

**ST. MARY S UNIVERSITY COLLEGE
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**REVENUE AND TAX SYSTEM IN ETHIOPIA AND THE
ENFORCEMENT PROBLEMS IN ADDIS ABABA CITY ADMINISTRATION;
THE LAW AND PRACTICE**

**BY - RAHEL MENGISTU
ELD -0530/98**

**JULY 2010
ADDIS ABABA
ETHIOPIA**

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**ADDIS ABABA
ETHIOPIA**

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Declaration

I here by declared that this paper is my original work and I take full responsibility for any failure to observe the conventional rules of citation.

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INTRODUCTION

THE CONSTITUTION OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (FDRE) states that the Federal Government and the state all collect tax and shall share revenue taking in federal arrangement in to account

The sharing of revenue between the Central Government and the National. /Regional Government has the following objectives.

Enables the Central Government and the National/ Regional government efficiency to carry out their respective duties and responsibilities.

Assist National / Regional Government to develop their Regional or their own initiatives ,narrow the existing gap in development and economic growth between regions.

Encourage activities that have common interest to regions.

In exercising their taxing powers, state and the federal government shall ensure that any source of revenue taxed and that is if determined following proper considerations.

They shall ensure that the tax does not adversely affect their relationship and that the rate and amount of tax shall be commensurable with service the tax help delivers neither state nor the federal government shall levy and collect tax on each others properly unless it is a profit making enterprise.

The house of federation and the house of people representative shall in joint session determine by two third majority vote on the exercise of power of taxation which have not been specially provide for in the constitution.

THE 1995 FDRE CONSTITUTION ARTICLE 95 UP TO ARTICLE 100

CHAPTER ONE

1.1 MEANING OF REVENUE AND TAX

REVENUE- Gross income or receipt, general revenue, the income stream from which a state or manipulate pays its obligation unless a law calls for payment from a special fund.¹

TAX- Financial charge or other levy imposed on individual or legal entity by government²

Taxation is system of raising money to finance government expenditure .All government requires payment of money taxes from people government use tax revenues. to pay soldiers and police to build dam and roads to operate schools and hospitals to provide food to the poor and medical care to the elders and for hundreds of other purpose with out taxes to founds its active's government would cease to exist.³

Governments may raise or lower taxes to a achieve social and economic objectives or to a achieve political popularity with certain groups. Some economists considered taxation an important tool for the stability of a country economy.

This is because taxation can redistribute a society's wealth by imposing a heavier tax burden on one group in order to fund service for another⁴

1.2 TYPES OF TAX

Income Tax

Income Tax- a tax on individual or entities net income. Income tax proclamation No 1731/1961 Amended has defined income tax it provides that income is any sort of revenue in what ever from it received which has its origin in Ethiopia.⁵

Income tax shall mean every sort of economic benefit including nonrecurring gains in cash or in kind from what ever source derived and in what ever from paid credited or received .⁶

1. Black s law dictionary eight edition.
2. Black s law dictionary eight edition.
3. Gebera worku tax in accounting in Ethiopia context 2006.
4. Gebera worku tax in accounting in Ethiopia context 2006
5. Income tax proclamation no173/1961
6. Income tax proclamation no 286/2002

Turn over Tax

Turnover Tax is a sale tax which is based on the gross receipt of the good and services.

Turnover Tax- is imposed on non exempt goods supplied and non-exempt services rendered by persons not registered for value add tax Two percent turn over tax is imposed on goods sold locally the rate of turn over tax that is imposed on services rendered locally is 2% on contractor grain mills tractor and combine harvester and 10% on others.⁷

Value Added Tax

Value Added Tax – a tax assessed at each step in the production of a commodity based on the value added at each step by the difference between commodity's production cost and its selling and price.⁸

Value added Tax means the value added to those with the annual taxable transaction the total value added to goods and services by enterprises at each stage of the production and distribution processes.

Excise tax

Excise tax –an excise tax is a sales tax on a specific item. An excise tax can be a per unit tax an added value tax .the first is a fixed amount of tax per item where as the second is a percentage of the value of the item.

1.3Origin and development of revenue and tax

In the world

The first account of taxation is from the bible “ but when the crop comes in given fifth of it to pharaoh. The other four –fifths you may keep as seed for the fields and as food for your house holds and your children “⁹ this is Joseph telling the people of the Egypt what to do how to purchase their food during the famine.

This tax was of crops not of money. How ever it is the same idea for as long as governments have existed they have had to come up with ways to financing their activities and tax is one means of financing Modern period.¹⁰

7. Turnover tax proclamation no 308/2002

8. Turn over tax proclamation no 308/2002

9. The bible in genesis chapter 47 verse24

10.Gebra worku Tax in Accounting Ethiopia in Context 2006

Ancient Time

In the ancient civilization of Palestine Egypt Syria and Babylonian individual property right did not exist .The king was the sole owner of every thing in his domain including the bodies of his subjects. Thus instead of the taxing individuals to support the government the king could simply force them to work for him.

