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Introduction to the Module

Dear learner, the Ethiopian TVET system is now focused on the labor market demands and industry relevance. This translates that the main objectives of the TVET system is to qualify its graduates according to the occupational requirements of the industry. In this learning guide there are three learning outcome which are broke down in to five information sheets. These are listed as follows **Identify and apply the role of taxation****Identify and apply direct tax, Identify and apply indirect tax, Identify and apply stamp duty tax and Manage tax liability..** In this learning guide, some learning activities and self-check exercises are included to make your study clear, attractive and precise. These are very important in deepening and enhancing your understanding of the learning out comes in the module. If you skip doing those activities and exercises, your level of understanding will be limited and insufficient. As a result, you are strongly dedicated and encouraged to do it on time accordingly. Upon the completion of the module you will be able to perform the objectives listed on instruction sheet.

Learning Outcomes:

At the end of the module the trainees will be able to:

- Identify and apply the role of taxation
- Identify and apply direct tax
- Identify and apply indirect tax
- Identify and apply stamp duty tax
- Manage tax liability

This unit describes the performance the knowledge, skills and attitude required to understand the role and use of taxation in the Ethiopian economy.

LG #10	LO #1- Identify and apply the role of taxation
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Instruction sheet
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> • Concept & purpose of taxation • Principles of taxation • Types of tax • Uses of tax revenue in Ethiopia • Sources of ongoing tax information • Role of Ethiopian Revenues and Customs Authority (ERCA) <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> • Understand Concept & purpose of taxation • Understand Principles of taxation • Identify Types of tax • Understand Uses of tax revenue in Ethiopia • Explain Sources of ongoing tax information • Understand Role of Ethiopian Revenues and Customs Authority (ERCA)
Learning Instructions:
<ol style="list-style-type: none"> 1. Read the specific objectives of this Learning Guide. 2. Follow the instructions described below. 3. Read the information written in the information Sheets 4. Accomplish the Self-checks 5. Perform Operation Sheets 6. Do the “LAP test”

Information Sheet 1

1.1. Concept & purpose of taxation

1.1.1. Definition of tax and Taxation

- **Tax**

There is no a standardized definition of tax. Different individuals have defined tax is different ways. Some of the definitions include:

- ✓ Tax is that part of the revenues of a state which is obtained by compulsory dues and charges upon its subjects.
- ✓ Tax is part of the property of each citizen which he surrenders in order to insure the remainder.
- ✓ Tax is a compulsory contribution of the wealth of a person or body of persons for the service of the public power.

Generally, it can be said that tax is a compulsory levy and those who are taxed have to pay these sums irrespective of any proportionate return of services or goods by the state, representing absence of quid pro quo (quid-pro quo means exchange of things of equivalent value). In other words, a tax is a compulsory payment or contribution by the people to the Government for which there is no direct return to the taxpayers. Tax imposes a personal obligation on the people to pay the tax if they are liable to pay it.

- **Taxation**

- ✓ Taxation is defined as a system of collecting money – tax revenue – to finance government operations.
- ✓ All governments require money to undertake different functions. The required money – taxes – is collected from the citizens. Without taxes to fund its activities, government could not exist.
- ✓ Initially, the government imposed taxes for three basic purposes:
 - ✚ To cover the cost of administration,
 - ✚ Maintaining law and order
 - ✚ In the country and for defense.

- Taxation is the most important system of collecting public revenue (tax revenue) in modern economic system.
- It is the powerful instrument in the hands of the government for transferring purchasing power from individuals to government.
- Governments may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups.
- It is interrelated with public Finance due to these factors

1.1.2. Objective of Taxation

- **Raising Revenue:** The basic purpose of taxation is raising revenue. To render various economic and social activities, Government requires large amount of revenue. To meet this enormous expenditure, Government imposes various types of taxes in addition to the non-tax revenue.
- **Removal of Inequalities in Income and Wealth:** The welfare state aims at the removal of inequalities in income and wealth. By framing suitable tax policy, this end can be achieved. It is stressed in the Canon of Equality. In Ethiopia, the progressive taxation on income is the suitable examples in this regard.
- **Ensuring Economic Stability:** Taxation affects the general level of consumption and production. Hence, it can be used as an effective tool for achieving economic stability. That is, by means of taxation the effects of trade cycle i.e. inflation and deflation can be controlled. During the period of boom or inflation, the excess purchasing power in the hands of people leads to rise in the price level. Raising the existing tax rates or imposing additional taxes can remove such excess purchasing power. Then the abnormal demand will be reduced and the economic stability can be achieved. At the same time, by providing grants, tax exemptions and concessions, production can be encouraged thereby inflation is controlled.

