of the budget, they reduce budget costs and so should be

indicated. This includes the contribution made by volunteers in the form of sweat equity.

- Some costs that need to be estimated but that often get forgotten:
 1. Start-up costs - for a new organisation or project, such as large-scale recruitment, moving in, building alterations, launching the project or organisation.
 2. Research and development-consultation, needs assessment, planning processes.
 3. Democracy and governance - establishing the structures, recruiting for them, getting a constitution developed and accepted, training members of voluntary structures.
 4. Marketing or public relations - building a professional image.
 5. Replacement of capital goods.
 6. Monitoring and evaluation costs for projects.
- Estimates are informed guesses, not just guesses. Do your homework, get quotes, phone around to arrive at a likely cost. Check any figures you have from previous years that may provide helpful information. Note down any price increases you already know about (e.g. a salary increase of 10% may have already been agreed.) Make notes of any unusual expenses that are likely to occur (e.g. moving your offices). A few dollars may not seem a big amount, but multiplied many times over this kind of discrepancy can make a big difference in your budget.
- Keep your notes! As you plan your budget and make decisions about how you will estimate costs, keep your notes handy so that you can go back and check where the amounts came from. You may, for example, work out your workshop costs on the basis of a certain amount for photocopying, based on an estimated per page cost. When, a year later, the costs are higher than anticipated, you should go back to your notes and see where the discrepancy comes in. Or, in another scenario, a donor may ask you to explain how you arrived at the cost per participant for workshops.
- For your own management purposes, break the budget for the forthcoming year into a monthly budget. This will help you when you are watching your cash flow. It will also help you to pick up variances.

2.5. Defining Your Line Items

Line items are the actual items listed in your budget. So, for example, under the category 'training costs', 'stationery' might be a specific line item. Under the category 'governance', 'training for Board members' may be a specific line item.

It is up to you to decide what your categories will be and to decide what the line items under each category will be. So, for example, one organisation may include 'governance'

under 'management', and 'donor liaison' under 'fundraising', while another may have them as separate categories or line items.

How do you decide which categories and line items you should use in your expenditure budget?

- If this is the first time you have done a budget, begin by listing all the items that are going to cost the organisation or project money. Later on, you will have some idea of the categories and items that make sense for your organisation or project so you will be able to take short cuts when you list your line items.
- Once you have the list, group things into categories according to the emphasis you put on categories in your management practices. So, for example, if you, as management, think it is important to keep track of training costs, then 'training costs' would be a category. Items such as stationery, venues, printing costs, food, accommodation, transport, trainers' fees and so on would be line items under that category. However, perhaps your organisation does not do much training and only intends to run one training course as part of a bigger project. Then your category might be 'Project X', and 'training course' might be one line item.
- Think in terms of **cost centres**. A cost centre is a grouping of activities that make a coherent financial unit. So, for example, each project within your programme might be a cost centre. You then budget both income and expenditure for that cost centre and keep your financial records in terms of cost centres. This enables you to assess each project, department or unit financially. If you opt for a cost centre approach, your cost centres will determine the main categories under which you list line items. If you go this route, then the 'directorate' would be a cost centre and so, for example, would 'training' or 'publications' or 'resource centre.'
- Sometimes it is possible to work out how much a category of expenses is costing even if that category has not been listed as such, and the item is reflected as a line item under a number of categories. So, for example, you may not have a category 'transport', but if you want to know how much transport is costing the project or organisation, you can add up the transport line item listed under several categories.
- If you plan to raise funds to cover a particular category, then, obviously, that category needs to be distinct in your budget. So, for example, if you want to raise money for capacity building in communities, then you need a category in the budget that is headed 'Capacity building in communities'. Under it there might be line items such as 'workshops', 'fieldworker salary', 'transport' and so on. Your budget notes would explain how you arrived at the 'workshops' amount.

