Ethiopian TVET-System

Basic Account Works
Level-II

Based on August 2012GC Occupational standard

Module Title: Developing Understanding of Taxation
TTLM Code: EIS BAW2 M07 TTLM 0919v1

This module includes the following Learning Guides

Instruction Sheet	LG25: Identify and discuss the role of taxation in the Ethiopian economy

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:-

- Definition of taxation
- The purpose of taxation
- The Objectives of taxation
- Characteristics of taxation
- Principles of taxation
- The various ways of tax collections
- The role of the Ethiopian Revenues and Customs Authority ***(**ERCA**)***

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to:–

- Define what tax mean
- Understand the purpose of taxation in Ethiopian economy
- Understand the objectives of Taxation
- Understand good characteristics of taxation
- Explain the principles of taxation
- Understand the various ways of tax collection from society
- Understand the role of the Ethiopian Revenues and Customs Authority ***(**ERCA**)***
- Understand the use of tax revenue

Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described in number - to -.
3. Read the information written in the "Information Sheets 1to 8". Try to understand what are being discussed. Ask you teacher for assistance if you have hard time understanding them.
4. Accomplish the "Self-check 1to 8" in page -5,8,11,14,17,19,21,24
5. Ask from your teacher the key to correction (key answers) or you can request your teacher to correct your work. (You are to get the key answer only after you finished answering the Self-check 1).

6. If you earned a satisfactory evaluation proceed to “Information Sheet 2”. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #1.
7. Submit your accomplished Self-check. This will form part of your training portfolio.

Information Sheet-1	Definition of taxation

1.1 What tax mean?

What is a Tax?

Tax is one of the most important sources of revenue to every government. In the earlier days, payment of taxes was optional. A choice was given to the people to pay the tax and to avail the benefit of social amenities in the form of education, health and sanitation, utilities and recreation facilities. Naturally, everyone interested in availing social amenities used to evaluate the benefit derived by him in exchange for the tax to be paid by him. But the option in the payment of tax created lot of problems for the government in fulfilling their obligations to society. Hence, in modern times, option was withdrawn and tax became a compulsory contribution by every citizen to the government to enable the government to fulfill its commitments towards society.

Every Government imposes two kinds of taxes:

(1) Direct taxes, and (2) Indirect taxes

A tax, in the modern times, therefore is a compulsory levy and those who are taxed have to pay the sums irrespective of corresponding return of services or goods by the government.

It is not a price paid by the tax-payer for any definite service rendered or a commodity supplied by the government. The tax-payers do get many benefits from the government but no tax-payer has a right to any benefit from the public expenditure on the ground that he is paying a tax. The benefits of public expenditure may go to anyone irrespective of the taxes paid. Therefore, we may say that taxes are compulsory payments to government without expectation of direct return or benefit to the tax-payer.

Self-Check -1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Define the tax. (1.5point)
2. Identify the tax that imposed by Ethiopian government. (1.5 point)
3. Describe the benefit that the citizens of Ethiopia enjoy by paying taxes. Describe 3 benefits.(3point)

Note: Satisfactory rating - 3points Unsatisfactory - below 3 points

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-2	The purpose of taxation

2.1 The role of taxation in the economy

- Purposes for which the Tax Revenue is Utilized

The best instrument which the governments can use as a source of revenue is taxation. It can be said, therefore, that a major function of taxation is to marshal the necessary funds to finance the ever-expanding level of public expenditures.

As in all other countries, one of the purposes of taxation in Ethiopia is the raising of as much revenue as possible to meet the ever-expanding public expenditure for the supply of public goods and services which otherwise would not be available to the general public by the market. The central aim of the tax system in Ethiopia is to collect sufficient money to finance the administrative machinery of the government as well as to finance the fulfillment of basic infrastructures like roads, telecommunication, electricity and other basic social services like education, health and water supply facilities.

In developing countries personal savings are usually low. This is because the per capita income of the population in these countries is very low. Moreover, the population in these countries is so high that it demands their governments to spend much of their limited revenues on public goods, such as infrastructure, education and health. Thus the governments of these countries normally have to look into various sources of finance, one of which is tax revenue, so that public goods and services which in turn positively impact development are supplied in reasonable quantities.

With the increasing task of the government, the role of taxation in economic development has become even more significant. Such goals addressed through taxation like maintaining and expanding adequate system of social services, by reducing of unnecessary consumption of luxury items, the maintaining of economic stability and the raising of funds for capital formation are justified. In general the fundamental principle of the tax structure is the mobilization of economic surplus.

The tax system in Ethiopia is not only meant to raise revenue for current expenditures but also aims at directing economic agents to the development goals foreseen by the government through the incentive schemes embedded within the prevailing tax laws. If the investments are of high priority in-terms of the country' s overall development goals, then they are entitled to better tax incentives like tax holidays and the vice versa if otherwise. By doing so the government can direct the allocation of resources into areas of its priority.

Through the tax system, government can protect domestic industries from competing imported goods through levying high tariff on the later.

Taxation is also used for non-fiscal purposes such as reducing the inequalities in income distribution; encouraging certain industries and discouraging others depending on how useful and appropriate they are at that particular economic stance.

Hence, some of the specific purposes of taxation in Ethiopia can be summarized as follows:

- Financing government activity
- Maintaining equity in the national economy
- Promoting efficiency where markets fail to control pollution or health dangers
- Social infrastructure
- Social services

Self-Check -2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Write the main purpose of taxation in the Ethiopian economy. (2point)

Note: **Satisfactory rating - 1points** **Unsatisfactory - 1below points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-3	Objective of Taxation

3.1 The general objective of taxation

Initially, governments impose taxes for three basic purposes: to cover the cost of administration, maintaining law and order in the country and for defense. But now government's expenditure pattern changed and gives service to the public more than these three basic purpose and it restore social justice in the society by providing social services such as public health, employment, pension, housing, sanitation and other public services. Therefore, governments need much amount of revenue than before. To generate more revenue a government imposes taxes on various types.

In general objective of taxations are:

- **Raising revenue**: to render various economic and social activities, a government needs large amount of revenue and to meet this government imposes various types of taxes.
- **Removal of inequalities in income and wealth**: government adopts progressive tax system and stressed on canon of equality to remove inequalities in income and wealth of the people.
- **Ensuring economic stability**: taxation affects the general level of consumption and production. Hence, it can be used as effective tool for achieving economic stability. Governments use taxation to control inflation and deflation
- **Reduction in regional imbalances**: If there is regional imbalance with in the country, governments can use taxation to remove such imbalance by tax exemptions and tax concessions to investors who made investment in under developed regions.
- **Capital accumulation**

Tax concession or tax rebates given for savings or investment in provident funds, life insurance, investment in shares and debentures lead to large amount of capital accumulation, which is essential for the promotion of industrial development.

- **Creation of employment opportunities**

Governments might minimize unemployment in the country by giving tax concession or exemptions to small entrepreneurs and labor intensive industries.

- **Preventing harmful consumptions**

Government can reduce harmful things on the society by levying heavy excise tax on cigarettes, alcohols and other products, which worsen people's health.

- **Beneficial diversion of resources**

Governments impose heavy tax on non- essential and luxury goods to discourage producers of such goods and give tax rate reduction or exemption on most essential goods. This diverts produce's attention and enables the country utilize to utilize the limited resources for production of essential goods only.

- **Encouragement of exports**

Governments enhance foreign exchange requirement through export-oriented strategy. These provide a certain tax exemption for those exporters and encourage them with arranging a free trade zones and by making a bilateral and multilateral agreement

- **Enhancement of standard of living**

The government also increases the living standard of people by giving tax concessions to certain essential goods.

Self-Check -3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are the objectives of taxation? State 3 objectives (5 point)

Note: **Satisfactory rating – 2.5 points Unsatisfactory – 2.5 below points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-4	Characteristics of Taxation

4.1 Characteristics of good tax system

(1) Tax is a Compulsory Contribution

A tax is a compulsory payment from the person to the Government without expectation of any direct return. Every person has to pay direct as well as indirect taxes. As it is a compulsory contribution, no one can refuse to pay a tax on the ground that he or she does not get any benefit from certain public services the government provides.

(2) The Assesses will be required to pay Tax if is due from him

No one can be forced by any authority to pay tax, if it is not due from him. Suppose, if there is a tax on liquor, the state can force an individual to pay the tax only when he drinks liquor. But, if he does not drink liquor, he cannot be forced to pay the tax on liquor. Similarly, if an individual's income is below the exemption limit, he cannot be forced to pay tax on income. For example individuals earning monthly salary below birr 600 cannot be forced to pay tax on income.

(3) Taxes are levied by the Government

No one has the right to impose taxes. Only the government has the right to impose taxes and to collect tax proceeds from the people.

(4) Common Benefits to All

The tax, so collected by the Government, is spent for the common benefit of all the people. In other words, when the government collects a tax, its proceeds are spent to extend common benefits to all the people. The Government incurs expenditure on the defence of the country, on maintenance of law and order, provision of social services such as education, health etc. Such benefits are given to all the people- whether they are tax-payers or non-taxpayers. These benefits satisfy social wants. But the Government also spends on subsidies to satisfy merit wants of poor people.