Likewise, during the period of depression or deflation, the role of tax policy in the economy is important. Reduction in the existing tax rates and removal of certain taxes, consumption can be induced which in turn results in increasing demand. This encourages business activities, and the economic growth can be achieved.

Thus, through properly devised tax system, the economic stability can be achieved by controlling the effects of trade cycle.

- **Reduction in Regional Imbalances:** It is normal that certain parts of the country are well developed, whereas some other parts or states are in backward conditions. To remove these regional imbalances, the Government can use tax measures. By way of announcing various tax exemptions and concessions to that particular backward regions or states, the economic activities in those areas can be induced and accelerated.
- **Capital Accumulation:** Tax concessions or rebates given for savings or investment in provident funds, life insurance, unit trusts, housing banks, post offices banks, investment in shares and debentures of certain companies etc. lead to large amount of capital accumulation which is essential for the promotion of industrial development.
- **Creation of Employment Opportunities:** More employment opportunities can be created by giving tax concessions or exemptions to small entrepreneurs and to the industries adopting labour-intensive techniques. In this way, unemployment problem can be solved to certain extent.
- **Preventing Harmful Consumption:** Taxation can be used to prevent harmful consumption. By way of imposing heavy excise duties on the commodities like liquors, cigars etc. the consumption of such articles is reduced to a considerable extent.

- **Beneficial Diversion of Resources:** The imposition of heavy duties on non-essential and luxury goods discourages the producers of such goods. The resources utilized for the production of these goods may be diverted into the production of other essential goods for which various tax concessions are given. This is called as beneficial diversion.
- **Encouragement of Exports:** Now-a-days export oriented industries are encouraged by way of providing various exemptions like 100% relief from income tax, free trade zones etc. It results in the large earnings of foreign exchange.
- **Enhancement of Standard of Living:** By way of giving various tax concessions to certain essential goods, the Government enhances the standard of living of people.

1.1.3. Characteristics of Taxation

A tax has the following characteristics:

- **Tax is a Compulsory Contribution:** Tax is a compulsory contribution by the taxpayers to the Government. The people whom the tax is levied cannot refuse to pay the tax. Once it is levied they have to pay it. Any refusal in this regard leads to punishments.
- **Benefit is not the Basic Condition:** For the payment of tax, there is no direct return to the taxpayers. That is, people cannot expect any return in benefit for the amount of tax paid by them. Because, there is no relation between the amount of tax paid by the people and the services rendered by the Government to the taxpayers.
- **Personal Obligation:** Tax imposes a personal obligation on the taxpayers. When a person becomes liable to pay the tax, it is the duty of him to pay it and in no way he can escape from it.
- **Common Interest:** The amount of tax received from the people is used for the general and common benefit of the people as a whole. Now the Government has to render enormous range of social activities, which incur heavy expenditure. A part of the expense is sought to be raised through taxation of various types. Thus, taxes are said to be the sharing of common burden by the people.
- **Legal Collection:** Tax is the legal collection. It can be levied only by the Government both Central and State.
- **Element of Sacrifice:** Since the tax is paid without any return in benefit, it can be said that there is the prevalence of sacrifice in the payment of tax.
- **Regular and Periodical Payment:** The payment of tax is regular and periodical in nature. It is levied for a fixed period usually a year. Thus, almost all the taxes are annual taxes. The payment of taxes should be regular also.
- **No Discrimination:** Tax is levied on all people without any discrimination of caste, creed etc. but according to their ability to pay.
- **Wide Scope:** Tax is levied not only on income but also on property and commodities. To enhance the revenue and to bring all the people under the tax net, the Government imposes various kinds of taxes. This enhances the scope of taxes.

1.2. Purpose of taxation

The **purpose of taxation** includes:

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

1.3. Principles and canons of taxation

1.3.1. Principles of Taxation

There are three basic principles of taxation, namely efficiency fairness and administrative feasibility. In fact these are easier to say than to apply in specific circumstances.