Ancient kings earned a come in the form of food from their land and precious from their mines. If this income did not meet the kings demand s he might lead his armies in to neighbouring countries to confiscate their property.

The conquered peoples might also be required to make payment (known as tribute) to the conquerors in acknowledgement of their sub mission to his power. If the kings were not very wealthy or not very good at stealing from other countries.

They would resort to taxing their own people in societies that operated with out money .The ruler taxed farmers by requiring them to the state poll taxes a major source of revenue in this time.¹¹

Medieval time

During the middle ages from about the 5th Centuries A.D to the 15th centuries taxation varied from region to region. People were subject to many forms of taxation including land, taxes, and poll taxes in heritage taxes. .tolls (payment s for the use of bridge or sea port) and miscellaneous fees and fines.

Many people paid taxes l n the form of money or crops directly to the local lords whose land they formed. Under the system of feudalism kings nobles and church rulers all collect taxes kings derived income from there land from import and export duties and from the various feudal dues and services owned by there vassals for the most part church officials and nobles where granted exemption from royal taxes so the burden of taxation fell heavily on the peasantry.

Church was major tax collector during the Middle Ages one of the most important sources of church revenue was the tithe a compulsorily payment one tenth of a person harvest and live stock. The church also collected various feeds, finesse and tolls and required clerk members such as

An important development to word the end of the feudal period was the democratic growth in the number of the and population of towns and cites. The urban centres revenue using taxes on property as well as sales taxes on certain items.¹²

11. Gebra worku Tax in Accounting Ethiopia in Context 2006

12. Gebra worku Tax in Accounting Ethiopia in Context 2006

16 century to modern period

Over a period of time feudalism faded and strong centralized states emerged in Europe

During the 16th and 17th centuries. These states relied heavily on revenues generated by the king's own estate and by taxes on land.

In England the power of parliament grew steadily because the kings and queens had to convene it frequently to obtain money. In 1689 the English bill of rights guaranteed that the king could not levy tax without its consent.

By the 18th century England started imposing various taxes on transactions. Taxes on imported goods (tariffs) assumed great importance as did tax on wide varieties of commodities including sugar, meat, chocolate, alcohol, coffee, candles, and soap. As time passed people became dissatisfied with the system of public finance for several reasons.

In the late 19th and early 20th century's concerns about both fairness and ability of tax system to generate sufficient revenue led government to enact income tax.

In 1799 Britain enacted the first national income tax.

The first progressive income tax which imposed a greater tax burden on people with higher income was introduced in Prussia in 1853. Other countries introduced progressive income taxation in subsequent decades.

Including Britain in 1907 the United States in 1913 France in 1917 and Ethiopia in 1944. Although income tax generated little revenue at first today they play a major role in all modern tax systems.¹³

The origin and Development of Taxation In Ethiopia

History tells us Ethiopia's tax system dates back to ancient times. For example, in the Axumite kingdom there was a practice of traditional taxation. The traditional taxation provided for taxes on crops, restock, and livestock products such as wool, butter, and milk. The tax on wool was particularly levied on mountain areas of the country.

Hunting taxes were imposed especially on elephant hunters in the form of every tax. Handcraftsmen were subjected to a sort of production tax. Thus, one can infer from the above points that taxation in traditional Ethiopia had been excessively burdensome and arbitrary.

13. Gebra worku Tax in Accounting in Ethiopia Context 2006

It is stated that there was taxation of ancient times that the first tax system introduced. The tax system was set on those people engaged in live stock production. The first important reform carried out by improvement towards the end of the 10th century resulted in the establishment of a fixed tithe rather than the undefined and essentially arbitrary system of agriculture taxes.¹⁴

Discussing all taxes in the Ethiopia history is not the scope of this book. The Tax System is categorized into four periods during Haile Selassie regime, the Derg regime, the transitional government of Ethiopia and the federal Democratic Republic of Ethiopia (Current).¹⁵

Taxes during the Haile Selassie Regime

(1942-1974)

The most important features of the traditional taxation system continued during the relatively modern administration of Emperor Haile Selassie.

The elements of the tax system on this era comprise personal income tax, business income tax, road tax, salt tax, tobacco regime tax, the tithe, Alcohol tax, cattle tax, stamp duties and custom duties.¹⁶

Taxes during the Derg Regime (1975-1991).

The political upheavals of 1975 brought about the abolition of feudal land tenure system and the rock of land taxes and the tithe.

The health and education taxes were also cancelled and the remaining types of taxes were extensively amended and restructured by the Derg and used until the transitional Government of Ethiopia gets a new taxation structure. During this period, there was an increase in the concrete of tax bases and tax rates owing to the need to raise more revenue to support the government.¹⁷

14. King Zaryacob's Chronicle

15. Gebra worku Tax in Accounting in Ethiopia context_2006

16. Gebra worku Tax in Accounting in Ethiopia context_2006

17. Gebra worku Tax in Accounting in Ethiopia context_2006

Tax during the transitional Government of Ethiopia (1991-1995)

To implement the right of Nations, Nationalities and Peoples to administer their affairs ,the transitional government of Ethiopia issued proclamation No 7/1992 provides of Establishment of regional governments .Accordingly ,regional governments have legislative ,executive and judicial power in respect of all matters with in their geographical areas except such matter as defence, foreign affairs, and economic policy cantering of citizenship declaration of state of emergency and printing of currency.