(5) No Direct Benefit

In the modern times, there is no direct relationship between the payment of tax and direct benefits. In other words, there is absence of any benefit for taxes paid to the Governmental authorities. The government compulsorily collects all types of taxes and does not give any direct benefit to tax-payers for taxes paid. For example, when taxable income is earned by an individual or a corporation, he or it simply pays the tax amount at the specified rate cannot demand any benefit against such payment.

(6) Certain Taxes Levied for Specific Objectives

Though taxes are imposed for collecting revenue for the government to meet expenditure on social wants and merit wants, certain taxes are imposed to achieve specific objectives. For example, heavy taxes are imposed on luxury goods to reduce their consumption so that resources are directed to the production of essential goods, such as cheaper variety of cloth, less costly goods of mass consumption, etc. Thus, taxes are levied not only to earn revenue but also for diversion of resources or saving foreign exchange. Certain taxes are imposed to reduce inequalities of income and wealth.

(7) Attitude of the Tax-Payers

The attitude of the tax-payers is an important variable determining the contents of a good tax system. It may be assumed that each tax-payer would like to be exempted from tax paying, while he would not mind if other bears that burden. In any case, he would want his share to be within the general level of tax burden being borne by others. In other words, it is essential that a good tax system should appear equitable to the tax-payers. Similarly, overall burden of the tax system is of equal importance. The attitudes of the tax-payers in this regard are influenced by a host of other factors like the political situation such as war or peace, natural calamities like floods and droughts, economic situations like prosperity or depression and so on.

(8) Good tax system should be in harmony with national objectives

A good tax system should run in harmony with important national objectives and if possible should assist the society in achieving them. It should try to accommodate the attitude and problems of tax-payers and should also take into consideration the goals of social and economic justice. It should also yield adequate revenue for the treasury and should be flexible enough to move with the changing requirements of the State and the economy.

(9) Tax-system recognizes basic rights of tax-payers

A good tax system recognizes the basic rights of the tax-payers. The tax-payer is expected to pay his taxes but not undergo harassment. In other words, the tax law should be simple in language and the tax liability should be determined with certainty. The mode and timings of payment should be convenient to the tax-payer. At the same time, a tax system should be equitable between tax-payers. It should be progressive and burden of taxation should be equitable on all the tax-payers.

Self-Check -4	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are the characteristics of good tax system? Explain 4 characteristics.(5point)
2. Way tax is compulsory? (1point)

Note: **Satisfactory rating - 3points** **Unsatisfactory - 3below points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-5	Principles of Taxation

5.1 Fundamental principles of taxation

A tax system (that is, the set of all taxes) for achieving certain objectives chooses and adheres to certain principles which are termed its characteristics. A good tax system therefore, is one of which designed on the basis of an appropriate set of principles, such as equality and certainty. Mostly, however, objectives of taxation conflict with each other and a compromise is needed. Therefore, usually economists select some important objectives and work out the corresponding principles which the tax system should adhere to. The first set of such principles was enunciated by Adam smith (which he called Cannons of Taxation)

Canons of Taxation

The four canons of taxation as prescribed by Adam Smith are the following:

- ***Canon of Equality***

This canon proclaims that a good tax is that which is based on the principle of equality. In other words subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion of their respective abilities, that is, in proportion to the reserve which they respectively enjoy under the protection of the State. It implies what the income which a person enjoys under the protection of the State, should be taxed on the proportional rate of taxation. But modern economists do not agree with Adam Smith. They advocate progressive taxation to observe the canon of equality. In other words, they advocate progression should be the basis for imposing taxes.

- ***Canon of Certainty***

It implies that the tax-payer should be well informed about the time, amount and the method of tax payment and not arbitrary. Adam Smith was also of the view that the government must also be certain of the amount which it derives from a particular tax. Thus this canon is equally important both for the individual and the state.

- ***Canon of Convenience***

According to Adam Smith, “every tax ought to be so levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.” In other words, taxes should be imposed in such a manner and at the time which is most convenient for the tax-payer, i.e., the best time for the collection of land revenue is the time of harvest. Similarly, taxes on rent of houses should be collected when it is most convenient for the contributor to pay.

- ***Canon of Economy***

This canon implies that the administrative cost of tax collection should be minimum, i.e., the difference between the money, which comes out of the pockets of people and that which is deposited in the public treasury, should be as small as possible.

In addition to the above four canons given by Adam smith, the following other canons have been advanced by Batiste and other economists

- **Canon of Productivity**

The canon of productivity advocated by ***Batiste*** implies that taxes should be productive. The productivity of a tax may be observed in two ways. In the first place, a tax should yield a satisfactory amount for the maintenance of a government. In other words, the tax should be such that it procures a considerable amount of revenue for the expenditure of the government, Secondly, the taxes should not obstruct and discourage production in the short as well as in the long run.

- **Canon of Elasticity**

Batiste also laid stress on the principle of elasticity. The canon of elasticity implies that yields of taxes should be increased or decreased according to the needs of the government. The government may need funds to face natural calamities and other unforeseen contingencies. It may need funds to finance a war or for development purposes. The government resources can be raised quickly only when the system is elastic.

- **Canon of Diversity**

The canon of diversity put forward by ***Batiste*** implies that the tax system should be diverse in nature. In other words, in a tax system, there should be all types of taxes so that everyone may be called upon to contribute something towards the revenues of the state. Thus, the governments should adopt multiple tax system.

- **Canon of Simplicity**

The canon of simplicity implies that a tax should easily be understood by the tax-payer, i.e., its nature its aims, time, of payment, method and basis of estimation should be easily followed by each tax-payer.

- **Canon of Expediency**

This canon implies that the possibilities of imposing a tax should be taken into account from different angles, i.e. its reaction upon the tax- payers. Sometimes it is seen that tax may be desirable and may be productive and may have most of the characteristics of a good tax, yet the government may not find it expedient to impose it, for example, progressive agricultural income tax, but it has not been imposed. So far in the manner it should have been imposed.

Self-Check-5	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Explain the concept of ‘Canon of certainty’ principle of tax.(2 point)
2. Explain the concept of ‘Canon of economy’ principle of tax.(2point)

Note: **Satisfactory rating -2 points** **Unsatisfactory - 2below points**

Answer Sheet

Score = ___________
Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-6	The various ways of tax collections

6.1 Tax collections in Ethiopia

Tax collections is the process of the government getting money from people and business required to pay tax and the amount of tax the government gets from this activity.

Tax collections revenue is one of the most important domestic sources of revenue. Taxes are compulsory payments to government without expectation of direct return or benefit to tax payers. It imposes a personal obligation on the taxpayer. Taxes received from the taxpayers, may not be incurred for their benefit alone.

In Ethiopia, government collects various types of taxes revenue through direct tax and indirect tax.

- **The main direct tax collected in Ethiopia may include:-**

- Tax on Income from Employment / Personal Income Tax
- Business Profit Tax
- Tax on Income from Rental of Buildings
- Tax on Interest Income on Deposits
- Dividend Income Tax
- Tax on Income from Royalties
- Tax on Income from Games of Chance
- Tax on Gain of Transfer of certain Investment Property
- Tax on Income from Rental of Property
- Rendering of Technical Services outside Ethiopia
- Agricultural Income Tax
- Land Use Tax

- **The main types of indirect tax collected in Ethiopia may include:-**

- Turnover Tax
- Excise Tax
- Value Added Tax
- Customs Duty

Note:- The details of direct tax and indirect tax you will discuss in the next LO2 &LO3

Self-Check-6	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. List out10 different types of tax collected in Ethiopia.(5point)

Note: **Satisfactory rating -2,5 points** **Unsatisfactory – 2.5below points**

Answer Sheet

Score = ___________
Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-7	The role of the Ethiopian Revenues and Customs Authority **(**ERCA **)**

7.1 Ethiopian Revenues and Customs Authority(ERCA)

The Ethiopian Revenues and Customs Authority(ERCA) was established by proclamation No.587/2008 on 14 July 2008, by the merger of the minster of revenue Ethiopian Customs Authority and the Federal Inland Authority for the purpose of enhancing the mobilization of government revenue, while providing effective tax and Customs administration and sustainability in revenue collection. The main objective of the establishment of ERCA was to streamline the public revenue generation function by bringing the relevant agencies under the umbrella of the central revenue collector body. This structuring aimed at improving service delivering, facilitating trade, enforcing the tax and customs laws and thereby enhancing mobilization of Government revenue in sustainable manner.

- The Authority shall have the roles to:
- establish and implement modem revenue assessment and collection system;
- provide, based on rules of transparency and accountability, efficient, equitable and quality service within the sector; properly enforce incentives of tax exemptions given to investors and ensure that such incentives are used for the intended purposes;
- implement awareness .creation programs to promote a culture of voluntary compliance of taxpayers in the discharge of their tax obligations;
- carry out valuation of goods for the purpose of tax assessment and determine and collect the taxes
- conduct study and research activities with greater emphasis to Improve the enforcement of customs and tax laws, regulations and directives and the collection of other revenues; and based on the result of the study and research initiate laws and policies and implement the same up an approval
- collect and analyze information necessary for the control of import and export goods and the assessment and determination of taxes; compile statistical data on criminal offences relating to the sector, and disseminate the information to others as may be necessary;

Self-Check -7	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Write the main objectives of establishment of ERCA. (3 point)

Note: Satisfactory rating -1.5 points Unsatisfactory - below 1.5 points

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-8	Use of taxation revenue

8.1 Tax revenue

- Sources of public revenues

Government has played an important role in the socio economic development of society. Social development may be in the form of raising the level of living and social welfare in the form of providing social amenities to the people. Social amenities are in the form of education, health and sanitation, utilities like electric supply, water supply etc, and recreation facilities.