- **Efficiency**

Traditionally efficiency in the tax system focused on neutrality. Since any tax system incorporates distortions minimizing its interference is very essential. A change in the selection of products, a choice between work and leisure, or a choice between present and future consumption are major aspects of economic distortions arise from taxes.

Distortion originated from any tax system can be summarized in to three parts:

- ✓ The income effect
 - ✓ The substitution effect, and
 - ✓ The financial effect
- ✓ Under the **income effect** taxes reduce the amount of resources available to the taxpayer. The incidence of income effect can be demonstrated by taxes on wages. As, taxes reduce net wages; one makes choice different from those he would make if wage were not subject to tax.
 - ✓ **The substitution effect** attests when individual change behavior by choosing non-taxed activities or goods over taxed activities or goods, or lightly taxed over highly taxed ones.
 - ✓ **The financial effect** arises as taxpayers change the organization or structure of their activities because of taxes.

- **Fairness**

The tax system is expected to be fair in the sense that each taxpayer should contribute his/her "far share" to the revenue basket. The issue of fair share is viewed from two angles, namely, the benefit and the ability to pay principle. The benefit principle, argued that those who benefited from the services of government should pay taxes. It is justified by taxing a group or citizen who is directly benefited by the service under consideration.

On the other hand, however, fairness could be also explained by higher taxes on higher income. This consideration is argued on the bases of ability to pay with the result that the rich are better able to contribute to finance government operations. In this connection progressive taxes are advocated on the basis of the following principles.

- ✓ A certain minimum standard of living should be protected in the interest of health, welfare efficiency,
- ✓ The marginal utility of income declines as income increase so that the sacrifice of any given fraction of income is less painful for a higher income person than for a low income person, and
- ✓ Reduction in economic inequality is politically and ethically desirable.

- **Administrative Feasibility**

As any activity, tax collection has significant cost. The cost could be direct or indirect. The cost attached with tax administration of government is considered as direct costs, while the cost born by taxpayers is indirect costs. The nature of tax could influence both direct costs. If the tax system is simple and clear its cost could be low, while very complicated and complex tax laws and systems entails substantial administrative costs both from the taxpayers and tax collectors point of view. Thus to minimize the cost of tax admonition, the tax system should not be complicated, difficult to administer and understand and in interpretation and legal disputes.

1.3.2. Canons of Taxation

- **Canons of taxation**

- ✓ How should a tax system be designed to raise a given amount of revenue?
- ✓ What criteria should be used to evaluate the advantages and disadvantages of a particular tax system or tax policy proposal?
- ✓ There are various criteria (principles) that can be followed in evaluating a tax policy proposal (tax structure);
- ✓ People may disagree on the relative importance of the criteria;

There are four canons of taxation as prescribed by Adam Smith.

- A. Equity
- B. Economy
- C. Certainty
- D. Convenience

A. Canon of Equity

One vital principle of a good tax system is fairness (equity). This canon requires the tax system to be equitable. Taxes imposed should be fairly and equitably distributed.

Everyone agrees that the tax system should be equitable, i.e., that each taxpayer should contribute his/her “fair share” to the cost of government. But difficult in the use of this concept. There is no such agreement about how the term “fair share” should be defined.

What a “fair share” means in practice is the subject of endless argument and debate.

It is endless because equity is intangible or non-measurable and pronouncements on it reflect subjective attitudes.

There are two strands of thought in this connection:

- I. The benefit principle
- II. The ability to pay principle

I. Benefit Principle

According to this approach the state provides goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received.

- There is an exchange relationship.
- The burden of taxation should be divided among the people in proportion to the benefits received from the state.
- It demands that on the ground of equity, the people should be taxed according to the benefits (Protection, hospitals, education, roads, irrigation etc.) they receive from the government/public services.

II. Ability to Pay Principle

The ability to pay principle is widely accepted as a general rule.

