

## Annex 3

- *Glossary of terms and definitions*

*This glossary is indicative only. It was prepared for the only purpose of implementing the Project. It by no means reconciles divergences between countries in respect to the definitions of the terms hereunder.*

**Accelerated Depreciation** whereby the Undertaking can write off the cost of an asset faster than the decrease in value due to wear and tear, age or obsolescence.

**Additional Paid-In Capital** shall mean the equity contributions to a Undertaking in excess of the amount of capital stock.

**Asset/Equity Ratio** shall mean the total assets divided by the equity.

**Balance Sheet** shall mean the listing of the assets, liabilities and owner's equity at a specific point in time.

**Capital Gain** shall mean the difference between the purchase price of an asset, and the higher price at which the asset is sold. Capital gain involves the sale of an asset.

**Capital Loss** shall mean the difference between the purchase price of an asset and the lower price at which it is sold.

**Commercial or Financial Balance sheet** shall refer to a balance presenting the Undertaking's current assets on one side and current liabilities on the other (including liabilities and equity).

**Convertible Bond** shall refer to a bond that includes a stock option. For purposes of this study, convertible bonds shall be considered part of debt financing.

**Undertaking** shall mean a Corporation.

**Corporate Income** shall mean the Undertaking's earnings.

**Corporate Income Tax** shall refer to the tax levied by the government and delegated authorities on the Undertaking's net profit, which is the result of the Undertaking's total revenue minus its total expenses.

**Corporation** shall refer to a form of business organization that is characterized by the limited liability of its owners, the issuance of shares, the easy transfer of shares, and the separate existence from its owners.

**Debt/Equity Ratio** is a financial ratio indicating the relative proportion of equity and debt used to finance a Undertaking's assets. It shall mean the total debt (including short-term debt) divided by own equity. If the ratio is greater than 1, the majority of assets are financed through debt. If it is smaller than 1, assets are primarily financed through equity.

**Debt Financing** shall be defined primarily by opposition to equity financing as money that is borrowed to run the business. Debt financing may take the form of a loan obligation, a bond, bill or note selling to individuals or institutions. The business becomes a debtor of these lending institutions and individuals who are promised in exchange for the financing to recover the debt principal plus interest. Debt financing does not grant an ownership interest in the business.

**Debt** is defined by reference to the debt financing definition provided above and refers to financial debt as a means of financing a Undertaking.

**Depreciation** shall refer to the taking into consideration within the Undertaking's accounting books of the reduction of the value of an asset as a result of wear and tear, age, or obsolescence. Part of or all of it is a deduction for tax purposes in most countries.

**Director's Fees** shall refer to the wages that the business owner perceives from the corporation or partnership.

**Disincentive Based Tax or Sanction Based Tax** shall refer to a regime which imposes a choice over another by prohibiting or making it excessively expensive in comparison to the normal taxation structure

**Distribution of Earnings or Withdrawal of Profits** shall mean the payment of a dividend but not a capital gain which involves the sale of an asset.

**Dividend** shall mean the payment made to shareholder out of the Undertaking's earnings and that is called Distribution of earnings or withdrawal of profits for purposes of this study.

**Double Taxation** shall refer to the situation where Undertaking profits are taxed twice, at the Undertaking level when they are earned and then at the individual level when they are paid out in the form of dividends.

**Dual Income Tax** shall refer to a taxation system that involves the separation of the capital/investment income tax from the labour income tax with the application of proportional tax rates.

**Earnings Per Share** shall mean total earnings divided by the number of shares outstanding.

**Earnings** shall mean revenue minus cost of sales, operating expenses and taxes over a 12 month period.

**Equity Financing** shall mean financing by selling shares or not distributing earnings so as to decrease the debt to equity ratio. For purposes of this study equity financing shall only refer to financing by selling shares. Equity financing involves the granting of an ownership interest in the company.

**Equity** shall mean the ownership interest in the Undertaking in the form of shares whether such shares are common or preferred.

**Financing by Retained Earnings** shall mean financing by not distributing earnings to shareholders but rather by keeping them in the Undertaking so as to decrease the debt to equity ratio.

**Flow-Through** shall mean tax transparent.

**General Partnership** shall refer to a business partnership that includes two or more partners and in which each partner is liable for any and all liabilities taken on by the General Partnership.

**Incentive Based Tax** shall mean a system that promotes one or more choices over another by granting tax credits or exemptions to the normal taxation system

**Inheritance Tax** shall mean a tax imposed on those who inherit assets from a deceased person and includes estate tax for purposes of this study.