The process of socio-economic development requiring huge expenditure cannot be carried unless the government has the perennial source of income.

The Ethiopian government has two important sources of revenue. These are:

(a) Tax revenues, and

(b) Non-tax revenues.

Tax revenue is one of the main sources of revenue in public finance.

Sources of tax revenues in Ethiopian include:

Direct taxes: Examples

Personal income tax

Business tax

Capital gain tax

Rental income tax

Interests income tax etc.

Indirect tax: Examples

Turn over tax

VAT

Excise tax

Customs duty

Taxation revenue may be used to provide:

- assistance to business and farming
- cultural and artistic resources and support
- defence and border protection

- education
- environmental protection
- essential infrastructure such as:
  - roads
  - transport systems
  - public building
  - sport and recreation amenities
  - public housing
- foreign representation and trade promotion for Ethiopia
- health care
- justice systems
- public safety
- scientific and other research
- Welfare, income and community support systems

Self-Check -8	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are the key fundamental services that the Ethiopian government must provide from tax revenue collected? state 6 services

Note: **Satisfactory rating - 3points** **Unsatisfactory - below 3 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Instruction Sheet	LG26: Identify and discuss direct tax

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:-

- Key terms used in direct tax
- Direct tax In Ethiopian
- Tax declaration forms
- Tax returns
- Sources of ongoing information about direct tax In Ethiopia

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to:-

- Understand terms used in direct tax
- Identify direct taxes in Ethiopia
- Prepare tax declaration forms
- Explain tax returns
- Understand the sources of ongoing information about direct tax In Ethiopia

Learning Instructions:

8. Read the specific objectives of this Learning Guide.
9. Follow the instructions described in number 3 to 20.
10. Read the information written in the “Information Sheets 1to 5”. Try to understand what are being discussed. Ask you teacher for assistance if you have hard time understanding them.
11. Accomplish the “Self-check 1 to 5” in page -31,41,44,47,49.
12. Ask from your teacher the key to correction (key answers) or you can request your teacher to correct your work. (You are to get the key answer only after you finished answering the Self-check 1).
13. If you earned a satisfactory evaluation proceed to “Information Sheet 2”. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #1.
14. Submit your accomplished Self-check. This will form part of your training portfolio.

Information Sheet-1	Key terminology used in direct tax

1.1. Terms related to direct tax.

- A direct tax

It is paid by a person on whom it is levied**.** In direct taxes, the impact and Incidence fall on the same person. If the impact and incident of a tax fall on the same person, it is called as direct tax. It is borne by the person on whom it is levied and cannot be passed on to others. For example, when a person is assessed to income tax, he has to pay it and he cannot shift the tax burden to anybody else.

- Income means every sort of economic benefit including gains in cash or in kind, from whatever source derived and in whatever form paid, credited or received.

Taxable income" means the amount of income subject to tax after deduction of all expenses and other deductible items allowed under this Proclamation 286/2002 and Regulations 78/2002 issued.

Sources of Income

Income taxable under this proclamation shall include, but not limited to:

a) Income from employment;

b) Income from business activities;

c) Income derived by an entertainer, musician, or sports person from his personal activities;

d) Income from entrepreneurial activities carried on by a non-resident through a permanent establishment in Ethiopia;

e) Income from immovable property and appurtenances thereto, income from livestock and inventory in agriculture and forestry, and income from usufruct and other rights deriving from immovable property is much property is situated in Ethiopia;

f) Dividends distributed by a resident company;

g) Profit shares paid by a resident registered partnership;

h) Interest paid by the national, a regional or local Government or a resident of Ethiopia, or paid by a non-resident through a permanent establishment that he maintains in Ethiopia;

The above sources of income are grouped under the following four Schedules:

Schedules of Income: The proclamation provides for the taxation of income in accordance with four schedules.

Schedule 'A' Income from employment;

Schedule 'B' Income from rental buildings;

Schedule 'C' Income from business;

Schedule 'D' Income from other sources including:

- Employee

" means any individual, other than a contractor, engaged (whether on a permanent or temporary basis) to perform services under the direction and control of the employer.

- Assessable income

Income of any kind is subject to income tax, provided than you earn more than the tax free threshold hold amount.

Assessable income is comprise of any amount that is :

Ordinary income, referring to income that is drive directly or indirectly from all sources, in or out of Ethiopia during a financial year. Some Examples of ordinary income, your salary

Statutory income, referring to all amounts that are not ordinary income, but are included in your Assessable income by way of a specific rule in tax law. Example, capital gain, dividend etc

- Interest on deposits

When you deposit money in some form of saving account with a bank or other financial institution, you get paid for their use of the money.

- Allowances

Tax free amount (such as hard ship allowance).

It is amount paid to employee as a part of salary package, or to defray their out of pocket expense incurred on the behalf of firms

- Capital gain/appreciation

It is the amount of income received or gain on the disposal of immovable property, a share, or bond.

Or gain or losses from investments drive from changes in asset value during ownership b/n the asset's original cost and its market value at the time of sale. If you sale an asset for more than you paid for it, you have a gain. If you sell an asset for less than you paid for it you have a loss.

- Dividends

Represent a disruption of corporate earning to company shareholders and usually take place in the forms-cash or stock. Each organization's board of directors determines the actual dividend that the firm will pay out. Most cash dividend are paid on an annually bases, meanwhile, stock dividends are generally paid at infrequent intervals.

- Gross income

The total amount of income received in tax period.

Income before tax and expense

- Deductions

A fixed amount or percentage permitted by taxation authorities that taxpayer can subtract from his or her adjusted gross income to determine the t taxable income.

- Exemption threshold

It is the maximum amount on which tax will not be levied.

For example, in Ethiopia, a person earning as salary less than birr 600per month will not be levi1ed tax.

Individual business earning less than 7200per tax year will not be levied tax.

A person received ¼ of his or her basic salary or not exceeds than birr2,200 per month as transportation allowance will not be levied tax

- Higher Education Contribution Scheme

The education policy states that government will cover fully for the cost of Education at primary level and up to grad ten, while the beneficiary has to share cost at the secondary and at tertiary levels of education and training .However, until very recently there were no direct charges on student who attend higher Education in Ethiopia. Cost sharing has been implemented in higher Education institutions only in October 2003, the following Promulgation of the higher Education proclamation (FDRE, 2003a) and the cost sharing Regulations (FDRE, 2003b). According to the provisions of these legislations, any student who has entered on obligation for repayment and graduated from a public higher education institution is required to share the cost of education and training, and other services. Payment of cost is to be effected in a form of a tax payable from the salary or other earning obtained after graduation. The scheme adopted is "a Graduate Tax", which principally an income contingent Repayment system of Australia, slightly modified/adapted for implantation Ethiopia.

Cost sharing is defined in Ethiopia as the scheme by which beneficiaries of public higher education institutions and the government share the cost incurred for the purposes of education and other services.

Who contribute?

The scheme focus on the beneficiary student and in principal excludes parents from any legal obligation. Furthermore, their obligation is effected only after graduation when the students are in the world of work and, for all practical purposes, independent of parents.

What amount?

The monthly minimum amount to be deducted from earning is 10%, but the beneficiary could decide to pay more, but not more than1/3 of the monthly salary or income.

The repayment are deducted from earning in a form of a tax and the employer(self or other) is obliged by law to collect the specified amount(or what the beneficiary adds over and above) and transfer to the tax authority.

- Withholding Taxes

As per income tax proclamation no979/2016, Withholding Taxes is a tax on an income which is required to be withheld by the Withholding agent. Withholding agent means a person liable to Withhold a tax from a payment made to a person and includes a person required to self -Withhold tax.

Rate of Withholding Taxes **:-(not updated)**

On imported good at 3% of the sum of cost, insurance and freight (CIF).

On payments made to taxpayers at 2% on cost of supply goods involving more than Birr10, 000 in any one transaction or contract and services involving more than Birr500 in one transaction.

In additions a withholding agent who makes payment to a person who has not supplied a TIN is required to withholding 30% of the amount payment.

Who is Withholding agent?

Organization or company government owned enterprise, Share co., Private Limited co., partnership; etc incorporated under the law of Ethiopia, private Non-profit organization and Non Government Organization (NGO) having legal personality.

Self-Check -1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Explain the direct tax
2. What are the difference b/n assessable income and taxable income?
3. What are the difference b/n deduction and exemption?

Note: **Satisfactory rating - 3 points** **Unsatisfactory - below 3 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Short Answer Questions

Information Sheet-2	Direct tax In Ethiopian

2.1. Identifying the direct tax

The main types of direct tax applicable in Ethiopia are:

- Tax on Income from Employment / Personal Income Tax
- Business Profit Tax
- Tax on Income from Rental of Buildings
- Tax on Interest Income on Deposits
- Dividend Income Tax
- Tax on Income from Royalties
- Tax on Income from Games of Chance
- Tax on Gain of Transfer of certain Investment Property
- Tax on Income from Rental of Property
- Rendering of Technical Services outside Ethiopia
- Agricultural Income Tax
- Land Use Tax

➢ **Tax on Income from Employment / Personal Income Tax**

Determination of Gross employment income***:*** all type of income like Basic salary, allowance, overtime, bonus and other.