- A citizen has to pay taxes because he/she can, and his/her relative share in the total tax burden is to be determined by his relative paying capacity.
- Given total revenue is needed and each taxpayer is asked to contribute in line with his/her ability to pay.
- This approach considers revenue and public expenditure as two distinct entities. Public expenditures are for the "common good" and cannot be individually evaluated.
- This principle relates taxes paid to some measure of ability to pay, such as overall wealth, income or consumption;
- No agreement on which one is best measure of ones ability to pay;
- Ability to pay may vary depending on the measure chosen;
- For example, a taxpayer ‘s ability to pay, measured by overall wealth, may differ significantly from his or her ability to pay measured by income;

B. Canon of Certainty

- The tax which each individual is bound to pay ought to be certain and not arbitrary.

- ✓ The time of payment,
- ✓ the manner of payment,
- ✓ The quantity to be paid should all be clear to the taxpayer and to every other person.

This principle removes all uncertainties in the payment of tax and ensures smooth functioning of the tax department.

C. Canon of Convenience

- The mode and timing of tax payments should be convenient to taxpayers.
- This canon recommends that unnecessary trouble to the taxpayer should be avoided, otherwise various ill-effects may result.
- For example, it may be in installments, land revenue may be collected at the time of harvest etc.
- This principle reduces the tendency of tax evasion considerably.

D. Canon of Economy

- This principle states that the minimum possible amount should be spent on tax collection and the maximum part of the collection should be brought to the Government treasury.
- Taxation should be economical i.e. this should be much more than mere saving in the cost of collection.
- The canon of 'Economy' is naturally sub-divided into two parts viz.,
 - ✓ 'Taxation should be inexpensive in collection', and
 - ✓ 'Taxation should retard as little as possible the growth of wealth'.

1.4. Types of Tax

Through regional and federal level taxes including:

- **Direct tax:**

Direct taxes are all levied directly on the taxpayer who receives the income. In other words direct tax is a tax whose burden falls directly on the person or thing taxed and cannot be shifted to another person or thing. This category of taxes consists of taxes on individual income.

Direct tax includes;

- ✓ **Tax on Income from Employment / Personal Income Tax;** According to proclamation 979/2016, every person deriving monthly income from employment is liable to pay tax on that income at the rate specified
- ✓ **Business Profit Tax;** is the tax imposed on the taxable business income / net profit realized from entrepreneurial activity.

- ✓ **Tax on Income from Rental of Buildings;** is the tax imposed on the income from rental of buildings.
- ✓ **Tax on Interest Income on Deposits;** Every person deriving income from interest on deposits shall pay tax at the rate of 5%.
- ✓ **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
- ✓ **Tax on Income from Royalties**
- ✓ **Tax on Income from Games of Chance;** Every person deriving income from winning at games of chance (for example, lotteries, tombola's, and other similar activities) shall be subject to tax
- ✓ 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

• **Indirect tax:**

- ✓ **Turnover Tax;** is levied by the Government on the sales which are not covered under VAT
- ✓ **Excise Tax;** are levied on the commodities produced in the country. Excise duties now constitute the single largest source of revenue to the Union Government.
- ✓ **Value Added Tax** is levied by the Government on the commodities sold at a specified percentage on the value of sales.
- ✓ **Customs Duty** includes both import and export duties. These duties are Levied when the goods cross the boundaries of the country

• **Stamp duty tax:** instruments shall be chargeable with stamp duty include:

- ✓ Memorandum and articles of association of any business
- ✓ Organization, cooperative or any other form of association;
- ✓ Lease, including sub-lease and transfer of similar rights;
- ✓ Power of attorney;
- ✓ Documents of title to property

1.5. Uses of tax revenue in Ethiopia

- Assistance to business and farming
- Cultural and artistic resources and support
- Defense 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 and scientific and other research
- Justice systems and public safety

1.6. Sources of ongoing tax information

Sources of ongoing information about direct tax include:

- Accountants and other financial services professionals They can provide information about the accounting works.
- Ethiopian Revenues and Customs Authority (ERCA)
- Industry associations and professional organizations
- 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

1.7. Role of 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 taxpayers (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.