They also have power and duties to borrow money from domestic sources and to levy duty and taxes.

There fore, taxes during this period where designed in the light of fiscal federalism in order to simulate economic growth over come vertical and horizontal fiscal imbalance economic in efficiencies in equity and all distortions in the economy in line with the market based economic orientation.¹⁸

Taxes under the current federal Democratic Republic of Ethiopia

According to the new constitution of Ethiopia adopted states and member states shall have their respective legislative, executive and judicial power.¹⁹

Federal and Regional Governments all collect taxes .The sharing of revenue between the central Government and the national /Regional government was set with proclamation NO 33/1999

18. The FDRE Constitution

19. The FDRE Constitution

1.4 Source of Public Revenue

Public revenue in its general understanding implies the income raised by the government through taxes from the public. In modern days, however taxes are not the only source of Revenue.

In addition to taxes, there are also various other sources of Revenue like fees, prices, fines or penalties, gifts and profit earned from government enterprises. The basic difference between these sources lies on their natural method of raising and their respective effects on the person from whom they are collected. Taking in to account these factors source of public revenue may be classified as tax source and non- tax sources.

Taxes

In every country the largest part of public revenue is raised through taxation as taxes are the most common methods of financing government activities. Tax may be imposed on person income or wealth They may be direct or indirect and they may be of different rates and nature.

“A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as a penalty for any legal offence”. And

Again to emphasize the compulsory element tax “A tax by definition is a payment in return for which no direct and specific guide is rendered to the payer”²⁰

Non- tax source of public revenue

1. **Fees** – the other important source of public revenue next to tax are that fee charged for rendering certain services. Some times government provides certain special service to the public of the country and in payment for these services it charge fees.
2. **Price**- the third important source of public revenue next to taxes and fees is price .The government sells some services and goods and receives price in payment for them. .In this way government acts like a businesses man and the public like its customers .Among the businesses of the government for which its receives prices services are city buses and trains, transports electricity, and water supply post and telegraphs etc.

3. Fines and penalties

Fines and penalties are the payments made for contravention of law. The distinction between tax and penalties is one of motive, a public authority impose taxes mainly to deter people from doing certain acts.

4. **Gifts**-a small portion of the revenue of the government is also deriving from the gift made by Individual .Private organization and foreign governments

5. Borrowing

- Another source of public revenue in sense to a provisional or temporary source is the borrowing of the money
- Just as individual or firms may borrow in anticipation of other revenue. so also government borrow funds it is already presumed that money borrowed will eventually be repaid from other sources of revenue although in practice this may not be the only case

6 Printing of paper money

Government may also resort to the printing of paper money as a means of paying their bills. How ever, the printing of paper money by government is not advisable because once this method of financing is started, it becomes difficulties to stop and it leads to inclination which may eventually bring a collapse of the government. It provides adverse psychological reaction in the form of loss of confidence in the stability of government.²¹

1.5 Principle of taxation

Taxation of people must be levied with great care and rationality .In order to practice this rationality and care the taxing agency must follow certain code of conduct in the form of principle of taxation while determining the type and amount of tax.²²

The various principles which have been developed since Adam smith s days in order to guide the state in levying the taxes are called the principle of taxation or cannon of taxation.²³

21. Lecture Note

22. Public Financing Twenty- third revised edition HL Bhatia

23. Public Financing Twenty- third revised edition HL Bhatia

1. canon of equality of benefit

"The subject of every state should contribute to the government as nearly as possible in proportion to their respective abilities." ²⁴

Because of this some say he is advocate of progressive taxation, while others say he favours proportional taxation.

Those who say he is advocate of progressive taxation support their argument saying that in his book called the wealth of nation smith has written ' it is very reasonable that the rich should contribute to the public expense not only in proportion to their revenue but something more than that proportion . 'it is argued that these words clearly indicate that Adam smith was a strong supporter of the system of progressive taxation .

2. Canon of certainty

Implies that the tax payers should be informed as to the time method amount of the payment of tax.

According to this canon, tax should be imposed arbitrarily manner when tax legislation is written in a manner to be understood by an ordinary man easily.

3. Canon of convenience

This canon is related with canon of certainty time and manner of payment should be convenient to the tax payer For example, the government of Ethiopia collects income tax from the salaries of tax-payers only when they receive salaries from their employers.

According to Adam smith every tax ought to be levied at a time or in the manner in which it is most likely to be coherent for the control or to pay it.

4 .Canon of economy

This canon implies that the cost of tax collection should be minimum (very much less) the tax should be such as to bring the maximum part of the collected revenue into the government treasury.

