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4. Taxes

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Key Concepts

By the end of this module, learners will be able to:

1. Understand what taxation is and recognise its purpose in funding public services and promoting societal fairness.
2. Identify different types of taxes relevant to daily life in the EU, including income tax, VAT, capital gains, property, inheritance, corporate, and environmental taxes.
3. Read and interpret a payslip to distinguish between gross and net income, tax deductions, and social security contributions.
4. Recognise the role of VAT in everyday purchases and how it affects consumer pricing and choices.
5. Understand how capital gains tax applies to profits from assets like real estate, stocks, and cryptocurrency.
6. Assess the impact of property tax when renting or owning a home and plan accordingly for related costs.
7. Identify when inheritance or gift taxes may apply and understand exemptions based on relationships and thresholds.
8. Grasp the essentials of corporate tax for youth-led businesses, including registration, deductions, and filing responsibilities.
9. Appreciate the environmental role of certain taxes and how they influence personal and business decisions toward sustainability.
10. Recognise tax obligations in digital economies, including freelance, influencer, and e-commerce income.
11. Fulfil basic tax compliance duties such as filing returns, keeping records, and understanding consequences of non-compliance.
12. Understand how EU coordination ensures fairness in cross-border taxation and supports transparency and anti-fraud efforts.
13. Distinguish between taxes and social security contributions and know how early employment builds up personal social protection rights.
14. Access reliable national and EU resources for up-to-date tax guidance and assistance.

Why Taxes Matter to You

You may not think about taxes when you're buying a coffee, getting your first salary, or selling a used item via eBay but taxes are everywhere. They shape the quality of your roads, the cost of your education, and the security of your retirement. For young people whether as workers, students, consumers, or entrepreneurs—understanding taxation is more than just a life skill. It's a foundation for responsible, informed citizenship.

Taxes affect your money, your opportunities, and your rights. Knowing how they work empowers you to:

- Manage your finances wisely
- Avoid costly mistakes or penalties
- Benefit from social protections you're entitled to
- Engage in decisions that shape your future society

Taxation is not just about paying the government as it is about contributing to the world you live in.

What is Taxation?

Taxation is the system by which governments collect compulsory financial contributions from people and businesses to fund public services and maintain economic stability. Think of it like this: everyone pays taxes so that everyone can benefit from shared essentials—like clean streets, quality schools, functioning hospitals, and public safety.

Different Levels

Taxes are collected at different levels: local, national, and sometimes EU-wide.

Different Types

There are different types: direct taxes (like income tax) and indirect taxes (like VAT).

Similar Principles

Rules vary by country, but the principles are similar across the EU: those who earn or consume more usually contribute more.

Why is Taxation Important?

Taxation might seem like a burden—but it's actually the engine that powers society. Here's what taxes make possible:

Funds Public Goods and Services

- Roads, railways, public transport
- Education systems and universities
- Hospitals, emergency services, and vaccinations
- Environmental protection and public parks

Redistributes Wealth and Reduces Inequality

- Tax systems are usually progressive, meaning those who earn more pay a higher percentage
- This helps fund support for those with fewer resources—creating a more just society

Supports Social Security Systems

- Contributions support pensions, disability benefits, maternity leave, and unemployment payments
- These protections help people live with dignity in hard times or later in life

Influences Behaviour

- Taxes on alcohol, cigarettes, and sugary drinks aim to reduce consumption and improve public health
- Tax incentives can promote environmentally friendly choices or social investment

Whether you're working, studying, consuming, or saving—taxes are part of your daily life. Understanding them helps you take charge of your finances, make ethical choices, and become an engaged member of your community.

Income Tax

Income tax is a tax levied by the government on the financial income generated by individuals and businesses. In the EU, while tax systems vary slightly from country to country, all member states apply income tax as part of their fiscal policy to fund public services and redistribute wealth.

Most EU countries use a progressive income tax system, where the tax rate increases with income level. This means:

- Low earners pay a smaller percentage of their income.
- High earners pay a higher percentage.

Some systems include a basic tax allowance, which is a fixed amount of income that is not taxed at all. The remaining income is taxed in brackets (e.g., 20% on the next €10,000, 35% on the next €20,000, etc.). Income tax is usually withheld automatically from salaries by employers but must be declared annually to ensure accurate reporting.