Overtime is the work done in the excess of the normal daily hours work. If a workers beyond stipulated working hours during the weak day, i.e., 8 hours a day and 48hours a weak, he/she is entitled to an overtime income as follows:

-125% of normal hourly rate for overtime work b/n 06a.m to 10p.m

-150% of normal hourly rate for overtime work b/n10 pm to 06 am

-200% of normal hourly rate for work on a weekly rest day;

-250% of normal r hourly rate for work on public holyday

Overtime income is calculated as follows:

Basic salary/hours*rate* duration of overtime worked

Taxable income

I. Every person deriving income from employment is liable to pay tax on that income at the rate specified in Schedule “A”, shown bellow. The first Birr 600 (six hundred Birr) of employment income is excluded from taxable income.

II. Employers have an obligation (**Liability**) to withhold the tax from each payment to an employee, and to pay to the **Tax Authority** the amount withheld during each calendar month. In applying preceding income attributable to the months of Nehassie and Pagumen shall be aggregated and treated as the income of one month.

Every person deriving income for employment is liable to pay tax on that income at the rate specified in schedule `A`, set out in Article 11. The first Birr 600 (six hundred Birr) of employment income is excluded from taxable income. If the tax on income from employment, instead of being deducted from the salary on wage of the employee, is paid by the employee in whole or in part, the amount so paid shall be added to the taxable income and shall be considered as part there of

According to Article 10 of income tax proclamation, the employers have an obligation to with hold the tax from each payment to an employee and to pay to the tax authority the amount with held during each calendar month. In applying the procedure, income attributable to the months of Nehassie and pagume shall be aggregated and treated as the income of one month.

- Exemptions

The following categories of income shall be exempted from payment of income tax.

I. Income from casual employment

Income from employment received by casual employees who are not regularly employed provided that they do not work for more than one month for the same employer in any twelve months period.

II. Contribution of retirement benefits by employers:

Pension contribution, provident fund and all forms of retirement benefits contributed by employers in an amount that does not exceed 15% (fifteen percent) of the monthly salary of the employee.

III. Income from Diplomatic and consular representatives, and Other persons employed in any Embassy, Legation, Consulate or Mission of a foreign state performing state affairs, which are national of that state and bearers of diplomatic passports or who are in accordance with international usage or custom normally and usually exempted from the payment of income tax..

IV. Payments as compensation

Payments made to a person as compensation or gratitude in relation to:

(i) Personal injuries suffered by that person;

(ii) The death of another person.

V. Allowable Deductions

The following payments, made to an employee by an employer, are allowed as deductions to determine taxable income.

Reimbursed medical expenses

Transportation allowance (if it fulfill the criteria for tax exemption) 25% of basic salary or not more than Br 2,200

Hardship Allowance

Desert Allowance (if it fulfill the criteria for tax exemption)

Reimbursed traveling expense (incurred on duty)

- **Tax Rate**

The tax payable on income from employment shall be charged, levied and collected at the following rates:

Table: 1.1 Schedule "A "Employment Income

No.	Taxable monthly income(Birr)	Rates of tax (%)
1	< 600	Exemption
2	(601 – 1,650] on the next 1,050	10%
3	(1,651 – 3,200] on the next 1,550	15%
4	(3,201 – 5,250] on the next 2,050	20%
5	(5,251 – 7,800] on the next 2,550	25%
6	(7,801-10,900] on the next ,3100	30%
7	over 10,900	35%

Table: 1.2 It can be explained as follows

No.	Taxable monthly income(Birr)	Rates of tax (10%)	Deduction (Br.)
1	< 600	Exemption	0
2	(600 – 1,650]	10%	60
3	(1,650 – 3,200]	15%	142.5
4	(3,200 – 5,250]	20%	302.5
5	(5,250 – 7,800]	25%	565
6	(7,800-10,900)	30%	955
7	over 10,900	35%	1,500

- Methods of employment income tax computations

There are two methods are used to compute employment income tax.

1.Progression method

The amount of tax is calculated for each layer of tax bracket by multiplying the given rate under schedule A For each additional income.

2. Deduction methods

Income Tax =Taxable Income x tax rate - Deduction

Deduction is computed by this formula

Deduction = upper taxable income pervious tax bracket tax rate of given bracket-cumulative threshold.

- **Business Profit Tax**

  Taxable business income shall be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the Generally Accepted Accounting Standards, subject to the provisions of this Proclamation and the directives issued by the Tax Authority.

Business income tax or business profit tax is the tax imposed on taxable business income /profit realized from entrepreneurial activities. it is charged on the profit of business enterprises on their activities arising each accounting period or tax year.

Category of Taxpayers

For the purposes of payment of business tax, taxpayers are categorized into three namely: Category "A", Category "B", and Category "C".

- **Category "A" Taxpayer**

Category "A" taxpayer includes;

Business that have separate legal personality (share company, PLC and public enterprise) regardless of their annual sales revenue.

Any company incorporated under the laws of Ethiopia or in a foreign country and other entities having annual turnover of more than Br500, 000.

Those who are categorized under "A" have to maintain all records and account which will enable them to submit a balance sheet and profit and loss account.

The following details are included the gross profit and the manner in which it is computed, general and administrative expenses, depreciation, and provisions and reserves (together with the supporting vouchers).

Category “B” Taxpayer

Category “B” taxpayers includes, unless already classified in Category “A” Taxpayer , business with no legal personality and those enterprises having annual income of more than Br 100,000 and less than Br 500,000 (i.e. Br 100,000 < sales < Br 500,000). Category “B” taxpayers have to submit the profit and loss statement together with the supporting vouchers.

Category “C” Taxpayer

Category “C” includes all taxpayers who are not classified under the other two categories and whose annual turnover is estimated at Br 100,000 or less. Every businessman (except Category “C”) is required to preserve all books of accounts and other records and documents for a period of not less than 5 years after the year of income to which such books and documents relate.

To determine the income tax liability of such tax payer, standard assessment or presumptive method shall be used. Assessment or presumptive tax is fixed amount of tax determined by estimation or best judgment. However, if categories “C” tax payers maintain books of account, they shall pay taxes on the basis of their books of account.

Moreover the tax payer who drives income from different source subjected to the same schedule shall be assessed on the aggregate of such income. For example if the individual has barberry and castle shop, the income of the two businesses are aggregated.

- **Tax rate**

Corporate businesses are required to pay 30% flat rate of business income tax

For unincorporated or individual businesses the business income tax ranges from 10% - 35%. Unincorporated or individual businesses are taxed in accordance with the following schedule below:

Table:1.3 **Schedule ‘ C’ Business Income**

No	Taxable Business Income / Net Profit per year		Tax rate	Deduction in birr
	Over Birr	To Birr	%	Birr

1	0	7.200	Exempt threshold	
2	86,401	19,800	10	720
3	19,801	38,400	15	1710
4	38,401	63,000	20	3630
5	63,001	93,600	25	6780
6	93,601	130,800	30	11460
7	Over 130,801	*****	35	18000

In the determination of business income subject to tax in Ethiopia, deductions would be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer.
The following expenses shall be deductible from gross income in calculating taxable income:

- The direct cost of producing the income, such as the direct cost of manufacturing, purchasing, importation, selling and such other similar costs;
- General and administrative expenses connected with the business activity;
- Premiums payable on insurance directly connected with the business activity;
- Expenses incurred in connection with the promotion of the business inside and outside the country, subject to the limits set by the directive issued by the Minister of Revenue; Commissions paid for services rendered to the business;
- Sums paid as salary, wages or other emoluments to the children of the proprietor or member of the partnership shall only be allowed as deduction if such employees have the qualifications required by the post.

The following categories of income would be exempted from payment of business income tax:

- Awards for adopted or suggested innovations and cost saving measures;
- Public awards for outstanding performance;
- Income specifically exempted from income tax by the law in force in Ethiopia, by international treaty or by an agreement made.

- **Tax on Income from Rental of Buildings**

This is the tax imposed on the income from rental of buildings. If the taxpayer leased furnished quarters, the amounts received attributable to the lease of furniture and equipment would be included in the income and taxed. The tax payable on rented houses would be charged at the following rates:

- On income of bodies 30% of taxable income

- On income of persons according to the following schedule
  (**schedule 'B' Income**

Table:1.4

No	Taxable income from rental of building (Income per year)		Tax rate	Deduction in birr
	Over Birr	To Birr	%	Birr
1	0	7.200	Exempt threshold	
2	86,401	19,800	10	720
3	19,801	38,400	15	1710
4	38,401	63,000	20	3630
5	63,001	93,600	25	6780
6	93,601	130,800	30	11460
7	Over 130,801	*****	35	18000

- Conditions of payment:

The owner of a building who allows a lessee to sub-lease is liable for the payment of the tax for which the sub-lesser is liable, in the event the sub-lesser fails to pay; When the construction of a rental building is completed or when the building is rented, the owner and the builder are required to notify the administration of the Keble in which the building is situated about such completion and the name, address, and tax identification number of the person or persons subject to tax on income from rental of building; The Keble administration has the obligation to communicate the information obtained to the appropriate tax authority.

Schedule "D" Other Incomes.

