

Understanding Taxes For Students Of Taxation

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Abstract: Taxes are an essential part of modern economic systems, and understanding their principles is crucial for students specializing in taxation, accounting, and finance. This article introduces the basic concepts of taxation, the main types of taxes, and their economic and social roles. It also discusses the importance of studying taxation in English, as it helps students access international resources, understand global practices, and communicate professionally in an international environment.

Keywords: Taxation, taxes, income tax, direct tax, indirect tax, tax education, accounting students, tax policy, tax compliance, financial literacy.

INTRODUCTION:

Taxes are compulsory financial charges imposed by governments on individuals, businesses, and other organizations. They serve as a primary source of public revenue and fund essential government services, including education, healthcare, infrastructure, and social welfare.

For students of taxation, understanding the basic principles of tax law, tax types, and methods of calculation is fundamental. Learning taxation in English provides access to international textbooks, legal documents, and research papers, preparing students for a global professional environment.

A tax can be defined as “a compulsory contribution to state revenue, levied by the government on personal income, business profits, or added to the cost of goods and services.”

The main purposes of taxes are:

1. Revenue generation: Funding public goods and services.

2. Redistribution: Reducing income inequality through progressive taxation.

3. Regulation: Encouraging or discouraging certain behaviors (e.g., taxes on tobacco or carbon emissions).

4. Economic stability: Influencing inflation, consumption, and investment through fiscal policy.

Taxes can be broadly classified into the following categories:

1. Direct Taxes – levied directly on individuals or organizations.

- o Income Tax: Paid on personal or corporate income.

- o Property Tax: Imposed on land, buildings, and other property.

2. Indirect Taxes – levied on goods and services.

- o Value Added Tax (VAT): Applied to the value added at each stage of production.

o Excise Duty: Charged on specific goods such as alcohol, fuel, or tobacco.

3. Other Taxes – including tariffs, customs duties, and inheritance taxes.

Example: A student earning from part-time work may pay income tax on earnings above a certain threshold, while also paying VAT when purchasing goods such as electronics.

Studying taxation in English offers several advantages:

- Access to international resources: Many accounting and tax textbooks, research papers, and case studies are published in English.
- Understanding global practices: Tax systems vary by country; learning English allows students to compare regulations and best practices worldwide.
- Professional communication: English is the primary language for international finance, accounting, and tax reporting standards (e.g., IFRS).
- Career opportunities: Proficiency in English enables students to work in multinational corporations, international organizations, or pursue further education abroad.

For taxation students, learning taxes in English should focus on:

1. Key terminology: Terms like deduction, exemption, taxable income, withholding tax, and compliance must be mastered.
2. Practical examples: Understanding how taxes are calculated, reported, and paid.
3. Case studies: Studying tax issues in different countries to develop problem-solving skills.
4. Interactive learning: Using exercises, quizzes, and translation of tax documents from the native language to English.

Challenges in Learning Taxation in English

1. Complex terminology: Tax law often uses technical phrases and legal terms that require careful study.
2. Translation issues: Some concepts in local tax systems may not have direct equivalents in English.
3. Continuous updates: Tax laws change frequently, requiring students to keep updated with

international standards.

METHOD

Taxation is one of the most prominent and controversial topics in economic policy. Taxes are levied by the federal and local authorities, and embrace different spheres of economy. The most usual taxes are sales taxes, individual income taxes, property taxes, the corporation income tax, excise taxes, payroll taxes, etc. There are four objectives of tax policy: simplicity, efficiency, fairness, and revenue sufficiency. While these objectives are widely accepted, they often conflict. Simplicity means that relations of the taxpayer and the revenue authorities are as easy as possible. Further, the ultimate tax liability should be certain. Efficiency means that taxation interferes as little as possible in the choices people make in the private marketplace. The tax law should not induce a businessman to invest in real estate instead of research and development – or vice versa. Taxes always affect behavior. Taxing an activity (like earning a living) is similar to a price increase. With the tax in place, people will typically buy less of a good – or partake in less of an activity – than they would in the absence of the tax. The most efficient tax is a head tax, a tax on each person that is not affected by that person’s income or by any of the person’s characteristics. A head tax would not reduce the incentive to work, save, or invest. The problem with such a tax is that it would take the same amount from a high – income person as from a low income person.

Fairness, to most people, requires that equally situated taxpayers pay equal taxes (“horizontal equity”) and that better-off taxpayers pay more tax (“vertical equity”). The problem, though, is how to judge whether two taxpayers are equally situated. For example, one taxpayer might receive income from labor while another receives the same income from inherited wealth. And even if one taxpayers is clearly better off than another, there is little agreement about how much more the better-off person should pay.

Revenue sufficiency might seem a fairly obvious criterion of tax policy. Yet, the revenue sufficiency may conflict with efficiency and with fairness.

Likewise, other objectives of tax policy conflict with one another. High tax rates for upper-income households are inefficient but are judged by some to make the tax system fairer. Intricate legal provisions to prevent tax sheltering and thus make taxes fairer would also make them more complex. Such conflicts among policy objectives are a constant constraint on the making of tax policy. TAX a rate or sum of money assessed on a person or property for the support of the government, and commonly levied upon assets or real property (property tax), or income derived from wages, etc. (income tax), or upon the sale or purchase of goods (sales tax).

AD VALOREM TAX (VALUE ADDED TAX) a tax imposed upon the dif-

ference between the cost of an asset to the taxpayer and the present fair market value of such asset; a tax based on a percentage of the value of the property subject to taxation, as opposed to a specific tax, which is a fixed sum applied to all of a certain class of articles.