Gross Income

Total earnings before any taxes or deductions.



Net Income

The actual amount received after tax and contributions (i.e., take-home pay).



Tax Brackets

Income ranges taxed at different rates.



Tax Allowance

Income exempt from taxation.



Tax Deductions

Expenses that reduce taxable income (e.g., education costs, work expenses).



Withholding Tax

Amount of income tax deducted directly from wages by the employer.

Types of Income That May Be Taxed

- Salaries and wages
- Freelance or gig income
- Interest on savings
- Dividends from investments
- Rental income
- Scholarships or grants (in some countries, partially taxed)

Specific Relevance to you:

Income Tax: What Young People Need to Know

1 Part-Time or Student Jobs

Even students are subject to income tax if their income exceeds the threshold. It's important to register correctly and file a return to avoid overpaying or missing a refund.

2 Freelancers and Gig Workers

If you're tutoring, doing graphic design, or driving for a delivery app, you may be classified as self-employed and responsible for declaring your own income and paying taxes quarterly.

3 First Full-Time Job

Your payslip will show deductions for income tax and social security. Understanding this breakdown helps you manage your budget and check for errors.

4 Tax Refunds

Many young people overpay due to incorrect tax coding or deductions. Filing a return can lead to money back in your account.

5 Cross-Border Work

If you study in one EU country and work in another, you may face dual taxation issues. Thankfully, most EU countries have treaties to avoid taxing the same income twice.

Why This Matters:

- Avoid fines or penalties for undeclared income.
- Learn to read payslips and understand your earnings.
- Build healthy financial habits early.
- Maximise returns through legal tax deductions.
- Ensure eligibility for state benefits based on tax records.

Value Added Tax (VAT)

Value Added Tax (VAT) is a consumption tax applied to most goods and services at each stage of the supply chain—from production to the final sale. Unlike income tax, VAT is indirect and embedded in the price of most items you buy.

Every time a product or service is sold, VAT is added. For example:

- A manufacturer adds VAT when selling to a wholesaler.
- A retailer adds VAT when selling to a customer.
- The consumer ultimately bears the cost of the VAT.

Businesses collect VAT on behalf of the government and pass it along the chain, deducting any VAT they've paid themselves.

Who Pays VAT?

Everyone who buys goods or services. It's automatically included in the price—so you pay it even without noticing.

Daily Spending Impact

It affects your daily spending. From coffee to cinema tickets, VAT is part of the price.

Usually Invisible

VAT is already included in prices, so you may not even realise you're paying it.

Influences Lifestyle

Higher VAT on things like sugary drinks or fast fashion discourages consumption; lower VAT on books or public transport promotes learning and eco-conscious choices.

Crucial for Entrepreneurs

If your income exceeds a set threshold, you must register for VAT, charge it, and file VAT returns regularly.

Key Terms:

- **VAT-Inclusive Price:** Final price paid by the consumer.
- **VAT-Exclusive Price:** Price before VAT is added.
- **Input VAT:** VAT a business pays on purchases.

- **Output VAT:** VAT a business collects on sales.
- **VAT Return:** A report businesses submit, listing VAT paid and collected.

VAT might be hidden, but it directly affects your spending. Whether you're shopping, freelancing, or launching your own business, knowing how VAT works—especially in your country—helps you make smarter choices and stay compliant with the law.

Capital Gains Tax: Understanding Tax on Investment Profits

Capital Gains Tax (CGT) is a tax on the profit (gain) made when you sell an asset for more than you paid for it. The "capital gain" is the difference between the selling price and the purchase price.

This tax is typically applied to:

- Real estate (excluding your primary residence in some countries)
- Stocks and shares
- Cryptocurrency
- Business assets
- Valuable personal items (art, collectibles, etc.)



Purchase Asset

You buy an asset (e.g. a Bitcoin for €1,000).



Sell for Profit

You later sell it for €2,000.



Calculate Gain

Your capital gain is €1,000.



Pay Tax

You may owe tax on that €1,000, depending on your country's rules and thresholds.