- **Tax on Interest Income on Deposits**

Every person deriving income from interest on deposits shall pay tax at the rate of 5%. The payers are required to withhold the tax and account to the Tax Authority.

- **Dividend Income Tax**

Every person deriving income from dividends from a share company or withdrawals of profits from a private limited company shall be subject to tax at the rate of 10%. The withholding agent shall withhold or collect the tax and account to the Tax Authority.

- **Tax on Income from Royalties**

' Royalty income' means a payment of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematography films, and films or tapes for radio or television broadcasting.

Royalties income shall be liable to tax at a flat rate of 5%. The withholding agent who effects payment shall withhold the foregoing tax and account to the Tax Authority. Where the payer resides abroad and the recipient is a resident, the recipient shall pay tax on the royalty income within the time limit set out.

- **Tax on Income from Games of Chance**

Every person deriving income from winning of games of chance (e.g., lotteries, tombola, and other similar activities) shall be subject to tax at the rate of 15%, except for winning of less than 100 Birr. The payer shall withhold or collect the tax and account to the Tax Authority.

- **Tax on Gains of Transfer of Certain Investment Property**

This is the tax payable on gains obtained from the transfer (sale or gift) of building held for business, factory, office, and shares of companies.

Such income is taxable at the following rates:

- Building held for business, factory, and office at the rate of 15%;
- Shares of companies at the rate of 30%.

Gains obtained from the transfer of building held for residence shall be exempted from tax provided that such building is fully used for dwelling for two years prior to the date of transfer. Any person authorized by law to accept, register or in any way approve the transfer of capital assets shall not accept, register or approve the transfer before ascertaining that the payment of the tax has been duly effected.

- **Tax on Income from Rental of Property**

The taxable income under this category is income derived from casual rental of property (including any land, building, or moveable asset) not related to a business activity. This type of income is subject to tax at a flat rate of 15% of the annual gross income.

- **Rendering of Technical Services Outside Ethiopia**

All payments made in consideration of any kind of technical services rendered outside Ethiopia to resident persons in any form shall be liable to tax at a flat rate of 10% which shall be withheld and paid to the Tax Authority by the payer. The term " technical service" means any kind of expert advice or technological service rendered

- **Agricultural Income Tax**

According to Proclamation No. 152 of 1978 individual farmers and agricultural producer-cooperatives earning up to Birr 600 per annum are required to pay 10 Birr. The tax rates on every additional income vary from 10% to 89% for income above 600 Birr.

In line with the economic policy and structural set up of the Federal Democratic Republic of Ethiopia, the former tax on income from agricultural activities and the land use rent was revised in 1995. Since income tax from this source is allocated to Regional States in consonance with the provisions of the new constitution of 1994, each Regional State is entitled to issue a Proclamation providing for such a tax and rent.

Accordingly, the Oromiya Regional State has promulgated Proclamation No. 8/1995 that revised agricultural income tax rates schedule and rural land use fee. As for the payment of income tax from agricultural activities other taxpayers, except state farms, shall pay at the following rate.

Table: 1.5

Agricultural Income Tax per Proclamation No. 8/1995, Oromiya		
	Annual Taxable Income	Tax Rate
1	up to 1,200	Birr 15
2	1,201 - 5,000	5%
3	5,001 - 15,000	10%
4	15,001 - 30,000	20%
5	30,001 - 50,000	30%
6	over 50,000	40%

A state farm shall pay 40% of the taxable income it realizes from its agricultural activities. Income from agricultural activities is said to be determined by estimating the price, in the area, of the crop before harvest. If the crop is sold, the price declared shall be the basis for the assessment of income.

- **Land Use Tax**

According to Proclamation No. 77/1976 and No. 152 /1978 individual farmers, who are not members of producer' s cooperatives, are required to pay a land use fee of Birr 10 per hectare per annum. Whereas government agricultural organizations are paying 2 Birr per hectare per annum.

Presently regional states have their own land use rent systems. For instance, according to the Proclamation No. 8/1995 of Oromiya, rural land held for agricultural activities is subject to land use rent payment on annual basis. The annual land use rent payable by a farmer shall be Birr 10 for the first hectare and Birr 7.50 for each extra hectare of land. Meanwhile state farming enterprises shall pay Birr 15 for each hectare of their land holdings. Land use rent is to be collected between the 1st of Hidar and the 30th of Miazia of the year.

Self-Check -2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Identify the major types of direct taxes existing in Ethiopia. (5point)
2. The following data were taken from the records of ETC Co. for July 2011 E.C. that pays payroll to its employees according to Ethiopian payroll system. (3point)

Name	Basic salary	Allowance	Overtime earned
Abel Tena	Br.4,400	Br.1200	Br.600

Additional information:

He is expected to render services of 160hrs per month.

The allowance exceed than birr1000 is taxable.

Required:

A, Determine the gross earnings

B, Taxable income

C, Employment income tax

3. Poly enterprise, unincorporated business has reported earnings before tax of birr 80,000 at the tax year ended Sene 30, 2011.

Required

A. Determine the amount of business income tax? (2point)

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-3	Tax declaration forms

3.1 Forms of tax declaration in Ethiopia

Is used to determine the correct tax liability of the taxpayer and must be completed and lodged with taxpayer.

Declaration and Payment of Tax

The following is the procedures for the declaration of taxable income by taxpayers.

A) Taxpayers categorized as “A” are required to declare their taxable income within four months from the end of the tax period.

B) Those taxpayers who are categorized as “B” are required to declare their taxable income within two months from the end of the tax period.

C) Category “C” taxpayers shall declare taxable income within one month i.e. between July 07 and August each year.

Tax declaration forms in Ethiopia include but not limited:

- Employment tax forms
- Business income tax forms
- Withholding income tax forms, and other forms,

Ethiopian Revenue Customs Authority (ERCA) issues all Tax declaration forms to the taxpayers.

Taxpayer registration

In any tax system identifying and registering actual and potential taxpayers is a primary function unless, the tax office has reliable and easily identifiable taxpayers registration system, tax assessment and collection will be difficult.

Thus, the use of taxpayer’s identification number to identify taxpayers is a first step in the management of tax collection. The TIN system provides the foundation for the tax administration to independently identify taxpayers, control evasion, and create a dependable database for efficient and effective tax collection.

Moreover, it is expected that the use of a unique taxpayer registration number will enable the tax collectors to strengthen their capabilities in identifying every person whose income is subject to tax, and those who deliberately understate declarations or fail to disclose income

To that effect the government issued proclamation no 227/2001which marked the introduction of tax identification number the tax system, the proclamation obliged any taxpayer to have a tax identification number (TIN) according the proclamation any person or organization looking for a license to carry on a business occupation is required to supply the TIN to the licensing authority in this case all public bodies and institutions issuing a business or occupational license is not allowed to issue or renew such license unless the taxpayer has supplied the TIN.

Self-Check -3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What mean tax declaration form? (2 point)
2. What are the purposes of TIN? (3point)

Note: **Satisfactory rating – 2.5points** **Unsatisfactory - below 2.5 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-4	Tax returns

4.1 Assessing tax returns

tax returns is stranded form provided by the tax authorities on which a taxpayer report taxable income with permitted deductions and exemptions, and compute his or her tax liability.

Tax returns can be completed by:

accountant
an individual
tax agent
On-line or in written form

Apply for Tax returns

You will start by registering as a tax payers at nearby tax office in your area of operation:-

In this case, you go to nearby tax office and obtain an application for registration form and fill it in completely;

- Accompanied with proof of identity, submit the filled form to the tax office;
- Up on submission of documents, your passport photo and finger prints shall be captured by the tax officers;
- Upon verification of submitted details, a taxpayers identification number (TIN) is issued to you.

Thereafter you can proceed with filling the appropriate tax return under the self Assessment Regime.

Assessment of Tax

Assessment is a tax review by a tax official of the tax declaration and information provided by a taxpayer and a verification of the arithmetical and financial accuracy of the declared tax liability. Pursuant to the proclamation, each taxpayer is required to furnish the tax authority with all information required for the assessment of income tax including information about his operations, and relationship with other bodies that may be necessary for the declaration of income or for supporting the books of accounts.

The procedure for the assessment of business income tax takes two forms:

A) Assessment by books of accounts, and
B) Assessment by estimation.

Assessment by books will be done for those who maintain books of accounts (Category A and B). The revenue authority makes assessment by estimation when the taxpayers do not maintain the books or when the submitted books are not acceptable. This is also done if the taxpayer fails to declare his/her taxable income within the time required. Tax, of Those taxpayers who have different sources of income, will be assessed on the aggregate of all income.

If the taxpayers keep no records, or if the income tax authority does not accept the submitted books, or if the taxpayer fails to declare tax within the time specified, the income tax authority estimates tax by the use of certain indicators. Category “C” should pay tax at fixed rate on the income estimated by the income tax authority.

Tax assessors will be assigned by the tax office to estimate the daily sales of the taxpayers. The estimates will be done using the best of their judgment and objectivity. The estimated daily sales will be converted to annual income using the number of working days. Tax on annual sales is determined on the basis of presumptive value assigned to each activity.