The Ethiopian Revenues and Customs Authority (ERCA) roles include:

- Establish and implement modern 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 1	Written test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Choose the best answer (4 point)

- One of the following is **NOT** purposes of taxes for three basic:
 - To cover the cost of administration
 - To show the power of government
 - Maintaining law and order
 - In the country and for defense.
- Which one of the following is **not** source of ongoing information?
 - Accountants and other financial services
 - Ethiopian Revenues and Customs Authority (ERCA)
 - Federal and Regional governments agencies
 - None
- Which type tax levied by the Government on the sales which are not covered under VAT?
 - Value Added Tax
 - Turnover tax
 - Excise tax
 - Customs duty
- Which one of the following tax generate the largest revenue to the Government?
 - Value Added Tax
 - Excise tax
 - Turnover tax
 - Customs duty

Test II: Short Answer Questions (16 point)

- Define Tax and taxation
- Write and discussed the objective of taxation
- What are the Characteristics of Taxation?

Note: Satisfactory rating - 20 points Unsatisfactory - below 15 points

LG #11	LO #2- Identify and apply direct tax
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Instruction sheet
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> • Terminologies of direct taxation • Analyzing effect of business structure on direct tax • Identifying tax File Number (TIN) and rates of direct tax • Computing and paying direct tax and tax returns • Using Tax declaration forms <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> • Understand Terminologies of direct taxation • Explain effect of business structure on direct tax • Identify tax File Number (TIN) and rates of direct tax • Compute and paying direct tax and tax returns • Use Tax declaration forms
Learning Instructions:
<ol style="list-style-type: none"> 1. Read the specific objectives of this Learning Guide. 2. Follow the instructions described below. 3. Read the information written in the information Sheets 4. Accomplish the Self-checks 5. Perform Operation Sheets 6. Do the “LAP test”

- **Adirecttax**

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.

- **Sources of Income**

- ✓ Income from employment;
- ✓ Income from business activities;
- ✓ Income derived by an entertainer, musician, or sports person from his personal activities;
- ✓ Income from entrepreneurial activities carried on by a non-resident through a permanent establishment in Ethiopia;
- ✓ 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, if such property is situated in Ethiopia;
- ✓ Dividends distributed by a resident company;
- ✓ Profit shares paid by a resident registered partnership;
- ✓ 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 that you earn more than the tax free threshold hold amount.

- **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 hardship 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 derive 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 sell 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 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 600 per month will not be levied tax. Individual business earning less than 7200 per tax year will not be levied tax.

A person received ¼ of his or her basic salary or not exceeds than birr 2,200 per month as transportation allowance will not be levied tax

- **Withholding Taxes**

As per income tax proclamation no 979/2016, 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 Birr 10,000 in any one transaction or contract and services involving more than Birr 500 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; e.t.c incorporated under the law of Ethiopia, private Non-profit organization and Non Government Organization (NGO) having legal personality..

- **Tax year**

For an individual, the one-year period from 1st Hamle to 30th Sene, unless the Authority has granted permission, by notice in writing and subject to such conditions as may be specified by the Authority in the notice, for the individual to use its accounting year as the individual’s tax year;

- **Tax rate structure**

- ✓ Proportional (flat) tax rate **structure**
- ✓ **progressive (Graduated)** tax rate **structure**
- ✓ Regressive tax rate **structure**
- ✓ Digressive (Mild) tax rate structure

2.2. Analyzing effect of business structure on direct tax

Your business structure affect how much you pay in taxes, your ability to raise money,the paperworkyouneedto file,andyourpersonalliability.

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 andpermits.

Themost commonbusinessstructures includes:-

- **A sole proprietorship** is a business owned by one person and usually managed bythe owner.No special legal requirements must be met to start a sole proprietorshipand usuallyonlyalimitedinvestment isrequiredtobeginoperations.

A sole proprietorship is a separate entity for accounting purposes but it is not aseparate legal entity from the owners.That is, from the legal point of view, the ownerand the business are treated as one and the same.The owner will be held personallyresponsible forthe debtsandactions ofthebusiness.

How will sole proprietorship affect taxes? Personal income tax must be paid on allbusinessprofit.**(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 agreementisidentifiedasfollows:

A partnership agreement is contracts where by two or more persons who intend to

jointly together and to cooperate and 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 thereof, 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)**. **Except cooperatives society**, cooperatives are not pay business income tax (Single taxation) only pay members for the amount earned dividends at 10 percent.

2.3. Identifying tax Identification Number (TIN)

Tax payers identification number (TIN) is a unique code such as a numeric number or alphanumeric number given by the tax administration organization (Tax authority) of a country to each taxpayer to identifying them taxpaying entities. The TIN system provides the foundation for the tax administration to independently identify and type of each tax payers, control filers and non-filers timely and easily established efficient information exchange between the tax officials and third party, control tax evasion and create a dependent database for efficient and effective tax collection.