Key Terms:

- **Capital Gain:** Profit made on a sold asset.
- **Capital Loss:** When you sell an asset for less than its purchase price.
- **Holding Period:** Length of time you owned the asset—can impact tax owed.
- **Exemptions:** Some countries waive CGT on personal property, long-held investments, or primary residences.

Why It Matters

1. **Crypto & Stock Investments:** If you buy and sell cryptocurrencies or stocks, you may owe CGT. Many young investors are unaware this income is taxable.
2. **Flipping Property or Assets:** Any real estate profits could trigger CGT unless you're covered by exemptions (like living in the property for a period).
3. **Entrepreneurship:** Selling a business or startup could result in capital gains.
4. **Filing & Transparency:** Failing to declare capital gains can result in penalties. It's important to track dates, amounts, and deductions.

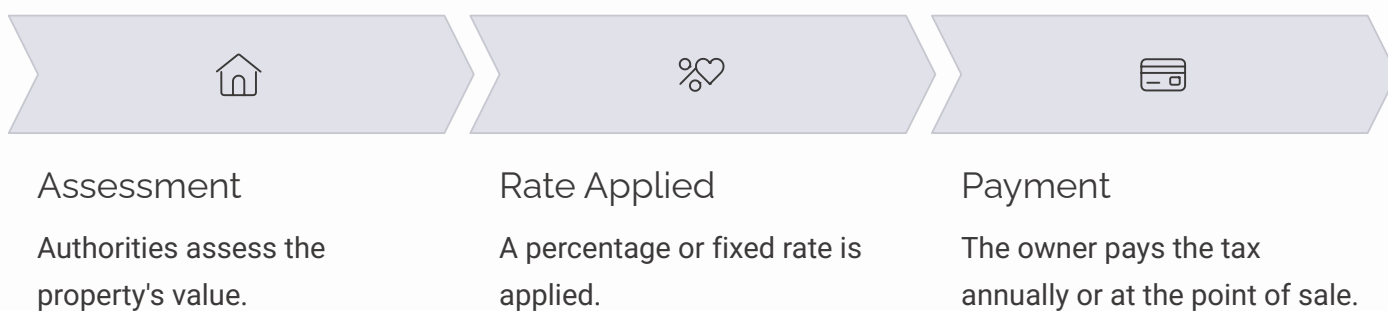
Property Tax

This tax is not applicable in all countries.

Property tax is a tax levied on real estate ownership. It's typically based on the assessed value of land and buildings. This tax funds local services like waste collection, schools, roads, and emergency services.

Types of Property Taxes:

- **Municipal Tax:** Paid annually to local councils.
- **Land Tax:** Based on land ownership or usage.
- **Stamp Duty / Transfer Tax:** Paid once when purchasing property.



Key Terms:

- **Assessed Value:** The value the local government uses to calculate your tax.
- **Stamp Duty:** A one-time tax paid during property transactions.
- **Primary Residence:** Your main home—often receives tax relief or exemption.

Why It Matters to you

1. **Future Homeownership:** Even after buying a home, you'll owe property tax annually. Budgeting for this is key.
2. **Renters Pay Too (Indirectly):** Landlords often factor property taxes into rent. Higher taxes = higher rent.
3. **Buying Abroad:** Property taxes differ greatly. Researching the system is crucial if you plan to buy in another EU country.
4. **Inheritance:** If you inherit a home, you may face property tax obligations even if you don't live in it.

Property taxes affect you. Whether you're renting, investing, or dreaming of owning a home, understanding these costs now helps you make realistic plans for your future.

Inheritance and Gift Tax: Understanding What Happens When You Receive Assets

Inheritance and Gift Tax is a tax applied when a person receives assets—such as money, property, or valuables—either after someone's death (inheritance) or while the giver is still alive (gift).

- Tax is usually calculated based on:
 - The value of the gift or inheritance
 - The relationship between the giver and receiver
 - The location of the property or assets
- Close relatives (spouse, children, parents) are often taxed less or are exempt.
- Large inheritances or gifts from unrelated individuals usually face higher tax rates.



Inheritance and Gift Tax: Key Terms and Why It Matters



Bequest

A gift left in a will.