CAPITAL GAINS TAX (UK) – foreign currency bank accounts owned by persons not domiciled only in the UK and situated in the UK for the purposes of capital gains tax.

ESTATE TAX – tax upon the transfer of property, not upon the property itself; estate taxes imposed upon the net value of decedent's estate. Estate taxes are based upon the power to transmit or the transmission from the dead to the living. The same tax result is accomplished in some jurisdiction through imposition of INHERITANCE TAXES which are taxes imposed upon the receipt of the deceased's property by the beneficiary. Estate taxes and inheritance taxes are both forms of TRANSFER TAXES which are taxes levied upon the passing of title to property.

ESTIMATED TAX generally, income taxes paid periodically by a taxpayer on income not subject to withholding taxes, in an amount based upon the taxpayer's projected liability.

EXCISE TAX a federal tax imposed upon the purchase of certain items.

FRANCHISE TAX a tax generally imposed by the states upon corporations. Often, the franchise tax is divided into two components: (1) a tax upon the net income of the corporation attributable to activities within the

state; and (2) the tax on the net worth of the corporation located in the state.

INCOME TAX a tax imposed upon income received which is recognized for tax purposes by the taxpayers, reduced by the allowable deduction and credits.

PROGRESSIVE TAX a tax in which rate increases as the amount subject to tax increases. For example, a progressive income tax would be a tax at which on lower income levels the rate of tax was lower than the rate of tax on higher income levels.

PROPERTY TAX generally, tax imposed by municipalities upon owners of property within their jurisdiction based upon the value of such property.

PROPORTIONAL TAX a tax imposed at a fixed and uniform rate in proportion to the property subject to the tax.

REGRESSIVE TAX a tax in which rate decreases as the amount to which the tax is applied increases.

SALES TAX a tax generally imposed by state or local government on the sale of certain items that are generally not for resale. In general, the sales tax is at a set rate regardless of the purchase price of the property.

UNIFIED ESTATE AND GIFT TAX a federal tax imposed upon the net value of an estate and on gifts of certain amounts. The transferor is liable for the gift taxes but if the transferor fails to pay the gift tax, the transferee may be held liable for its payment.

USES TAX a tax imposed upon property purchased in one jurisdiction but brought into another jurisdiction. The jurisdiction imposing a "use tax" does so to curtail out-of-state purchases made for the purpose of avoiding sales taxes. The rate of a use tax is generally the same as the rate of a sales tax.

WITHHOLDING TAX the amount of income tax withheld from a payment of income. For example, an employer is required to withhold taxes from an employee's salary when the salary is paid to the employee. The amount withheld is a credit against the amount of income taxes that the employee must pay on income earned for the taxable year.

INTEREST in commercial law, consideration paid for the use of money loaned or forbearance in demanding it when due. Interest is a means of compensation, and expresses a formula consisting of

the amount charged (a percentage), the amount loaned, and the time involved.

COMPOUND INTEREST-interest paid not only upon the principal sum, but also upon the interest previously paid on that sum. Thus, interest already paid or accrued becomes part of the principal, for purpose of subsequent interest calculations.

INTEREST RATE the amount of interest paid, usually expressed as a percentage of the amount of the underlying debt.

Bond markets is an important component of capital markets. Bonds are fixed-income securities – securities that promise the holder a specified set of payments. The value of a bond (like the value of any other asset) is the present value of the income stream one expects to receive from holding the bond. This has several implications:

1. Bond prices vary inversely with market interest rates. Since the stream of payments usually is fixed no matter what subsequently happens to interest rates, higher rates reduce the present value of the expected payments, and thus the price.
2. Bonds are generally adversely affected by inflation. The reason that higher expected inflation raises market interest rates and therefore reduces the present value of the stream of fixed payments. Some bonds, though, are indexed for inflation.
3. The greater the uncertainty about whether the payment will be made, the lower the “expected” payment to bondholders and the lower the value of the bond.
4. Bonds whose payments are subjected to lower taxation provide investors with higher expected after-tax payments. Since investors are interested in after-tax income, such bonds sell for higher prices. The major classes of bond issuers are the government, corporations, and municipal governments. The default risk and tax status differ from one kind of bond to another.

Tax return is the form on which you have to give information so that your tax can be calculated. The definition of the amount subject to taxation requires an analysis of the taxpayer’s situation and of the legal provisions that apply to him. With the income tax (and also some taxes on the transfer

of property, such as the inheritance tax), the taxpayer submits a tax return providing information as to his occupation, his real and personal property, his professional expenditures, and other pertinent matters; a corporation supplies, additionally, copies of the balance sheet, profit and loss statement, and minutes of the general meeting that approved these financial reports. The return, with the attached reports and statements, is meant to provide such complete information that the assessing tax official (someone who works for the government, deciding how much tax a person or company should pay) can rely on it to compute the correct tax. In examining tax returns, the basic principle is that a return is assumed to be correct until the assessing official determines otherwise. In countries such as the United States, where the selfassessment method prevails (the income taxpayer’s liability is computed by himself), a minority of returns is selected for audit; most of them are only checked as to timely arrival, inclusion of all required forms and attachments, and arithmetical accuracy. High rates of taxation started to discourage people and companies from undertaking economic activities that would, without the tax, have been profitable; wealth creation suffered. Most economists agree that there is a need for some government role in the economy.

CONCLUSION

For students specializing in taxation, understanding taxes in English is a valuable skill that combines theoretical knowledge, practical application, and international perspective. Learning the principles, types, and calculation methods of taxes prepares students for professional careers in accounting, finance, and public administration. By mastering taxation in English, students gain access to a broader range of resources, develop critical analytical skills, and enhance their employability in global markets.

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