-in other words the difference between what the tax payers government and what the government relieves after meeting all expense of tax collecting should be minimum.

24 .Adam Smith

-in order to do the tax system economical that the contract between tax payers and government should be minimize as much as possible .the most painful the tax system becomes the least government

1.6 Classification of tax

Taxes are generally classified as direct tax and indirect taxes. Different economist have defined indirect and direct taxes differently

Direct Tax

Direct tax is the demanded from the very person who it is intended or desire should pay it.

Direct taxes are those which are paid entirely to those people on whom they are imposed on.

Direct taxes are those taxes which can not be shifted to others.²⁵

The current Ethiopian tax system is composed of direct and indirect taxes. The direct tax include of income tax employment income tax business income tax rental income tax captain gain tax on other income from divides.

The direct income in accordance with four schedule as follows:²⁶

Schedule A income from employment

Schedule B income from rental of buildings

Schedule C income from business

Schedule D other income

Schedule 'A' income /employment income tax

Every person deriving monthly income from employment is liable to pay tax on that income at the rate specified in schedule 'A'

Employment

Employment income /per month	to birr	income tax payable
Over birr		
0	150	exempt threshold
151	650	10
651	1400	15
1401	2350	20
2351	3550	25
3551	5000	30
Over 5000	above	35

25. Dalton

26. Income tax proclamation no 286/2002

- more than one month for the same employer in any one year period
- That Pension contribution provident fund and all forms of retirement benefit contribution not exceed 15% of the salary of the employment.²⁷

Schedule 'B' income/income from rental of buildings

Rental income tax is a tax imposed on the income from rental of buildings. The tax payable on rented house shall be charged levied and collected at the following.

- a. on income of bodies 30% of tax payable
- b. on income of persons according to the schedule B.²⁸

Taxable income from rental /per year		income tax payable exempt threshold
Over birr	to birr	
0	1800	
1801	7801	10
7801	16800	15
16801	28 200	20
28201	42600	25
42601	60000	30
Over 60000		35

Schedule "C "income business tax

This is the tax imposed on the taxable business income "net profit "realized from enter preventable activities. Taxable businesses income would be determined per tax period on the base of the profit and loss account or income statement which shall be drawn in compliance with the generally accepted cooperate business /bodies/ are required to pay 30% flat rate of the business income tax.

For incorporated or individual business the business income tax range from 10%-35% unincorporated or individual business tax a taxed .in accordance with the following schedule bellow.

Taxable business income of bodies is taxable of the rate of 30%.²⁹

27. Income Tax Proclamation no 286/2002 Article 10 and 11

28. Income Tax Proclamation no 286/2002 Article 15 and 16

29. Income Tax Proclamation no 286/2002 Article 17and 19

Schedule 'C' income/business income tax

Taxable business income		income tax payable
Per year		
Over birr	to birr	exempted threshold
0	1800	10
1801	7800	15
7801	16800	20
16801	28200	25
42601	42600	30
Above 60000	6000	35

Schedule "D" income /other income

In addition to employment income tax from regular business activities and rental income tax authority level other income tax on the following type of income

A. Royalties

The term royalty means a payment of any kind received as a consideration for the use of or the right to receive as consideration for the use of the right to use any copyright of literary , artistic or scientific work including cinematography films and films or taps for radio or television broad casting any patent trade mark design or model plan secret formula or process or for the use or the right to use any individual commercial or scientific experience

B. Income paid for technical service

The term technical service means any kind of expert advice or technological services rendered. All payment made in consideration of any kind of technical services rendered out side Ethiopia to resident person any form shall be liable at a flat rate of ten percent (10%) This shall be with held and paid to the tax authority by the payer.

C. Tax on Income from Games

Every person deriving income from wining at game of chance for example lotteries and other similar actives shall be subject to tax at rate of fifth percent (15%) except for wining of less than 100 Birr.

D. Tax on Dividend

Every person Deriving income from dividend is from a company or with drawls of profit from a private limited company shall be subject to tax at the rate of ten percent (10%).

E. Tax on Income obtained from rental property

Every person during income from the casual rental of property (including any land building or movable asset not related to a business activates taxable under Schedule C shall pay tax on the annual gross income at the rate of fifteen percent (15%) this tax is a final tax in lieu of a net Income tax.

F. Tax on Interest Income of Deposits

Every person during Income from interest on deposit shall pay tax at the rate of five percent (5%).

G. Capital Grains tax c on gain at transfer of certain Investment property

Income tax shall be payable on gains obtained from the transfer (sale of gift) of property describe in this Article at the following rates.

- a. Building held for business factory office 15%
- b. Shares of companies 30% (thirty percent)³⁰

30. Income tax proclamation No 286/2002 Article 31 up to Article 37

1.6.2 Indirect Tax

Indirect tax-are those which are demanded from one person the exception and intention that has shall intimate himself at the expense of another. Indirect tax is a tax in which the hearten May not necessary be swallowed by assess which means Indirect tax can be shifted on to other persons. Generally the tax in cadence of indirect tax is on ultimate consumer how ever sometimes sneer might absorb such in direct tax to be completive in the market.