Beneficiary

The person receiving the inheritance or gift.



Stamp Duty

A transfer tax often used in place of inheritance tax.



Tax-Free Allowance

A set amount you can receive tax-free, depending on your relationship to the giver.

Why It Matters

1. **Unexpected Inheritance:** You may inherit property, savings, or valuables—even at a young age. Knowing the tax rules avoids surprises.
2. **Family Gifts:** Receiving a car, cash, or even shares from grandparents or parents can be taxable depending on your location and the amount.
3. **Cross-Border Implications:** If the giver or receiver lives in another EU country, double taxation could apply unless treaties are in place.

If you inherit or receive a valuable gift, it may be subject to tax. Understand local laws to know your rights, obligations, and potential tax exemptions.

Corporate Tax: What Young Entrepreneurs Need to Know

Corporate Tax is a tax on the profits that companies and registered businesses earn. It applies to both large corporations and small startups, depending on legal structure and income.

How It Works:

- A company calculates its net profit (revenue minus expenses), and tax is charged on that amount.
- Deductions are available for legitimate business costs (e.g. salaries, rent, equipment).
- Businesses must file annual tax returns and pay tax on profits—even small sole proprietors in some cases

Key Terms:

- **Legal Entity:** A business structure (like a company) that can be taxed separately from its owner.
- **Gross Profit vs Net Profit:** Tax is paid on profit after business costs are deducted.
- **Tax Residency:** Determines where your business pays tax.
- **Double Taxation Relief:** Agreements to prevent being taxed in two countries.

Why It Matters

1. **Startup Founders:** If you register a business, even as a freelancer, you may be responsible for filing and paying corporate tax.
2. **Business Decisions:** Understanding tax helps you decide where to register your business, how to pay yourself (salary vs dividends), and how to grow sustainably.
3. **Legal Compliance:** Filing incorrect or late returns can result in heavy fines—even for small or new businesses.

If you plan to start a business—even a small online shop—you need to understand corporate tax obligations in your country. This knowledge helps you avoid legal trouble and operate professionally.

Environmental Taxes: When Pollution Comes with a Price

Environmental taxes are taxes imposed on activities or products that cause environmental damage. Their purpose is to discourage harmful behaviour and promote sustainability.

Types of Environmental Taxes:



Carbon Tax

Charged on fossil fuels (coal, oil, gas)



Fuel Tax

Applies to petrol and diesel



Vehicle Registration Tax

Based on CO₂ emissions



Plastic Bag Tax

Reduces waste



Energy Taxes

Applied to energy consumption, encouraging efficiency

Key Terms:

- **Polluter Pays Principle:** Those who pollute should pay for the environmental damage they cause.
- **Green Incentives:** Tax breaks or grants for sustainable behaviour (e.g. solar panels, EVs).
- **Sustainability Levy:** A surcharge for using non-recyclable or carbon-intensive materials.

Environmental Taxes: Impact on Your Daily Life



Transport Choices

Owning a car or using public transport? The more polluting your vehicle, the higher the tax.



Energy Bills

The more electricity you use, the more tax you may pay—especially if it's from non-renewable sources.



Green Consumerism

Eco-friendly choices often come with tax benefits (e.g. subsidies on e-bikes, reduced VAT on solar panels).