**Interest Expenses** shall mean the cost of servicing debt.

**Interest Income** shall mean the income that is generated from lending money.

**Investment Assets** are any assets held by the business owner for the purpose of producing an economic return for such business owner through the process of investment.

**Liability** shall mean the claims on the assets of the Undertaking, including short-term and long-term debt but excluding ownership equity.

**Limited Liability Undertaking (“LLC”)** shall mean a Undertaking that is taxed like a partnership (i.e., income and losses are passed through to the partners), but where the liability of the owners is limited to their investment in the Undertaking.

**Limited Partner** shall refer to an investor in a partnership whose personal liability is limited only to the extent of his or her investments into the partnership.

**Limited Partnership** shall refer to a business partnership that includes at least one partner who is liable only to the extent of his or her investments into the partnership.

**Long Term Debt Financing** shall mean money to buy assets for the Undertaking such as equipment or buildings. With long term debt financing, the scheduled repayment extends over more than one year.

**Net Equity (of a Undertaking) or Net-Worth** means the excess of total assets over total liabilities.

**Net-Worth Tax** shall refer to a tax that is based on the value of a Undertaking’s total assets.

**Non-Resident** shall mean individual or corporations that are not considered a resident of a particular Country for tax purposes

**Non-Resident Tax** shall mean taxes withheld on income distributed to non-residents.

**Own Equity or Shareholder’s Equity** shall mean here the accumulated retained earnings, the paid-in capital and the additional paid-in capital.

**Paid-in Capital** shall refer to the capital received from the business owner for the shares in the Undertaking. This is the result of equity financing.

**Partnerships** shall refer to a business partnership either general or limited that is transparent for tax purposes - partners report their share of profit and loss in a partnership on their personal tax returns, and no separate tax is assessed on the Company - and that includes at least one partner who is liable beyond his or her investments into the partnership and whose business.

**Private Assets** shall mean assets that are not related to the Undertaking.

**Private Debts** shall mean debt contracted by the business owner in his or her name

**Private Investment Income** shall mean the returns from investment into other assets than the Undertaking.

**Re-Investment Reserves** shall mean earnings retained for future investment purposes in the Undertaking.

**Retention of Earnings** shall mean earnings that have not been distributed to shareholders but rather kept in the Undertaking for purposes of reinvestment and growth. This is a dynamic appreciation of retained earnings which seeks to determine the portion of earnings not allocated to distribution.

**Retention Rate** shall mean the percentage of earnings for the last tax year that are not distributed by the Undertaking.

**Sale of the Business** shall refer to the sale of the assets of the business.

**Sale of the Shares** shall refer to the sale of the shares in the business.

**Share Buy Back or Share Repurchase** shall refer to the Undertaking’s acquisition of its own shares.

**Share Capital** shall refer to the number of shares in the Undertaking.

**Short Term Debt Financing** or “line-of-credit” shall mean money borrowed for the day-to-day operations of the business, such as purchasing inventory, supplies, or paying the wages of employees. For short term financing scheduled repayment takes place in less than one year.

**Sole Trader** shall be considered the equivalent of a general partnership with only one partner.

**Stock dividend** shall mean the distribution of additional shares with no cash payment which reduces retained earnings but increases capital.

**Stock option** shall mean an option (not an obligation) granted to a person or company to buy (call) or sell (put) stock in the future at a fixed price. For purposes of this study the option would be granted to the business owner and only include calls. A stock option is not part of the equity of a business.

**Tax Balance Sheet** or balance sheet for tax purposes shall refer to the commercial balance sheet adjusted to specific tax requirements.

**Tax Transparent** is where the business or partnership income, losses, and certain other items of income and deduction are passed through to the owners.

**Tax Non-Transparent** is where the business or partnership income, losses, and certain other items of income and deduction are not passed through to the owners.

**Taxable Gains** shall refer to gains from investment and subject to private income taxes (individual income).

**Taxable Profits or Corporate Taxable Income** shall mean amount of income subject to partnerships or corporations income taxes.

**Tax Provisions** shall mean any and all regulations, primary or secondary, enacted by the legislator, the government, a local government body, a delegated body or a private authority empowered to do so.

**The Undertaking** shall refer to the specific entity that the Questionnaire addresses.

**Undertaking** shall mean any form of business entity.

**Wages** shall mean the salary paid to the business owner by the Undertaking.