In the current Ethiopian tax system the indirect taxes are composed of excess tax, turn over tax, Value attend tax (VAT) stamp duty and custom duties.

1.7 Categories of Tax payers

1 Categories of tax payers are divided in to three these are:-

Categories 'A'

Categories 'B'

Categories 'C' Tax payers.

Categories 'A'

Category "A" which shall include the following person and bodies;

Any company incorporated under the law of Ethiopia or in a foreign country.

Any other businesses having an annual turn over of Birr 500.00 (five hundred thousand Birr)

The tax payer pa the tax ADDIS ABABA revenue authority ³¹

Categories 'B'

Categories 'B' unless already classified in categories A any business having an annual turn over of over birr 100.000 (one hander thousand Birr) this categories tax payer pay the tax in sub city level. ³²

31. Income tax regulation 78/2002 Article 3

32. Income tax regulation 78/2002 Article 5

Categories 'C'

Categories 'C' unless already classified in categories "A" and "B" whose annual turn over is estimated by the tax authority as being up to Birr 100.000 (one hundred thousand Birr) this categories tax payers pay tax in Keble label from July 1 up to 30 July Ethiopian calendar.³³

1.8 The main obligation of tax payers

1 Declaration of tax

2 Payment of tax

3 Maintains of Accounts and Records

1 Declaration of tax

The current income tax law of Ethiopia has stated the following legal provision with regard to income declaration by tax payers.

- Category "A" tax payers with in 4months from the end of the tax payers' tax year.
- Category "B" tax payers with in 2 months from the end of the payer tax years.
- Category "C" tax payers who has schedule "B" or "C" income shall declare his annual turn over to the tax authority with in one month from the end of the Ethiopia fiscal year.
- Every tax payer who has schedule "D" income (Income from other source) not subject to with holding at a source constituting a final tax shall prepare a declaration of that income in a form prescribed by the tax authority with in tow months from the end of the Ethiopia fiscal year.³⁴

2. Payments of Tax

Category "A" tax payer yearly profit and loss declaration of income to pay July 1 up to October 30

Category "B" tax pay profit and the declaration of on come to pay from July 1 up to September 5 or 6.

33. Income tax regulation 78/2002 Article 8

34. Income tax regulation 78/2002 Article

Category “C” tax payer from July 1 up to July 30 to pay tax

Schedule “D” income within two months from the end of the Ethiopian tax³⁵

3. Maintains of accounts records

All tax payers who are engaged in a business or trade except for category C tax payer shall keep the books and records.

1.9 Penalty

1.9.1 Administrative penalty

1. Penalty for late filling (Declaration) or non filling (non- Declaration) of Income Tax

The current income tax law of Ethiopia has stated the following legal provision with regarded to income to income declaration by tax payers.³⁶

A tax payer who fails to file a timely tax declaration is liable to pay the following penalty.

- ❖ Birr 100 for the first 30 days (or part there of) of non- declaration
- ❖ Birr 2,000 for the next 30 days (or part there of) non- declaration
- ❖ Birr 1500 for each 30 days (or part there of) there after until is field.

2. Penalty for late payment of income tax

A tax payer who focus to pay income tax liability with in the date stated above is liable to pay the following penalty

- i. A penalty of 5% of the amount of un paid tax on the first date after the due date has passed
- ii. An additional 2% of the amount of the tax that remains un paid on the first day of each month there after.³⁷

35. Income tax regulation 78/2002 Article 8

36 .Income tax regulation 78/2002 Article 8

37. Income tax regulation 78/2002 Article 8

3. Penalty for under statement of Income tax

- ❖ The under statement of the income tax result in the following penalty The tax payer is liable for a penalty in the amount of 10% the under statement if the under stand amount of tax is considered not substantial or
- ❖ The tax payer is liable for penalty in the amount of 50% of the under statement if the under seat amount of tax is considered substantial.³⁸
- ❖ Substantial under stamen of tax occurs if the amount of understatement exceeds the smaller of the fooling two amounts.
 - A, 25%of the tax required to be shown on the return
 - B, Birr 20,000 ³⁹

4. Penalty for failure to keep proper Records

A category "A" or category "B" tax payer to maintain proper books of account record and other document regarding a certain tax payer result in a penalty of 20% of the tax assessed (determined) by the tax authority.

It the tax payer will be suspended one more year's failure lets the tax authority to revoke the tax payer license (which is non finical penalty)⁴⁰

5. Penalty for failure to meet T/N Requirement

Tax payers failing to meet the requirement for T/N are subjects to the following penalty.

- i. A with holding agent who makes a payment to a person who has not supplied a T/N is required to with hold thirty percent (30%) of the amount of the payment.