Hence, the supply of tax payers identification number (TIN) by the tax authority to tax payers is the first step in the management of tax assessment and collection.

- Personal liable to obtain TIN
 - ✓ Sole proprietors
 - ✓ Professional person who generate taxable income (such as Musicians, actors, actress, authors)
 - ✓ Business association including cooperative
 - ✓ Public enterprise
 - ✓ Public financial agency that carry out business activity
 - ✓ Governmental financial agent
 - ✓ Non-governmental organization
 - ✓ Religious organization that carry out business activity

2.4. Computing and paying direct tax and tax returns

- 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.

- ✓ Taxable income, every person deriving income from employment is liable to pay tax on that income at the rate specified as shown below. The first Birr 600 (six hundred Birr) of employment income is excluded from taxable income.
- ✓ 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.

- Tax Rate of Employment / Personal Income Tax

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

Employment Income tax bracket

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

- 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 includes;**

Anycompanyincorporated under thelaws ofEthiopiaor in aforeigncountryandotherentities havingannualturnoverofmore thanBr500, 000.

Those who are categorized under “**A**” have to **maintain all records and account** which willenablethemtosubmit **abalancesheetand profitandloss 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 (togetherwiththesupportingvouchers).

✓ **Category“**B**”Taxpayer**

Category “**B**” taxpayers includes, unless already classified in Category “**A**” Taxpayer ,businesswithno legalpersonalityandthoseenterpriseshavingannualincomeof morethanBr 100,000andlessthanBr500,000(i.e. Br100,000 < sales<Br500,000).Category“**B**”taxpayershave to submitthe **profit and lossstatement** together with the supportingvouchers.

✓ **Category“**C**”Taxpayer**

Category “**C**” includes all taxpayers who are not classified under the other two categories andwhoseannualturnoverisestimatedat Br100,000 orless. Everybusinessman(exceptCategory “**C**”) is required to preserve all books of accounts and other records and documentsforaperiod ofnotlessthan 5yearsaftertheyearofincome towhichsuch booksanddocumentsrelate.

To determine the income tax liability of such tax payer, standard assessment or presumptivemethodshallbeused.**Assessment or presumptivetax**isfixedamountoftaxdetermined byestimationor bestjudgment.However, ifcategories “**C**”taxpayersmaintainbooksofaccount,they shallpay taxeson thebasisoftheirbooksofaccount.

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.

Taxrate business profit tax

Corporate businessesarerequiredto pay**30%flatrate**ofbusiness incometaxFor**unincorporatedor individual businesses**thebusiness incometaxrangesfrom **10% - 35%**. Unincorporated or individual businesses are taxed in accordance with thefollowingschedulebelow:

Schedule “A” BusinessIncome

No	Taxable Business Income / NetProfitperyear		Tax rate	Deduction inbirr
	Over Birr	To Birr	%	Birr
1	0	7.200	Exemptthreshold	
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	Over130,801	*****	35	18000

In the determination of business income subject to tax in Ethiopia, deductions would beallowed for expenses incurred for the purpose of earning, securing, and maintaining thatbusinessincome totheextentthat the expensescan be provenby thetaxpayer.

The following **expenses shall be deductible** from gross income in calculating taxableincome:

- ✓ Thedirect costofproducingtheincome,such asthedirect cost ofmanufacturing,purchasing,importation,sellingandsuchothersimilarcosts;
- ✓ Generalandadministrativeexpensesconnectedwiththebusinessactivity;
- ✓ Premiumspayable on insurance directlyconnectedwith thebusinessactivity;
- ✓ Expenses incurred in connection with the promotion of the business inside andoutsidethecountry,subjecttothelimits set bythedirectiveissuedbytheMinisterofRevenue;Commissionspaidforservicesrendered to thebusiness;
- ✓ Sumpaidassalary,wagesorotherremolumentstothechildrenoftheproprietor or member of the partnership shall only be allowed as deduction ifsuchemployeeshavethequalificationsrequiredbythepost.