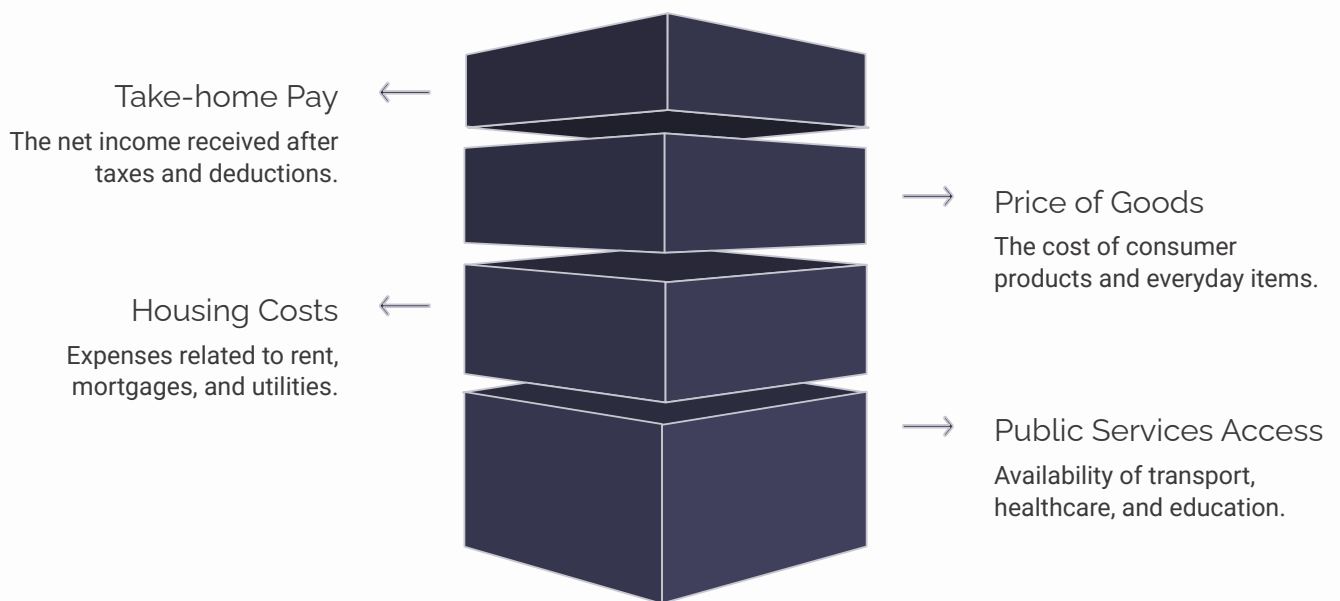
Social Awareness

Environmental taxes aim to change behaviour. Supporting or challenging these policies is part of youth civic responsibility.

Environmental taxes influence how much you pay at the pump, in your energy bill, and even for delivery packaging. Understanding these helps you make greener, more economical choices.

How Taxes Impact Daily Life: Everyday Examples

Taxes are not just abstract numbers or paperwork—they directly affect your wallet, your choices, and your lifestyle.



Daily Tax Impact: Real-World Examples

Here's how:



Employment: Understanding Your Payslip

- When you receive your first job offer, the salary quoted is usually gross pay (before taxes). What you take home is net pay.
- Income tax and social security contributions are deducted monthly.
- Tip: Learn to read a payslip to understand your tax contributions and ensure accuracy.
- Read more on 9. Reading a Payslip



Shopping: The Hidden Cost of VAT

- When you buy clothes, electronics, or even food, VAT is included in the price.
- High VAT rates can significantly affect how much you actually pay.
- Tip: Budget with VAT in mind—what you see isn't always the base price.



Renting or Buying a Home

- If you're renting, the landlord's property tax is often passed on to you through higher rent.
- Buying a home? Be prepared for stamp duty, property tax, or capital gains tax later on.

More Daily Tax Examples



Entrepreneurship

- Planning to start your own business or freelance? You'll need to register for tax, issue invoices, and file returns.
- You'll be responsible for corporate or self-employment tax, VAT (if applicable), and possibly payroll taxes.



The Digital Economy

- Online influencers, streamers, and e-commerce sellers must declare their income.
- Platforms like YouTube, Etsy, or TikTok earnings are taxable in most countries.
- Tip: Keep track of digital revenue streams—even small amounts add up.

Tax Responsibilities and Compliance: Your Legal and Practical Duties

Being tax-compliant is not just for adults or big businesses. If you earn income in any form, you have responsibilities.

Filing Tax Returns

- In most countries, individuals must file annually to report income and claim refunds or pay any remaining tax due.
- Freelancers and business owners often file quarterly prepayments.

Keeping Records

- Keep receipts, invoices, payslips, bank statements, and tax documents.
- In case of audit or error, these serve as evidence.

Penalties for Evasion

Not declaring income can lead to:

- Fines
- Interest charges
- Legal action

Even honest mistakes can be costly, so it's crucial to stay informed.