Assessment Notification

Every assessment notification should contain the following elements:

a) Gross income and deductions applicable;

b) Taxable income;

c) Rates applicable or percentage;

d) Taxes paid and due;

e) Any penalty or interest;

f) Taxpayer’s name, address, and TIN; and

g) Brief explanation of the assessment and a statement of the taxpayer’s rights

The tax authority is assessing the tax through:

- Business Activity Statements
- payroll
- allowable deductions
- capital gains

Financial adjustments such as:

Write-offs

Revaluations

Profits and losses

Superannuation payments

Fringe benefits assessment

Self-Check -4	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are the procedures for the assessment of business income tax? Explain (2point)
2. How the tax authority can assess the direct tax in Ethiopia? (2point)

Note: **Satisfactory rating - 2 points** **Unsatisfactory - below 2 points**

Answer Sheet

Score = ___________
Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-5	Sources of ongoing information about direct tax In Ethiopia

5.1. Sources of tax information

Sources of ongoing information about direct tax may include:

- Accountants and other financial services professionals

  They can provide information about the accounting works.
- Ethiopian Revenues and Customs Authority (ERCA)

  ERCA which has a mandated authority for revenue collection and tax administration in Ethiopia has formulated a multi-sector change and tax modernization framework. The Authority has adopted strategic directions and has been actively engaged and committed for its implementation. Registration of tax payers (finger prints) and issuance of tax Identification numbers (PIN), broadening the VAT tax base, improvement in tax administration and trade facilitation were some of the measures taken by ERCA.
- Industry associations and professional organisations

  Are akin to revenue ruling in that they show how the ERCA would apply the law to a specific set of facts.
- Federal and Regional governments agencies
- Taxpayers

it is important to understand the federal, state, and local tax requirement. This will help you y file your taxes accurately and make payment on time

Self-Check -5	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are sources of ongoing information about direct tax in Ethiopia? 3 point

Note: **Satisfactory rating – 1.5 points** **Unsatisfactory - below 1.5 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Operation Sheet 1	Techniques of determining employment income tax

Method of determining employment income tax

Step 1- Gathering the necessary data. All the relevant information about every employee should be gathered.

Step 2- Determine the gross employment income. Include all types of income like Basic salary, allowance, over time and other

Step 3- Determine taxable employment income. By subtract exemption from gross employment income.

Step 4- compute the employment income tax by multiplying the given tax rate on taxable employment income.

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Operation Sheet 2	Techniques of determining business income tax

Method of determining business income tax

Step 1- Determine all source of business income within the tax year. Includes sales, interest income, rent income and other.

Step 2- Determine all allowable deductions and exemption that are prescribed by Ethiopian tax law.

Steps3- Compute taxable business income by subtract all deductions and exemption from gross business income.

Step 4-Compute business income tax or business profit tax by multiplying the given tax rate on taxable business income.

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LAP Test	Practical Demonstration

Name: _______________________________ Date: _________________

Time started: __________________________ Time finished: _________________

Instructions: Given necessary templates, tools and materials you are required to perform the following tasks within --- hour.

Task 1. Assume Ato Gobeze is an employee in Bahir Dar Textile Factory with a monthly salary of birr 6,200 birr and is required to work 172 hours monthly. He receives monthly allowance of birr1000, which is taxable. In the month of GINBOT, he worked for 180 hours and worked extra-hours on weekends.

Determine the employment income tax for the month of Ginbot 30,2011

Task 2. Bahir Dar Textile Factory, share company business has reported the following information for the year ended Sene30, 2011: business income for the tax year:-

Sales revenue--------- birr1, 000,000

Rental income--------- 400, 000

Interest income-------- 20, 000

Total deductions and exemptions for the same tax year------------ -----------birr 994,000.

Determine the business profit tax for the year 2011

Instruction Sheet	LG27:Identify and discuss indirect tax

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics –

- Accounting terms used in indirect tax
- Identifying Indirect tax In Ethiopian
- legal structure of business
- .Assessments of indirect tax in Ethiopian
- Sources of ongoing information about indirect tax in Ethiopia

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to –

- Define terms related to indirect tax
- Explain deferent types of indirect tax
- Understand legal ownership of business
- Understand how to assess indirect tax
- Identify the sources of ongoing information about indirect tax

Learning Instructions:

15. Read the specific objectives of this Learning Guide.
16. Follow the instructions described in number 3 to 20.
17. Read the information written in the “Information Sheets 1 to 5”. Try to understand what are being discussed. Ask you teacher for assistance if you have hard time understanding them.
18. Accomplish the “Self-check 1 to 5” in page -58,63,66,68,&70..
19. Ask from your teacher the key to correction (key answers) or you can request your teacher to correct your work. (You are to get the key answer only after you finished answering the Self-check 1).
20. If you earned a satisfactory evaluation proceed to “Information Sheet 2”. However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #1.
21. Submit your accomplished Self-check. This will form part of your training portfolio.

Information Sheet-1	Key terminology used in indirect tax

1.1 Terms related to indirect tax

- Indirect tax

An indirect tax is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the customer).
An indirect tax is one that can be shifted by the taxpayer to someone else.
An indirect tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products.
Under Indirect taxes, the impact and the incidence fall on different person. It is not borne by the person on whom it is levied and can be passed on to others. For example, when the excise tax is levied on the manufacturer of cement, he shift the burden of the to the consumers by raising the selling g price. Here the impact of excise taxes falls on the manufacturer and the incidence on the ultimate consumers. The person who is required to pay the tax does not bears its burden. Thus, indirect taxes can be shitted.

- Taxable persons

A person who pay or collect taxes on any activity carried on continuously or regularly in Ethiopia, wholly or partly, whether or not for a profit.

- Taxable transaction

Transaction falling within the scope of the tax is taxable. Not all Taxable transactions are taxed but can be exempt.

- Tax evasion

It is the general form for efforts by individual, firms, and other entities to evade the payment of taxes by breaking tax the law. Tax evasion means fraudulent action of on the part of the taxpayer with a view to violate civil and criminal provisions of the tax laws. it can be defined as " tax evasion implies the activities involving an element of deceit, mis-representation of facts, falsifications of accounts".

Examples for Tax evasion:

- Under-invoicing of sales and inflation of purchase
- A trader makes a sale for birr20,000 and does not account it, in his books under sales
- Interest earned from lending of money does not includes on total income
- A manufacturing business employs 30 workers but includes 2 more additional namesake workers (not in actual) in payrolls.

Cause of Tax evasion:-

- High rates of taxation
- Complexity of tax laws
- Inadequate information as to source of revenue.
- Moral and psychological factors
- Lack of integrity

- Tax avoidance

It is the method of reducing ones tax liability by making use of loopholes in a tax law. Therefore, tax avoidance is not illegal.

It is the art of escaping taxes without breaking the law.

- Duty paying value

It is the actual total costs of any import or export of goods or services.

- The impact of a tax

Is on the persons who pay the money in the first instance. In other words, the man who pay the tax to government in the first instance.

- Shifting of tax

It refers to the process by which the money burden of the a tax is transferred from one person to another.

- Incidence of a tax

It refers to the money burden of a tax on the persons who ultimately bears it. In other words, when the money burden of a tax finally settles or comes to rest on the ultimate taxpayer is called Incidence of a tax.

Self-Check -1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Define the indirect tax. (1 point)
2. Distinguish b/n tax evasion and tax avoidance? Explain the cause of tax evasion. (3point)

Note: **Satisfactory rating - 4points** **Unsatisfactory - below 4 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-2	Indirect tax In Ethiopian

2.1 Identifying Indirect tax.

The main types of Indirect tax In Ethiopian are:-

- Turnover Tax
- Excise Tax
- Value Added Tax
- Customs Duty

- **Turnover tax /TOT/**

Turnover tax is payable on goods supplied and services rendered by persons not registered for VAT. It's an equalization tax that came into force to tax persons below the VAT registration threshold of Birr 500,000.

TOT is charged at 2% on goods locally sold and 10% on services, except contractors, grinding mills, tractors and combine harvesters which are taxed at 2%. The basis of the tax is the gross receipts of goods and services sold.

- **Excise tax**

The excise tax is charged on ad valorem rate on certain consumer goods on importation and on similar products locally produced. It is believed that this tax should be imposed on luxury goods and basic goods, which are demand inelastic. It is also believed that imposing the tax on goods that are hazardous to health and which are causes to social problems will reduce the consumption thereof. The excise tax would be imposed on goods imported or either produced locally in accordance with the given in Excise Tax Proclamation No. 307/2002.

In Ethiopia, both the federal and regional governments collect excise tax. ERCA is responsible for collecting excise tax for the Federal government and collects excise tax levied on locally produced and imported items into the country. The minimum excise tax rate applied to excisable goods is 10% while the maximum is 100%. Excise tax has 10 bands or groups of rates at which excise can be charged. These band rates are **10%, 20%, 30%, 33%, 40%, 50%, 60%, 75%, 80% and 100%.** These rates are used to calculate the payable excise tax.

- **Value Added Tax**

VAT is a consumption of tax charged by VAT registered traders on all taxable goods and services at a standard rate of 15%. The VAT is a multistage tax levied at each stage of production and distribution up to the retail stage. The tax is also levied on taxable imports made by persons whether or not registered for VAT. Some goods and services are taxed at Zero-rate while some are exempted from the tax.

All traders or businesses whose taxable turnover exceeds Birr 500,000 per year are obliged to make an application for registration. However person may voluntarily apply for registration, if he regularly is supplying or rendering at least 75% of his goods and services to registered persons.