38 .Income tax proclamation No 286/2002 Article

39. Income tax proclamation No 286/2002 Article

40. Income tax proclamation No 286/2002 Article

- ii. In addition to the 30% withholding tax the tax payer who has not supplied the T/N to the withholding agent is liable to pay a fine of Birr 5,000 or the amount of payment which ever is less to the tax authority⁴¹

Penalty for late filing and under payment of value added tax and excise tax

The prevailing indirect tax law of Ethiopia has stated the following legal provisions regarding the declaration and payment of indirect taxes by tax payers.

- Every registered person is required to file a VAT return (VAT declaration) with the tax authority for each the end of tax payer period (month) whether or not VAT is payable in respect of that period.

The VAT return for every tax payer period shall be filed not later than the last day of each calendar month following the VAT pay period the registered person is also required to pay the VAT for tax payer period by the deadline for filing the VAT return.

Tax payers subject to TOT shall file a TOT return with the tax authority within one month after the end of every turnover tax payer period. They are also required to pay the turn over tax for every period by the deadline for filing the turn over tax return.

- Every producer subject to excise tax shall submit every 30 days to the tax authority a declaration containing such information as may be necessary for proper collection of tax not later than 30 days from the date of production.

A tax payer whether VAT or excise tax payer who fails to file a timely return/ declaration is liable to pay the following penalty

- ❖ Penalty equal to 5% of such amount under payment of tax for each month (or portion thereof) during which the failure continues up to 25% of such amount under payment of tax is different between the tax required to be shown on the return and the amount of tax paid by the due date.

41. Income tax proclamation No 286/2002 Article

The penalty of 5% is limited to Birr 50 for the first month (or portion there of) in which no return is filed.

❖ In any event the penalty may not be less than smaller of the two amounts.

- Birr 10,000

- 100% of the amount of tax required to be shown on their turn.⁴²

1.9.2 Interest

Any tax shall be payable to the tax authority by a tax payer with in the due date and failure to make timely payment shall result in the Imposition of interest on the tax payers.

If any amount of tax is not paid by the due date the tax payer is obligate to pay interest on such amount for the period from the tax is due to the date it is paid.

The interest rate 25% (twenty five percent) over and above the highest commercial Len tine interest rate that prevailed during the preceding quarter.⁴³

42. Value added tax 285/2002 ,Turnover tax 308/2002and Excise tax 307/2002 proclamations

43. Income tax proclamation No 286/2002 Article and Turnover Tax proclamation no 307/2002

1.10 Review and Appeal

1.10.1 Review

Review and appeal system is incorporated in the income tax proclamation. This respect there are two institution which under take these. Those are the review committee and tax appeal commission.

The review commit are appointed by the minister of revenue or the competence authority of the regional government as appropriate up on the recomentenation of the head of the tax authority.

The review commit charged with the responsibility of carrying out specific duties. In particular the commit examine and make decision on all tax payer applications seeking a compromised of the assessed tax as well as any penalty and interest to properly under take its duty the commit is empowered to submit by tax payers.

The commit has the power to summon persons to appear for captioning about any case under investigation in particular commit can summon any person who directly or indirectly was involve assessment the commit import to review determination made by the authority for accuracy competence and compliance with the proclamation finals the review commit would make a recommendation with respect to the disposition of a tax payer application.

The review committee in addition to its power and duties mentioned early is empowered to well administrative penalty imposed under the income tax proclamation such waiver is to remade in accordance with direct use issued by the minister of revenue the other option available to the tax payer is the right of appeal. ⁴⁴

44. St. Mary's University Collage Public Finance Teaching Module.

1.10.2 Appeal

Appeal-“ any tax payer who objects to an assessment may appeal to the Tax Appeal commission”

No appeal shall be accepted by the appeal commission unless.

- a. a deposit of thirty-five percent (50%) of the disputed amount is made to the Tax Authority
- b. The appeal is lodged with the Appeal Commission with in thirty (30) days following the day of receipt of the Assessment Notice or from the date of decision of the review committee.

The tax appeal commission by a person who objects to are assessment made by the authorities the appeal must be lodged with the tax appeal commission with in 30 days from the receipt of the assessment notification or from the date of review committee give decision to lodge the appeal the party objecting the additional assessments must make a cash deposit with the authority of an amount equal to 50% of the additional tax assessed.⁴⁵

45. Income tax Proclamation 286/2002

Chapter two

2.1 Problem pertaining to seizure of property

2.1.1 In Addis Ababa City level or category "A" Tax Authority has the power to seizure the property in order to collect tax according to the proclamations. "Any person liable to pay any tax Imposed on the above Proclamations shall be lawful for the authority to collect such tax and such further amount as shall be sufficient to cover the expense of the seizure by seizure any property belonging to such person".

The tax Authority is given the power to seizure of property in order to collect tax but in practice is not performing the job as in tainted to because the main reason is that Addis Ababa City Revenue Authority has no directives implementation for the proclamation.²

2.1.2 In sub city level or category "B" tax authority to seizure of property to collect tax the same as Proclamations in category "A" Tax Authority. Because of the main reason that Addis Ababa City Revenue Authority has no directives implementation for the proclamation.³

2.1.3 In Keble level or category "C" tax Authority to seizure of property to collect tax the same reason as in category "A" and category "B" the tax Authority.⁴

2.2 problems Associated with the tax Authority.