2.6. Different Kinds of Budgets

In addition to your main **working budget**, you can also have some “what if” budget options. Your “what if” budgets could include:

- A **survival budget**. This is the minimum required in order for the organisation or project to survive and do useful work.
- A **guaranteed budget**. This is based on the income guaranteed at the time the budget is planned. Usually the ‘guarantees’ are in the form of promises from donors. However, unexpected situations, such as a donor grant coming through very late, may make it necessary to switch to your survival budget.
- An **optimal budget**. This covers what you would like to do if you can raise additional money. Once extra money comes in or is promised, it becomes part of your working budget.

2.7. Different Budgeting Techniques

The two main techniques for **budgeting** are **incremental budgeting** and **zero based Budgeting**.

- **Incremental budgets** are budgets in which the figures are based on those of the actual expenditure for the previous year, with a percentage added for an inflationary increase for the new year. This is an easy method that saves time but it is the ‘lazy’ way and is often inaccurate. This budgeting technique is only suitable for organisations where each year is very similar to the previous one in terms of activities. Very few dynamic organisations or projects are so stable that this budgeting technique really works for them.
- In **zero based budgets**, past figures are not used as the starting point. The budgeting process starts from ‘scratch’ with the proposed activities for the year. The result is a more detailed and accurate budget, but it takes more time and energy to prepare a budget in this way. This technique is essential for new organisations and projects, but it is also probably the best route to go in a dynamic organisation that is proactive in taking on new challenges.

The budget

It is useful to think about the process of drawing up a budget in steps. By now you should have already gone through the first three steps as part of your preliminary work for developing the budget:

1. List the items on which you spend money. You will know what these are from your action planning process. Group the items under headings or cost centres.

2. Estimate the unit cost of the line items and then the annual costs.
3. List your likely sources of income or revenue. Categorise them. This is the basis of your income budget.

Now you are ready to begin putting your budget into a budget format. The remaining steps are:

4. Prepare your budget format.
5. Do your addition.
6. Add in notes to explain items that may not be clear.
7. Get feedback on your budget.
8. Finalise your budget.

2.8. Budget Format

Your budget can be prepared using an ordinary word-processing programme. If you have access to a spreadsheet programme such as Lotus 123 or Excel, and you know how to use them, this will make your task easier. But it is not essential.



Your budget format must make allowance for both the income and the expenditure to be reflected. Go to the example of a consolidated budget to see how this is done there.

The budget format should reflect the categories and line items you have decided are important for your organisation or project.

Your budget format for an organisational budget should allow you to put in projected amounts for about three years, as in the example of the consolidated budget.

Your format must also allow for sub-totals and for a total expenditure and a total income amount.

Remember that the format you use for a donor may be different from the format you use for your own management purposes. In the example of the consolidated budget, you will find a management version, rather than a donor version. For most donors, you will be able to simplify to some extent. So, for example, you might put all 'sales' under 'income' into a global amount under the line item 'sales'. We have done the more detailed budget because we believe that it is the management version that is most important.

The difference between your budgeted income and your budgeted expenditure shows you whether you are likely to have a deficit (too little money) or an excess (more than you need). If there is a large deficit, either you need to cut down on expenditure or to raise or generate more money. If you have a large excess then you probably need to adjust the amount that you are asking from donors. Donors are usually not keen to fund a surplus. However, if you are trying to establish a capital fund for investment, then you need to

explain this to donors and ask them if they are prepared to make a contribution in the interests of long-term sustainability of the organisation.

2.9. Addition

It is now time to insert actual costs into your budget. If you have already done the preliminary estimating work this should not be difficult.

- Fill in the amounts you have estimated for each line item in the budget, across the three years. Use your estimates and be careful to get the amounts right. Be sure that your working notes will enable you to justify any amount if you are asked by a donor or a Board member to do so.
- Add up your sub-totals. Check them.
- Add up your overall totals. Check them.
- Calculate whether you have a surplus or an excess. Decide how you are going to handle this situation.