Most business transactions involve supplies of goods or services. VAT is payable if they are: Supplies made in Ethiopia;

- Made by a taxable person;
- Made in the course or furtherance of a business;
- Are not specifically exempted or zero-rated.

The Value Added Tax would be levied at the rate of 15% of the value of:

- Every taxable transaction by a registered person;
- Every import of goods, other than an exempt import; and Import of services

- **Determination of VAT payable in Ethiopia**

Output tax:- is a VAT that is calculated and charged on the sale of goods or services from your business, if you are vat- registered person.

Input tax:- is a VAT that is added to the price when goods or services are purchased that are liable to VAT, if the buyer a VAT- registered person.

VAT payable: if your VAT on sales exceed VAT on purchase in a given period. The difference will positive and payable to government.

VAT refund:- if your VAT on purchase exceed the VAT on sales in a given period, the difference will negative and refunded to you.

Example, During the VAT period, shop X (which is vat registered person purchase goods worth of birr 62,000, including VAT with a 15% VAT rate and sales goods at birr 65,000, excluding VAT with a 15% VAT rate.

Find the VAT payable/refund

Solution: Output VAT: .

65,000Birr*15%= ---------------9,750birr

Input VAT:

Purchase amount, inclusive VAT *(15/115)

62,000*15/115=-------------------8086.96birr

VAT payable---------- 1,663.04birr

Note: If sales or purchase is made excluding VAT, the vat amount will be multiply the sales or purchase price by 15%.

If sales or purchase amount is made inclusive VAT, the vat amount will be multiply sales or purchase amount by (15/115).

➢ Computation of VAT at each stage of transaction

The computation of the VAT liability from the manufacturer to the final consumer is presented as follows.

Manufacturer stage Birr

Purchases of raw materials…………………….… ….Br 2,000

VAT paid on raw material (15% x 2,000)….….…… 300

Sells to the wholesaler the finished goods………. ….……Br4,000

- VAT (4,000 X 15%)……………………………………. 600
  - VAT liability of the manufacturer (600-300)………………….….Br 300

Wholesaler stage

- Sells to the retailer at a price ……………….….5,600
- VAT (5,600 X15%)……………………………………. 840
  - VAT liability of the wholesaler (840-600) …………………….. … 240

Retailer stage

- Sells to the final customer at a price ………..………… 8,400
- VAT (8,400 X 15%)…………………………..…….. 1,260
  - VAT liability of the retailer (1,260 – 840) …………………………..420

Total VAT paid to Tax authority---(300+240+420**)……………………………….** Birr 960

- **Customs Duty**

Unless exempted by law, items imported into Ethiopia are subject to a number of taxes. Government levies five kinds of taxes on import items. These taxes are assigned priority levels and are calculated in a sequential order. These taxes, in their sequential order, are **customs duty, excise tax, VAT, surtax and withholding tax**. Taxes on imported goods are collected by the Ethiopian Revenues and Customs Authority (ERCA). These taxes provide considerable revenue to the government.

➢ Customs Duty and its Rates

The first of the five taxes levied on import items is customs duty. The term **customs duty** denotes taxes imposed on goods entering or leaving the country. ERCA collects customs duty only on import items as no tax on export is levied.

Customs duty has 6 bands or groups of rates which are applied to imported goods. These bands of rates are **0%, 5%, 10% 20%, 30% and 35%.** From these bands of rates one can see that the minimum customs duty rate is 0(zero) while the maximum is 35 percent of the CIF (Cost + Insurance + Freight) value (Duty Paying Value) of an imported item.

- To calculate the customs duty, the CIF is multiplied by tariff rate applicable to each imported item.

ERCA collects customs duty on a great variety of goods which can be classified into two categories. The classification is based on the primary purpose of the imported goods. Those import items used for **productive purpose**, **items to be re-exported and for public use are classified in category one while import items for all other (nonproductive) purpose are classified in category two.**

Self-Check -2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Identify the types of indirect tax in Ethiopia. (4 point)
2. What are the main differences between VAT and TOT? (2point)
3. An importer brought in an automobile with 1300 cc for personal use. Duty paying value of the imported item is birr 60,000. Custom duty rate is 35% and excise tax rate is 30%. The imported item is subject to VAT at the rate of 15%.(4point)

Require:

Calculate A, custom duty tax

B, Excise tax

C, VAT

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-3	The structure of business

3.1 Legal structure of business organization

Your business structure affect how much you pay in taxes, your ability to raise money, the paper work you need to file, and your personal liability.

You will need to choose a business structure before register your a business with the state. Most business will also need to get a tax ID number and file for the appropriate license and permits.

The most common business structures includes:-

- **A sole proprietorship** is a business owned by one person and usually managed by the owner. No special legal requirements must be met to start a sole proprietorship and usually only a limited investment is required to begin operations.
- **A sole proprietorship** is a separate entity for accounting purposes but it is not a separate legal entity from the owners. That is, from the legal point of view, the owner and the business are treated as one and the same. The owner will be held personally responsible for the debts and actions of the business.
- **How will sole proprietorship affect taxes**? Personal income tax must be paid on all business profit. (**Single taxation**)
  - **Partnership** is an association of two or more persons as co-workers of a business for profit.

According to the commercial code of Ethiopia (1960) article No 211; a partnership agreement is identified as follows:

A partnership agreement is contracts where by two or more persons who intend to join together and to cooperate undertake to bring together contributions for the purpose of carrying out activities of an economic nature and of participating in the profits and losses arising out there of, if any.

- **How will partnership affect taxes?**

Personal income tax must be paid by all partners on their individual share of the business profits. **(Single taxation)**

- **A company/ corporation** is a voluntary association of persons, recognized by law, having a distinctive, name, a common seal, formed to carry on business for profit, with capital divisible into transferable shares, limited liability, a corporate body and perpetual succession.
- **How will company/ corporation affect taxes?**

It is taxed twice. First there is tax on the amount of the business profits. Then the owners are also taxed on any dividends they may receive. **(Double taxation).**

Self-Check -3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Differentiate b/n partnership and corporation business structure. (3 point)

Note: **Satisfactory rating -1. 5 points** **Unsatisfactory - below 1.5 points**

Answer Sheet

Score = ___________
Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-4	Assessing indirect tax in Ethiopian

4.1 Assessment of indirect tax

Assessment of the Tax

- If after review by the Tax Authority, it appears that a person has understated his tax obligation, the Authority can issue an additional assessment; If, for any reason, the books of account are unacceptable to the Tax Authority, or if the tax payer fails to submit same when requested by the Authority, or if no books of account and supporting documents are maintained, the Tax Authority would assess the tax on the basis of information available;
- A presumptive turnover tax would be payable by Category " C" taxpayers who are not required to keep records. The base for the presumptive turnover tax would be the total turnover used as base for the income tax;
- The assessment made would be prepared in an assessment notification and be delivered to the taxpayer;
- If the Authority makes an additional assessment and within 30 days of notice the person assessed does not pay the additional assessment or appeal the assessment the person is in default;
- If the Tax Authority fails to assess the tax and notify the taxpayer of the amount still due within five years from the date of declaration and payment of the tax by the taxpayer the tax so paid would be final and conclusive. In case where the taxpayer has not declared his income or has submitted a fraudulent declaration, no time limit provided in any other law shall bar the assessment of the tax by the Tax Authority.

Self-Check -4	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. How the tax authority can assess the indirect tax?

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-5	Sources of ongoing information about indirect tax in Ethiopia

5.1 Sources of tax information

Sources of ongoing information about indirect tax may include:

- Accountants and other financial services professionals

  They can provide information about the accounting works.

- Ethiopian Revenues and Customs Authority (ERCA)

  ERCA which has a mandated authority for revenue collection and tax administration in Ethiopia has formulated a multi-sector change and tax modernization framework. The Authority has adopted strategic directions and has been actively engaged and committed for its implementation. Registration of tax payers (finger prints) and issuance of tax Identification numbers (PIN), broadening the VAT tax base, improvement in tax administration and trade facilitation were some of the measures taken by ERCA.

- Industry associations and professional organisations

  Are akin to revenue ruling in that they show how the ERCA would apply the law to a specific set of facts.

- Federal and Regional governments agencies
- Taxpayers

it is important to understand the federal, state, and local tax requirement. This will help you y file your taxes accurately and make payment on time

Self-Check -5	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are the sources of ongoing information about indirect tax in Ethiopia?(2 point)

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Operation Sheet 1	Calculate and determine Value Added Tax

Method of determination of VAT in Ethiopia:

Step 1- a person or taxpayer must be register for VAT. Either obligatory or voluntary registration

Step 2- calculate input VAT. it involves purchase of goods or services in Ethiopia or imported from outside country with the exception of exempted .

Step 3- calculate Output VAT. it involves sales of goods or rendering of services in Ethiopia or with the exception of exempted supplies

Step 4- calculate VAT payable/ refund.

Step-5- Depends on Step-4 either payable to government or refund to you

.

LAP Test	Practical Demonstration

Name: _____________________________ Date: ________________

Time started: ________________________ Time finished: ________________

Instructions: Given necessary templates, tools and materials you are required to perform the following tasks within --- hour.

Task 1. Shemu detergent manufacturing PLC imported material value of birr3,000,000(including CIF) and purchased materials from local market for birr 1,500,000, ,excluding Vat. All materials are used for production of liquid soap during 2011.