In the regard we can raise different types of problems the most serious problems are discussed under here.

2.2.1 Lack of Awareness

Most of revenue department heads, team leaders, and auditors do not know tax policy principles of taxation and tax laws properly.

The tax authority as one of the executive bodies to perform its duty as provided by the law should properly understand the tax policy of the country. Principle of taxation and the governing tax laws.

1, 2 ,3 & 4 Income tax no286/2002, Excises tax 307/2002 ,Value added tax 285/2002

&Turnover tax 308/2002 Proclamations.

The Income Tax proclamation and Regulation are concerned There is lack of awareness by the employees of the tax Authority. As a result, they do not implement and in force the law according to the intention of the legislative organ For example, most of the tax authorities Employees do not know the code of conduct which is stated under the f proclamation consequently they do not perform their duties in accordance with such code of conduct. ⁵

2.2.1 Implementation and enforcement problems

The tax Authority is an executive bodies and the power which the law gives it is too obvious to do its duty in accordance with the enacted law. However when we come to the real practice the tax Authority some times discharges its duties contrary to law and some time ignores it.

The first important articles which penalize the tax payers who failed to maintain book of account and records. ⁶

The intention of the legislative body when Enacting this profusion where

- A. To force category "A" and "B" tax payers to maintain the books of account and record as provide by the law for each tax year.
- B. To empower tax authority to the interpret business activates of tax payers who failed to maintain books of accounts and records for more than one year giver notification for the licensing to do so.

Nevertheless Tax Authority is not exercising this power as given by the law failure to enforce this provision encourages the tax payers not to maintain books of account and records.

The tax Authority to assess the stability of such tax payers by the way of estimation.

5. Income tax proclamation no 286/2002 Article 40

6. Income tax proclamation no 286/2002 Article 89 (2)

Category "C" tax payers assessment by estimation is also either over estimate of under estimation which decreases, or increase, the liability of tax payers.

The second problem in applying the law is the causations of credit and refund which stated under THE proclamations. In this Respect the tax authority refuse to refund over paid tax to the concerned party with in 90 days is provided by the law.⁷

The ignorance of the law by the tax Authority deprives the right of the tax payers which is clearly stated by the law.

From the above it is easy to understand that the tax Authority is ignoring the law while it is discharges its duty. Under normal circumstance the Tax. Authority is expected to discharges is duty in accordance with the tax laws.

How ever the above samples show the Addis Ababa city. Administration Tax Authority is not implements the income tax law as it is expected.

Unless the tax authority starts to perform its duty in line with the law immediately, the tax administration of the city will face serous problems in collecting the income tax and this may affect the economic status and market polices of the government.

The third problem with category "c" tax payer.⁸

According to these provisions the standard Assessment shall be affixed amount of tax determination in accordance with a Council or ministers regulations establishing a schedule of standard assessment amounts that reflect variations.

In the type of business, business size and business location, the tax payer shall pay the tax determined in according with standard assessment on the 7th Day of July to the 6th day of august every year Make instalment payments in accordance with Council of Ministers regulation.

How ever, the Tax authority is not implementing the income Tax Law as it's expected.

7. Income tax proclamation no 286/2002 Article76

8. Income tax proclamation no 286/2002 Article68 (2) & council of minister regulation 78/2002 Article 21(1&2)

2.2.2 LACK OF TRANSPARENCY AND ACCOUNTABILITY

Transparency and accountability are the key elements, of the service delivery. As a result the Tax Authority must strictly make its service transparent and accountable so as to help to correct the employees who commit mistakes in the Assessment of tax and so on.

How ever, practically the assortment of the tax liability in the Tax authority doesn't fulfil the requirement of transparency and accountability .⁹

2.2.3 Lack of effective control mechanisms

Before the tax Authority is engaged in its duty it is important to establish effective internal and external control mechanism in order to achieve its goals. But in case of Addis Ababa city administration Tax Authority, there is problem regarding this issue.

Even though the Tax Authority is expected and obliged to apply guidelines, rules and other control methods for their employees in doing their day to day duties but there is no effective internal control mechanism. Especially tax Auditors tax assessment to control tax authority employees the auditor discretion to use extremely subjective measurements in the process of assessing the income tax liability on the basis of the tax payer's books of account.

The attorney misleads the tax authority by proposing false and misleading statement in their case appeal decision.

The tax assessment mislead the tax authority to perform decrease of assignment on tax payers, to lack of control mechanism which leads the employees of the tax authority to be corrupted and prejudice the tax payers in the assessment process create unhealthy relationship between the tax authority and the tax payers .

2.2.4 Lack of Adequate Skilled Man Power

As we have discussed earlier, the revenue in the form of tax collected by the tax authority of the city administration is the back bone of the city government.