2.10. Notes

In your budget, you should include some notes. These should explain amounts or line items that may puzzle a donor or a board member or another member of your staff or management team. Anticipate questions that they may ask and use your notes to make explanations. You do not need to litter your budget with notes, but where something may well be puzzling, explain in a note. This will save you time responding to queries.

The point of including notes is to make the budget clearer and more transparent, and to pre-empt questions. Read the budget as if you were a possible donor. This will help you identify where notes will be helpful.

2.11. Feedback

Once you have written the budget, checked your addition and put in the explanatory notes you think are necessary, it is time to get feedback.

From whom should you get feedback?

- From the people who worked with you on drawing up the budget.
- From others in the project or department.
- From your finance department, accountant or bookkeeper.
- From your Director (unless you are the Director).
- From your Board or the Finance Sub-Committee or Budgeting Sub-Committee of the Board.

What do you need feedback on?

- On the categories and line items - has everything that needs to be included been included?
- On the notes - do they explain everything that needs a special explanation?
- On the addition - is it right?

2.12. Finalise

Once you have feedback, make necessary adjustments to the budget, check your calculations once again, and finalise the budget.

Finalising your budget does not mean filing it away and never looking at it again.

Once the budget is finalised, it is time to implement it - both in terms of generating the necessary income and carrying out the activities that incur expenses.

EVALUATION

A- QUESTIONS

Circle the correct answer

1. It is an estimate, or informed guess, about what you will need in monetary terms to do your work.

- A) Expenditure
- B) Income
- C) Budget
- D) Document

2. The budget is an essential management tool. Because;

- A) The budget tells you how much time you need to carry out your activities.
- B) The budget tells you **when** you will need certain amounts of money to carry out your activities.
- C) You can easily raise money from donors unless you have a budget.
- D) The budget prevents you to monitor your income and expenditure and identify any problems.

3. Which isn't a part of planning cycle?

- A) Review and clarify your vision, mission, strategy and objectives.
- B) Prepare your operational plans.
- C) Assess the resources you will need to meet the needs of the plan -estimate costs.
- D) Draw up a strategic plan to cover the work.

4. is what helps you determine realistically what it will cost to implement your operational plan.

- A) The cost estimate
- B) A strategic plan
- C) An action plan
- D) The budgeting process

5. Which isn't a category of the costs you need to estimate?

- A) Capital costs
- B) Staffing costs
- C) Strategic Costs
- D) Organisational costs

6. are the actual items listed in your budget.

- A) Line items
- B) The strategic plans
- C) Staffing costs
- D) Capital costs

7. Which isn't a type of budget?

- A) A survival budget
- B) A Qualified budget
- C) A guaranteed budget
- D) An optimal budget

8. Which is a type of budgeting technique?

- A) Incremental budget
- B) Implementation budget
- C) Organizational budget
- D) Preliminary budget

9. From whom can't you get feedback?

- A) From the people who worked with you on drawing up the budget.
- B) From others in the project or department.
- C) From your finance department, accountant or bookkeeper.
- D) From your customers

10. In, past figures are not used as the starting point.

- A) Zero based budgets
- B) Incremental budget
- C) Finalising the budget
- D) Optimal budget

EVALUATION CRITERIA

Evaluate yourself with a friend of yours. If you need, go to the learning objective and repeat the subject that you believe you couldn't learn.

| The Student's | | The examination's | |
|---|--|--|---|
| Name-Surname: | | Starting Time : | |
| Class : | | Finishing Time : | |
| Number : | | Used Time : | |
| CRITERIA | | | |
| LEARNING PROCESS | | YES  | NO  |
| Did you remember what a budget is? | | | |
| Did you remember why a budget is necessary? | | | |
| Did you remember who should be involved in budgeting? | | | |
| Did you remember the cost estimate? | | | |
| Did you remember budgeting rules? | | | |
| Did you remember different kinds of budgets? | | | |
| Did you remember different budgeting techniques? | | | |
| Did you remember budget format? | | | |

LEARNING ACTIVITY 3

AIM

At the end of this learning activity you will be able to

- Learn banking terms.
- Learn types of banks.
- Learn services offered by a bank.