Tools to Help You

Most EU tax authorities provide:

- Free online calculators
- Tax portals for filing and tracking status
- Guides and helplines for young people and first-time filers

EU-Wide Coordination on Tax

Although each EU country manages its own tax system, the EU plays a key role in harmonising and improving fairness across borders.

What the EU Coordinates:

1. **VAT Rules:** Ensures consistency in how VAT is applied across member states for goods and services, especially in cross-border trade.
2. **Fighting Fraud and Tax Evasion:** Through shared databases, country collaboration, and legal tools.
3. **Corporate Tax Fairness:** Tackles aggressive tax planning and profit shifting by multinationals.

Key Initiatives:



DAC – Directive on Administrative Cooperation

Enables automatic exchange of tax information between EU countries, increasing transparency and catching fraud.



EU VAT Directive

Sets the framework for VAT rates, exemptions, and intra-EU commerce rules.



Digital Tax Proposals

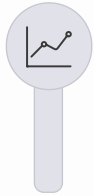
Designed to tax large digital companies more fairly, ensuring they contribute their share in every EU market they operate in.

Even if you're just starting out, taxes affect you more than you think. Understanding both your personal responsibilities and how tax works across Europe equips you for smart, responsible adulthood—whether you're working, studying, freelancing, or shopping online.

Why Tax Knowledge Empowers You

Taxation may seem complicated or even intimidating—but it's one of the most important systems shaping your life, whether you realise it or not. From your first part-time job to buying a home, starting a business, shopping online, or investing in crypto, taxes are involved.

Why Early Tax Education Matters:



Better Financial Decisions

Understanding how taxes affect your income, expenses, and investments helps you plan better and avoid costly mistakes.



Legal Compliance

Filing taxes properly ensures you avoid fines, overpayments, or even legal trouble. It also helps you access refunds and benefits you're entitled to.



Social Responsibility

Taxes fund public services—schools, hospitals, roads, pensions. By paying your share, you support your community and promote fairness.



Confidence as a Young Adult

Whether you're earning €100 or €100,000, tax knowledge gives you control over your financial life. It shows employers, clients, and banks that you're informed and responsible.



Civic Engagement

As you vote and participate in society, tax policies will affect you directly. Being informed means you can advocate for policies that reflect your values—on education, environment, social equity, and more.

You don't need to become a tax accountant—but you do need to understand the basics. Taxes are not just bills—they are tools for managing your future, contributing to your country, and navigating the adult world with confidence and purpose.

Social Security Contributions: What Young People Need to Understand (Not a Tax!)

Social Security Contributions are mandatory deductions from your income that go into national social protection systems. These contributions fund pensions, healthcare, unemployment benefits, maternity leave, disability aid, and more.

- 📄 **Important Distinction:** Social security is not a tax. Taxes go to general government revenue. Social security contributions are earmarked payments—what you pay helps determine what you can claim later in life.

Who Pays and How:

- **Employees:** A percentage is deducted from your gross salary.
- **Employers:** Match or exceed your contribution to support the system.
- **Self-employed individuals/freelancers:** Must pay both the employee and employer portions in most countries.

Purpose of Social Security Contributions:



Healthcare Access

Subsidised or free medical care depending on country.



Pension Entitlement

Building up credits for retirement income.



Sick Leave & Parental Leave

Financial protection when you can't work.



Unemployment Support

Benefits when between jobs.

Key Terms:

- **Social Insurance Number:** Your unique ID for accessing state services.
- **Contributory Benefits:** You only qualify if you've paid into the system.
- **Non-contributory Benefits:** Based on need, not payment history.
- **Benefit Credits:** Points that build up eligibility over time.

Why Social Security Contributions Matter to You

1 Access to Benefits Starts Early

Even your first part-time job builds your benefit record for pensions and unemployment insurance.

2 Avoid Gaps in Contributions

If you're freelancing or working irregularly, ensure you're still paying your share. Gaps can affect future benefits.

3 Claiming Rights Abroad (EU Coordination)

Under EU rules, your contributions count across member states. If you work in Portugal now and move to Poland later, your history goes with you.

4 Misconception Alert

Many young workers believe these deductions are just "another tax." In truth, they're investments in your personal safety net.