To achieve this main purpose the government of the city should strengthen the capacity of the Tax Authority in terms of skilled man power. In different professions such as economics sociology. Information technology and accounting law and so on with a tangible theoretical and practical knowledge. However in reality most of the tax authority employees are not well trained and they are not available in sufficient number. The cause of these problems are different One of the causes is that the salary of the employees is not attractive and does not consider the market values of such professionals. The other one is that lack of adequate and consecutive training to the employees moreover the tax authorities never intend to promote and motivate its employees.¹⁰

Consequently a few numbers of skilled employees of the Tax Authority are forced to migrate for a better salary and working environment as compared to the Tax Authority the tax authority Due to these of such reasons the tax authority will be obliged to employ temporary civil servants who are not skilled experienced in the field.

The lack of skilled, full time employees disables the Tax Authority to enforce and implement the law as provided. In addition to this such disability creates lack of efficiency positive to words the tax authority and the tax payers which may reduce the income of the government.

2.2.5 Waving of the tax liability

The tax authority repeatedly waives the Tax liability of the tax payers with out considering its negative effects and impact for in stance Addis Ababa City Administration government make a decision to wave the tax liability for those who are liable of tax lower than 10.000 birr totally in April 2005 in may 2005 for those who were liable of tax above 10.000 Birr in the same year only July 4 .The city government made a decision to waive a tax liabilities imposed on tax payers up to 1996 According Ethiopian colander tax year.

10. ADDIS ABABA CITY REVENUE Authority Training Manual

Such decision creates a problem in implementing the law leading disparity of treatment between the tax payers. This discourages the tax payers. ¹¹

2.3 Problem Associated with tax payers

With regard to the problem associated with tax payer concerned I will try do mention some important problem as follows.

2.3.1 Lack of awareness

We identified lack of awareness related in tax and for what purpose tax is collected by the government as a major problem of tax payers.

Firstly, in the case of awareness in tax law most of our city tax payers never know their right and duets specifies under the tax law. In this respect even if the tax authority some times tries to create curtness through its law years and by the relevant bodies by preparing work shop. Seminar symposium and conference to the tax payers in different time they are not willing to participate in such programs to developed their know ledge in tax law.

Secondly, in case of lack of awareness related to the purpose of tax collected by the city government most of our city tax payers do not have adequate understanding regarding the city government activates and for what verbose tax is collided from the tax payers.

However the tax payer must know clearly that the city government collects the tax in order to support the social. Economic and political needs for its society.¹²

2.3.2Cheating

In this regard the tax payers have different reason or basis to cheat tax authority

The first one is to cheat the tax liability to do so the category "A" and category "B" tax payers prepare their books of account and records for the tax purpose in a day or a well and rather than maintains it from the begging to in to of the tax year. More over some tax payers main two types book of account and records i.e. one for purpose of tax and the other is to know the transaction of business activates for their own purpose.¹³

Category "C" tax payers decrease their income at the time of assessment of the estimation.

2.3.3Lack of Education

Education is the basic instrument to achieve the goals intended. However most of the over city tax payers are illiterate. This hinders them from their obligation of paying tax which they ought to pay and it even makes theme unable to request their right specified under the law to be implemented by the tax authority. ¹⁴

Chapter Three

3. Conclusion and recommendations

3.1 conclusions

The writer has thus far to mention some basic problems in relation to the issue at hand as the mentioned problems are also of the, serious. The tax authority can not be expected to discharge its duty as provides under the law in accordance with the tax policy principle of taxation social and development policy and other unless the problems are solved.

The city government tries to reform tax administration in different aspects to improve its service. This is commendable and important. But unless the problem cited in the previous chapter are can not solved by the tax authority it is too difficult to achieve the goals of the tax reform.

The problems are critical and serious which may create economic, social and political crises. So as soon as possible, it is essential for the Tax Authority to solve and avoid or alleviate such problems which hinder it to perform its duties in accordance with law.

Recommendation

In this part the writer mentions some possible recommendations to solve the basic problems stated under the preceding Chapters.

1, the tax authorities have a power given to it under the tax Proclamation to collect tax liable tax payer's by seizure the property in order to collect, the tax .

2, The tax authority in order to have skilled man power, must pay better and attractive salary comparable to other civil servants and it must also train its employee uninterruptedly to build their capacity moreover, that authority should create awareness for its employees about tax policy, principle of taxation, customer service delivery and other relevant values.

3. The Tax Authority should use the power as given by the law to control the tax payer's to maintain books of account and records.

4. The tax authority should refund over paid tax by implementing the income tax law.

5. The tax authority should strictly follow the employee.

6. In waving the tax liability it is advised to discuss it with the employees in advance ,it must consider the outcome of waving of liability and the waving system must be constant and equally treat all tax payers.

7. The tax authority should create awareness to the tax payers through its lawyers and by the relevant bodies preparing work shop seminar and conference.

8. The tax authority should follow cheating tax payers.

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