SEARCH

- Try to prepare a chart to show the types of banks.
- Try to prepare a chart to show services typically offered by banks

3. BANKING TERMS

3.1. What Is A Bank?



A **bank** is a business that provides financial services, usually for profit. Traditional **banking services** include receiving deposits of money, lending money and processing transactions. A commercial bank accepts deposits from customers and in turn makes loans based on those deposits. Some banks (called Banks of issue) issue banknotes as legal tender. Many banks offer ancillary financial services to make additional profit; for example: selling insurance products, investment products or stock broking.

Currently in most jurisdictions commercial banks are regulated and require permission to operate. Operational authority is granted by bank regulatory authorities and provide rights to conduct the most fundamental banking services such as accepting deposits and making loans. A commercial bank is usually defined as an institution that both accepts deposits and makes loans; there are also financial institutions that provide selected banking services without meeting the legal definition of a bank.

A bank generates a profit from the differential between what level of interest it pays for deposits and other sources of funds, and what level of interest it charges in its lending

activities. This difference is referred to as the spread between the cost of funds and the loan interest rate. Historically, profitability from lending activities has been cyclic and dependent on the needs and strengths of loan customers. In recent history, investors have demanded a more stable revenue stream and banks have therefore placed more emphasis on transaction fees, primarily loan fees but also including service charges on array of deposit activities and ancillary services (international banking, foreign exchange, insurance, investments, wire transfers, etc.). However, lending activities still provide the bulk of a commercial bank's income.

3.2. Types of Banks



Banks' activities can be divided into retail banking, dealing directly with individuals and small businesses; business banking, providing services to mid-market business; corporate banking, directed at large business entities; and investment banking, relating to activities on the financial markets. Most banks are profit-making, private enterprises. However, some are owned by government, or are non-profits.

Central banks are non-commercial bodies or government agencies often charged with controlling interest rates and money supply across the whole economy. They generally provide liquidity to the banking system and act as Lender of last resort in event of a crisis.

3.2.1. Types of Retail Banks

- **Commercial bank:** the term used for a normal bank to distinguish it from an investment bank. After the Great Depression, the U.S. Congress required that banks only engage in banking activities, whereas investment banks were limited to capital market activities. Since the two no longer have to be under separate ownership, some use the term "commercial bank" to refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses.
- **Community Banks:** locally operated financial institutions that empower employees to make local decisions to serve their customers and the partners.
- **Community development banks:** regulated banks that provide financial services and credit to underserved markets or populations.
- **Postal savings banks:** savings banks associated with national postal systems.
- **Private banks:** manage the assets of high net worth individuals.
- **Offshore banks:** banks located in jurisdictions with low taxation and regulation. Many offshore banks are essentially private banks.
- **Savings bank:** in Europe, savings banks take their roots in the 19th or sometimes even 18th century. Their original objective was to provide easily accessible savings products to all strata of the population. In some countries, savings banks were created on public initiative, while in others socially committed individuals



created foundations to put in place the necessary infrastructure. Nowadays, European savings banks have kept their focus on retail banking: payments, savings products, credits and insurances for individuals or small and medium-sized enterprises. Apart from this retail focus, they also differ from commercial banks by their broadly decentralised distribution network, providing local and regional outreach and by their socially responsible approach to business and society.

- **Building societies and Landesbanks:** conduct retail banking.
- **Ethical banks:** banks that prioritize the transparency of all operations and make only social-responsible investments.



3.2.2. Types of Investment Banks



- **Investment banks** "underwrite" (guarantee the sale of) stock and bond issues, trade for their own accounts, make markets, and advise corporations on capital markets activities such

as mergers and acquisitions.