Social security contributions protect your present and future self. They ensure you get access to health care, financial help when you're unemployed, and income when you retire. Unlike taxes, these payments directly affect your eligibility for essential life protections.

Reading a Payslip

Reading a payslip is important for understanding how your salary is calculated and what deductions are made. Here's a clear breakdown of the key components of a typical payslip and how to interpret each section:

Understanding Your Payslip: Complete Breakdown



Personal & Employer Information

- **Employee Name:** Your full name.
- **Employee Number / ID:** Internal reference used by your employer.
- **Employer Name and Address:** Who is paying you.
- **Tax Code / Social Security Number:** Determines how much tax you pay.



Payment Period

- **Pay Date:** The date you receive the payment.
- **Pay Period:** The time range the payslip covers (e.g., monthly, weekly).



Gross Pay

- **Basic Salary:** Your fixed wage before deductions.
- **Overtime:** Extra hours worked and pay received for them.
- **Bonuses / Commissions:** Any extra pay.
- **Allowances:** For example, travel or meal allowances.

Gross Pay = Total of all earnings before any deductions.



Deductions

- **Income Tax:** Based on your earnings and tax code.
- **Social Security / National Insurance:** Contributions to public benefits or pension.
- **Pension Contributions:** Payments to your retirement savings.
- **Other Deductions:** Union fees, loan repayments, health insurance, etc.

Total Deductions = The sum of all withheld amounts.



Net Pay

This is your take-home pay after all deductions.

Net Pay = Gross Pay - Total Deductions



Year-to-Date (YTD) Figures

- Shows how much you have earned and paid in deductions since the beginning of the financial year.
- Useful for tracking annual income, taxes, and contributions.



Additional Information

- **Leave Balances:** Remaining vacation or sick days.
- **Bank Details:** Where your salary is deposited.
- **Employer Contributions:** Additional pension or benefits paid by your employer (not deducted from your salary).

Case Study: Marco - A 22-Year-Old Start-Up Entrepreneur in Portugal

Background

Marco, a recent graduate in graphic design from Lisbon, Portugal, decided to turn his freelance side work into a full-time digital branding agency. At age 22, he registered his start-up as a sole proprietor and started offering services to local businesses and international clients via platforms like Fiverr and Upwork.

How Tax Knowledge Informed Marco's Key Decisions



Understanding His Payslip and Net Income

Marco initially worked part-time for a digital agency. When offered a full-time contract at €1,500/month, he used his tax knowledge to understand that after income tax and social security, his net income would be closer to €1,100.

Knowing this helped him decide that freelancing offered better potential and flexibility. He budgeted correctly, avoided debt, and created a 6-month emergency fund before leaving employment.



Registering as a Freelancer and Understanding Tax Obligations

Before launching his start-up, Marco visited the Portuguese tax portal and used their online resources.

He registered for:

- VAT (IVA)
- Self-employment tax
- Quarterly advance payments (prepaid tax)

He also signed up for a free webinar on filing returns as a young entrepreneur.

Decision: Marco avoided late registration penalties and was ready with invoicing tools that included accurate VAT handling.



Tracking Income from Digital Platforms

Marco's first major revenue stream came from a popular Fiverr gig. Because he knew these earnings were taxable, he:

- Set up a separate business account
- Kept monthly records and invoices
- Saved 25% of all digital income for tax dues



Budgeting for VAT and Business Expenses

When Marco bought a new laptop for €2,000, he understood:

- €370 of that was VAT
- As a registered freelancer, he could deduct VAT on business purchases

He also ensured his service pricing accounted for VAT.



Useful Resources: Where to Learn More

National Tax Authority Websites

Every EU country has its own tax portal offering filing guides, calculators, forms, and help desks.

Examples:

- Malta: <https://cfr.gov.mt>
- Poland: <https://podatki.gov.pl>
- Portugal: <https://portaldasfinancas.gov.pt>

EU Taxation and Customs Union

Covers EU-wide rules, digital tax reforms, and anti-fraud cooperation:

<https://taxation-customs.ec.europa.eu>

OECD Tax Database

Compare tax rates and policies internationally:

<https://www.oecd.org/tax/tax-policy/tax-database.htm>