The custom duty rate is 30% of CIF and paid to tax authority.

The excise tax rate is 30% on CIF plus custom duty.

The factory sells150, 000liters of liquid soap at birr 40per liter, excluding vat.

The company paid 80,000 selling and administrative expense, excluding vat and employment income tax of birr 30,000. Imported materials are subject for VAT and business profit tax rate is 30%.

Required:

1. Calculate net profit
2. Calculate indirect tax

Instruction Sheet	LG28. Identify and discuss stamp duty tax

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics: –

- Terms used in stamp duty tax
- Assessing stamp duty tax
- Sources of ongoing information about stamp duty tax in Ethiopia

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to:-

- Understand terms used in stamp duty tax
- Identify chargeable stamp duty
- Understand the sources of ongoing information about stamp duty tax

Learning Instructions:

22. Read the specific objectives of this Learning Guide.
23. Follow the instructions described in number 3 to 20.
24. Read the information written in the "Information Sheets 1 to 3". Try to understand what are being discussed. Ask you teacher for assistance if you have hard time understanding them.
25. Accomplish the "Self-check 1 to 3" in page-77 , 80 and 82.
26. Ask from your teacher the key to correction (key answers) or you can request your teacher to correct your work. (You are to get the key answer only after you finished answering the Self-check 1).
27. If you earned a satisfactory evaluation proceed to "Information Sheet 2". However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #1.
28. Submit your accomplished Self-check. This will form part of your training portfolio.

Information Sheet-1	Key terminology used in stamp duty taxation

1.1. Tterms related to stamp duty tax

Stamp duty is payable on certain (13 items) legal and financial instruments. The charge is made at specific or ad valorem rate. The basis of the duty is the cost, which the instrument contains (bears)

Stamp duty s a tax that is levied on documents historically this included the majority of legal documents such as cherubs, receipts, military emissions marriage

is a tax on executed documents relating to properties or interests in properties and share or interest in shares

is an ad valorem or that rate charged up on certain documents

A devaluate tax:- is a tax based on the assessed value of real estate or personal property in other words

An ad valorem tax can be property tax or even duty on imported items the word ad valorem is Latin for according to value

Award:-means decision in writing rendered by an arbiter rotors on artiness made otherwise than by order of court in the course of suit by parties to compromise, conciliation or arbitral submission or other similar matters.

Bond:- includes any instrument where by a person obligation shall be paid

Collective agreement:- means an agreement relating to the condition of work concluded in writing between one or more employees or agents or represent actives of employees organization

Instrument:- means written document by which any right or obligation purpose to be created reorders transferred extinguished or by which its scope is limited or extended

Contract of employment: - means an argument formed where a person agrees directly or indirectly, to perform work for a definite or indefinite period or piece work interterm for reminder actions

Notaries act:- means an act of attestation and certification performed by persons authorized to perform such acts

Security deeds:- means any instrument where by a borrower or granter gives to a lender a charge up on apart or the whole of these property.

Self-Check -1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. Define stump duty
2. What is collective agreement?

Note: **Satisfactory rating - 3 points** **Unsatisfactory - below 3 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-2	Assessing stamp duty tax

4.2. Chargeable stamp duty instrument

Stamp duty tax is assessed through:

- Memorandum and articles of association of any business organization, cooperative or any other form of association;
- Award;
- Bonds;
- Warehouse bond;
- Contract and agreements and memoranda;
- Security deeds;
- Collective agreement;
- Contract of employment;
- Lease, including sub-lease and transfer of similar rights;
- Natural acts;
- Power of attorney;
- Documents of title to property

➢ Rate and mode of valuation of stamp duty

The rates might be flat or they may be depend on the value of the property.

.The stamp duty on each instrument to be charged levied and collected at the following rates:

No.	Instrument chargeable with stamp duty	base of valuation	rates of stamp duty
1	Memo random & article of association of Any business organization a, Up on first execution b, Up on subsequent execution	 flat flat	 Birr350 Birr100
2	Memorandum & articles of association of cooperatives a, Up on 1st execution b, Up on any subsequent execution	 flat flat	 35 10
3	Award	0n value	a) determinable value 1% b) undeterminable value Birr 35
4	Bonds	on value	1%
5	Warehouse bond	on value	1%
6	Contracts and agreements and memoranda	flat	5
7	Security deeds	on value	1%
8	Collective agreement a) on 1st execution b) on any subsequent execution	 flat	 Birr350

		flat	100
9	Contract of employment	salary	1%
10	Lease including sub-lease and transfer thereof	on value	0.5%
11	Notaries act	flat	Birr5
12	Power of attorney	flat	Birr35
13	Register title to property	on value	2%

Self-Check -2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What type of instruments shall be chargeable with stamp duty?

Note: **Satisfactory rating - 3 points** **Unsatisfactory - below 3 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-3	Sources of ongoing information about stamp duty tax in Ethiopia

3.1 Sources of stamp duty tax information

The source of ongoing information about stamp includes:

- Accountants and other financial services professionals

  They can provide information about the accounting works.

- Ethiopian Revenues and Customs Authority (ERCA)

  ERCA which has a mandated authority for revenue collection and tax administration in Ethiopia has formulated a multi-sector change and tax modernization framework. The Authority has adopted strategic directions and has been actively engaged and committed for its implementation. Registration of tax payers (finger prints) and issuance of tax Identification numbers (PIN), broadening the VAT tax base, improvement in tax administration and trade facilitation were some of the measures taken by ERCA.

- Industry associations and professional organisations

  Are akin to revenue ruling in that they show how the ERCA would apply the law to a specific set of facts.

- Federal and Regional governments agencies
- Taxpayers

it is important to understand the federal, state, and local tax requirement. This will help you file your taxes accurately and make payment on time.

Self-Check -3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are sources of ongoing information about stump duty?

Note: **Satisfactory rating - 5 points** **Unsatisfactory - below 5 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

Instruction Sheet	LG29: Manage tax liability

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics –

- Determining tax liability
- Implication of Under or overpayment of tax

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to: –

- Understand tax liability of taxpayers
- Analyze the implication of under or overpayment of tax

Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described in number 3 to 20.
3. Read the information written in the "Information Sheets 1, 2". Try to understand what are being discussed. Ask you teacher for assistance if you have hard time understanding them.
4. Accomplish the "Self-check 1,2" in page -87 &89.
5. Ask from your teacher the key to correction (key answers) or you can request your teacher to correct your work. (You are to get the key answer only after you finished answering the Self-check 1).
6. If you earned a satisfactory evaluation proceed to "Information Sheet 2". However, if your rating is unsatisfactory, see your teacher for further instructions or go back to Learning Activity #1.
7. Submit your accomplished Self-check. This will form part of your training portfolio.

1.1 How taxpayer can determine their tax liability

A tax liability is the total amount of tax debt owed by an individual, corporation or other entity to taking authority like Inland revenue authority. It is the total amount tax you are responsible for paying to the tax authority.

Tax liability are incurred due to earning, a gain on the sale of an asset or other taxable event. No tax liability means the taxpayer's total tax liability was zero in the prior year, or they did not have to file a tax return.

Tax payers can determine their tax liability by:

assessing income:

- capital gains
- employment
- foreign
- investment
- rental property income

assessing deductions:

- allowable medical expenses and health insurance rebates
- capital losses
- dependent rebates
- gifts and donations
- rental property expenses
- tax offsets
- work related clothing expenses
- work related education expenses
- work related travel expenses
- zone and overseas forces allowances

lodging returns and paying governments:

- land tax where applicable
- payroll tax (rate varies by jurisdiction and depends on size of payroll so many small business operators are exempt)
- stamp duty on:
  - ✓ hire purchase agreements
  - ✓ insurance polices

- ✓ leases and mortgages
- ✓ motor vehicle purchases
- ✓ property transfer

Self-Check -1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What is tax liability? (2point)
2. How the taxpayer can determine their tax liability? (2point)

Note: **Satisfactory rating - 2 points** **Unsatisfactory - below 2 points**

Answer Sheet

Score = ___________
Rating: ____________

Name: _________________________ Date: _______________

Information Sheet-2	Under or overpayment of tax

2.1 Involving of under or overpayment of tax

An overpayment of tax happens when you have paid more tax than you were liable to pay. If you have overpaid tax you will get a tax refund

An under payment of tax is when you have paid less tax than you were liable to pay. If you paid too little tax you will owe Revenue the difference b/n what you actually paid what you should have paid. You may not know that you have paid too little tax, but you are still responsible for paying Revenue if an underpayment of tax occurred.

Penalty for understatement of tax:

- If the amount of tax shown on a declaration understates the amount of tax required to be shown, the taxpayer is liable for a penalty in the amount of 10% of the understatement or 50% if the understatement is considered substantial. The understatement is considered substantial if it exceeds 25% of the tax required to be shown on the return or 20,000 Birr;
- The penalty shall continue to apply until, the Appeal Commission or a Court, as the case may be shall have rendered its final decision.

Claiming interest on early payments that may be possible for certain tax categories such as:

- income tax
- Higher Education Contribution Scheme
- amended assessments of earlier years
- paying interest on overdue amounts

Self-Check -2	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. What are some ways of understate tax liability?(5point)

Note: **Satisfactory rating – 2.5 points** **Unsatisfactory - below 2.5 points**

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

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