- **Merchant banks** were traditionally banks which engaged in trade financing. The modern definition, however, refers to banks which provide capital to firms in the form of shares rather than loans. Unlike Venture capital firms, they tend not to invest in new companies.

Both combined

- **Universal banks**, more commonly known as a financial services company, engage in several of these activities. For example, First Bank (a very large bank) is involved in commercial and retail lending, and its subsidiaries in tax-havens offer offshore banking services to customers in other countries. Other large financial institutions are similarly diversified and engage in multiple activities. In Europe and Asia, big banks are very diversified groups that, among other services, also distribute insurance, hence the term bancassurance is the term used to describe the sale of insurance products in a bank. The word is a combination of "banque or bank" and "assurance" signifying that both banking and insurance are provided by the same corporate entity.

Other types of banks

- **Islamic banks** adhere to the concepts of Islamic law. Islamic banking revolves around several well established concepts which are based on Islamic canons. Since the concept of interest is forbidden in Islam, all banking activities must avoid interest. Instead of interest, the bank earns profit (mark-up) and fees on financing facilities that it extends to the customers. Also, deposit makers earn a share of the bank's profit as opposed to a predetermined interest.

3.3. Services Typically Offered By Banks

Although the basic type of services offered by a bank depends upon the type of bank and the country, services provided usually include:

- Taking deposits from their customers and issuing checking and savings accounts to individuals and businesses
- Extending loans to individuals and businesses
- Cashing cheques
- Facilitating money transactions such as wire transfers and cashiers checks
- Issuing credit cards, ATM cards, and debit cards
- Storing valuables, particularly in a safe deposit box
- Cashing and distributing bank rolls
- Consumer & commercial financial advisory services
- Pension & retirement planning

Financial transactions can be performed through many different channels:

- **A branch, banking centre or financial centre** is a retail location where a bank or financial institution offers a wide array of face to face service to its customers
- **ATM (Automatic teller machine)** is a computerised telecommunications device that provides a financial institution's customers a method of financial transactions in a public space without the need for a human clerk or bank teller
- **Mail** is part of the postal system which itself is a system where in written documents typically enclosed in envelopes, and also small packages containing other matter, are delivered to destinations around the world
- **Telephone Banking** is a service provided by a financial institution which allows its customers to perform transactions over the telephone
- **Online banking** is a term used for performing transactions, payments etc. over the Internet through a bank, credit union or building society's secure website



EVALUATION

A- QUESTIONS

Circle the correct answer

1. is a business that provides financial services, usually for profit.

- A) A bank
- B) A firm
- C) A deposit
- D) An agency

2. a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses.

- A) Community banks
- B) Private banks
- C) Offshore banks
- D) Commercial bank

3. banks located in jurisdictions with low taxation and regulation.

- A) Community banks
- B) Ethical banks
- C) Offshore banks
- D) Commercial bank

4. banks that prioritize the transparency of all operations and make only social-responsible investments.

- A) Commercial bank
- B) Ethical banks
- C) Community banks
- D) Offshore banks

5. more commonly known as a financial services company, engage in several of these activities.

- A) Ethical banks
- B) Merchant banks
- C) Savings banks
- D) Universal banks

6. Which isn't a service offered by banks?

- A) Cashing cheques
- B) Cashing and distributing bank rolls
- C) Consumer financial advisory services
- D) Planning new strategies

7. is a computerised telecommunications device that provides a financial institution's customers a method of financial transactions in a public space without the need for a human clerk or bank teller .

- A) ATM
- B) A branch
- C) Telephone banking
- D) Online banking

8. is a term used for performing transactions, payments etc. over the Internet through a bank, credit union or building society's secure website.

- A) Online banking
- B) ATM
- C) Telephone banking
- D) Mail

9. is part of the postal system which itself is a system wherein written documents typically enclosed in envelopes, and also small packages containing other matter, are delivered to destinations around the world.