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

- ✓ Awards foradopted orsuggested innovationsand costsavingmeasures;
- ✓ Publicawardsforoutstandingperformance;
- ✓ Income specifically exempted from income tax by the law in force in Ethiopia, byinternationaltreatyorby anagreementmade.

• **Tax on IncomefromRentalof Buildings**

This is the tax imposed on the income from rental of buildings. If the taxpayer leasedfurnishedquarters,the amountsreceivedattributabletotheleaseoffurnitureandequipment wouldbeincludedintheincomeandtaxed.The taxpayableonrentedhouseswouldbechargedatthefollowin grates:

- ✓ Onincomeof bodies30%of taxableincome
- ✓ Onincomeofpersons according tothefollowingschedule

Schedule“BIncomefrom rental of building

No	Taxable income from rental of building (Income per year)		Tax rate (%)	Deduction in birr (Birr)
	Over Birr	To Birr		
1	0	7,200	Exempt threshold	
2	86,401	19,800	10	720
3	19,801	38,400	15	1,710
4	38,401	63,000	20	3,630
5	63,001	93,600	25	6,780
6	93,601	130,800	30	11,460
7	Over 130,801	*****	35	18,000

- ✓ Conditionsofpayment:

The owner of a building who allows a lessee to sub-lease is liable for the payment of the taxforwhichthesub-lesserisliable,intheeventthesub-
 lesserfailstopay;Whentheconstructionofarentalbuildingiscompletedorwhenthebuildingisrented,theow
 nerandthe builder are required to notify the administration of the Keble in which the building
 issituated about such completion and the name, address, and tax identification number of theperson
 or persons subject to tax on income from rental of building; The Keble
 administrationhastheobligationto communicatetheinformationobtained tothe appropriate taxauthority.

- **Schedule“D”OtherIncomes.**

- ✓ TaxonInterestIncome onDeposits

Every person deriving income from interest on deposits shall pay tax at the rate of 5%.
 Thepayersarerequiredtowithholdthetaxandaccount tothe Tax Authority.

- ✓ Dividend Income Tax

Everypersonderivingincomefromdividendsfromasharecompanyorwithdrawalsofprofitsfromaprivateli
 mitedcompanyshallbesubjecttotaxattherateof10%.Thewithholdingagentshallwithholdorcollect
 thetaxand accounttothe TaxAuthority.

- ✓ Tax on Income from Royalties

Royaltyincome“meansapaymentofanykindreceivedasaconsiderationfortheuseof,orthe right to use,
 any copyright of literary, artistic or scientific work including
 cinematographyfilms,andfilmsortapesforradio ortelevisionbroadcasting.

Royalty’s income shall be liable to tax at a flat rate of 5%. The withholding agent who

effectspayment shall withhold the foregoing tax and account to the Tax Authority. Where the payerresidesabroadand therecipientis aresident,therecipient shall pay tax on the royaltyincomewithinthetimelimitsetout.

✓ Tax on Income from Games of Chance

Every person deriving income from winning of games of chance (e.g., lotteries, tombola, andother similar activities) shall be subject to tax at the rate of 15%, except for winning of lessthan100Birr.The payer shall withholdor collectthetaxandaccounttothe TaxAuthority.

✓ 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 forbusiness, factory,office,andsharesofcompanies.

Such incomeistaxableatthefollowingrates:

- ✚ Building heldforbusiness,factory,and officeattherateof15%;
- ✚ Shares ofcompaniesatthe rate of30%.

Gains obtained from the transfer of building held for residence shall be exempted from taxprovided 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 capitalassets shall not accept, register or approve the transfer before ascertaining that the paymentofthetax hasbeenduly effected.

✓ Tax on Income fromRentalof 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 typeofincome issubjectto taxata flatrateof15%oftheannualgrossincome.

✓ RenderingofTechnicalServicesOutsideEthiopia

All payments made in consideration ofany kind oftechnical servicesrendered outsideEthiopia to resident persons in any form shall be liable to tax at a flat rate of 10% which shallbe withheld and paid to the Tax Authority by the payer. The term “technical service” meansanykindofexpertadviceortechnologicalservicerendered

✓ AgriculturalIncomeTax

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 oneveryadditionalincomevaryfrom10%to89% forincomeabove600Birr.

In line with the economic policy and structural set up of the Federal Democratic Republic ofEthiopia, the former tax on income from agricultural activities and the land use rent wasrevisedin1995.Sinceincome tax from this source is allocated to Regional States inconsonance

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.