- A) Online banking
- B) Mail
- C) A branch
- D) Telephone banking

10., banking centre or financial centre is a retail location where a bank or financial institution offers a wide array of face to face service to its customers.

- A) Online banking
- B) Mail
- C) A branch
- D) Telephone banking

B. Write TRUE or FALSE

| LEARNING PROCESS | TRUE  | FALSE  |
|--|---|--|
| 1. Central banks are non-commercial bodies or government agencies often charged with controlling interest rates and money supply across the whole economy. | | |
| 2. Investment banks are retail banks. | | |
| 3. A bank is a business that provides financial services, usually for profit. | | |
| 4. Community Banks are locally operated financial institutions that empower employees to make local decisions to serve their customers and the partners. | | |
| 5. Postal savings banks are banks located in jurisdictions with low taxation and regulation. | | |
| 6. Merchant banks were traditionally banks which engaged in trade financing. | | |
| 7. Instead of interest, Universal banks earns profit (mark-up) and fees on financing facilities that it extends to the customers. | | |
| 8. Cashing cheques is a type of services offered by a bank. | | |
| 9. Financial transactions can be performed through Automatic teller machine. | | |
| 10. Telephone Banking is part of the postal system which itself is a system where in written documents typically enclosed in envelopes, and also small packages containing other matter, are delivered to destinations around the world. | | |

EVALUATION CRITERIA

Evaluate yourself with a friend of yours. If you need, go to the learning objective and repeat the subject that you believe you couldn't learn.

| The Student's | | The examination's | |
|---|--|-------------------|---------|
| Name-Surname: | | Starting Time : | |
| Class : | | Finishing Time : | |
| Number : | | Used Time : | |
| Evaluation Criteria | | YES ☺ | NO ☺ |
| Did you remember what a bank is? | | | |
| Did you remember what a commercial bank is? | | | |
| Did you remember community banks? | | | |
| Did you remember community development banks? | | | |
| Did you remember postal savings banks? | | | |
| Did you remember private banks? | | | |
| Did you remember offshore banks? | | | |
| Did you remember savings bank? | | | |
| Did you remember ethical banks? | | | |
| Did you remember investment banks? | | | |
| Did you remember merchant banks? | | | |
| Did you remember universal banks? | | | |
| Did you remember islamic banks? | | | |
| Did you remember services typically offered by banks? | | | |

ANSWER KEYS

LEARNING ACTIVITY-1

A- QUESTIONS

| | |
|----|---|
| 1 | D |
| 2 | B |
| 3 | A |
| 4 | D |
| 5 | C |
| 6 | A |
| 7 | D |
| 8 | B |
| 9 | C |
| 10 | D |

B- TRUE or FALSE

| | |
|----|---|
| 1 | T |
| 2 | F |
| 3 | F |
| 4 | T |
| 5 | T |
| 6 | F |
| 7 | F |
| 8 | T |
| 9 | T |
| 10 | F |

LEARNING ACTIVITY-2

A- QUESTIONS

| | |
|-----------|----------|
| 1 | C |
| 2 | B |
| 3 | D |
| 4 | A |
| 5 | C |
| 6 | A |
| 7 | B |
| 8 | A |
| 9 | D |
| 10 | A |

LEARNING ACTIVITY-3

A- QUESTIONS

| | |
|-----------|----------|
| 1 | A |
| 2 | D |
| 3 | C |
| 4 | B |
| 5 | D |
| 6 | D |
| 7 | A |
| 8 | A |
| 9 | B |
| 10 | C |

B- TRUE or FALSE

| | |
|-----------|----------|
| 1 | T |
| 2 | F |
| 3 | T |
| 4 | T |
| 5 | F |
| 6 | T |
| 7 | F |
| 8 | T |
| 9 | T |
| 10 | F |

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16/10/2007