AgriculturalIncomeTaxperProclamation No.8/1995, Oromiya		
	AnnualTaxableIncome	Tax Rate
1	upto1,200	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 fromagricultural activitiesis said tobedeterminedby estimating theprice, in thearea,ofthecropbeforeharvest.Ifthecropissold,thepricedeclaredshallbethebasisforthe assessmentofincome.

✓ **LandUse Tax**

According to Proclamation No. 77/1976 and No. 152 /1978 individual farmers, who are notmembers of producer` s cooperatives, are required to pay a land use fee of Birr 10 perhectare per annum. Whereas government agricultural organizations are paying 2 Birr perhectareper annum. Presentlyregionalstateshavetheirownlanduserentsystems.Forinstance,accordingtothe Proclamation No. 8/1995 of Oromiya, rural land held for agricultural activities is subject tolanduserentpaymentonannualbasis.Theannuallanduserentpayablebyafarmershallbe Birr 10 for the first hectare and Birr 7.50 for each extra hectare of land. Meanwhile statefarming enterprises shall pay Birr 15 for each hectare of their land holdings. Land use rent istobecollected betweenthe1st ofHidarandthe30thofMiaziaoftheyear.

2.5. **Tax declaration**

- **Definition of declaration**

Declaration of income refers to notification of (filling)) of income of taxpayer for a tax year either directly to the appropriate tax authority office (federal, regional, or city) or for appropriate financial institution delegated by the tax authority or through electronic filling and payment system by using specific declaration format

- **DeclarationandPaymentofTax**

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:

- I. Employmentincome tax forms
- II. Businessincometaxforms
- III. Withholding incometax forms,andother forms,

Time period declaring direct tax

Sr. No	item	period
1	Employment income tax	within 30 days after withholding
2	Dividend	within 30days starting from the end of the month
3	Tax on Interest Income on Deposits	within two months from the end of Ethiopian physical year
4	Tax on Income from Games of Chance	At the time of occurrence

Self-Check – 2	Written test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Multiple choice (2 point for each)

- Which one of the following deducted form gross income in calculating taxable income?
 - cost of producing the income
 - expenses connected with the business owner activity
 - Premium payable on insurance directly connected with the business
 - Expenses incurred
- An obligation to withhold the employment income tax from each payment is _____
 - Revenue agency
 - Employee
 - Employer
 - Regional office
- A fixed amount of tax determined by estimation or best judgment is known as _____
 - Income tax
 - Direct tax
 - Presumptive tax
 - Flat rate
- Company incorporated under the laws of Ethiopia or in a foreign country and other entities having annual turnover of more than Br 500, 000 is category _____
 - B
 - C
 - A
 - None

Test II; Short answer (12 point)

- List and describe at list 5 direct tax
- Write at list six expenses shall be deductible from gross income in calculating taxable income
- List Personal liable to obtain TIN

Note: Satisfactory rating – 20 points Unsatisfactory - below points 15

You can ask your teacher for the copy of the correct answers

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Operation Sheet -2

1.1. Equipment and procedure for determining direct tax

A. Equipment and documents

- I. Computer
- II. Calculator
- III. Documents

B. Procedure for determining direct tax

- Procedure of determining employment income tax

Step 1- Gathering the necessary data. All the relevant information about every employee should be gathered. i.e. employee name, employee ID, term of employment,

Step 2- Determine the gross employment income. Include all types of income like Basic salary, allowance, overtime 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

Illustration 2. Assume Ato XYZ is an employee in SMART cooperative union with a monthly salary of birr 8,200 birr and is required to work 172 hours monthly. He receives monthly nontaxable allowance of birr 1,000. In the month of GINBOT, he worked extra-hours on weekends and earned Br 1,500 over time.

i. Determine taxable income

Gross earning = $8200 + 1000 + 1500 = \underline{10700}$

Taxable income = Gross earning – nontaxable income

Taxable income = $10700 - 1000 = \underline{9200}$

Employment income tax = Taxable income x Rates of tax – deduction

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

Employment income tax = Taxable income x Rates of tax – deduction

= $9200 \times 30\% - 955 = \underline{1805}$

Procedure of determining business income tax

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

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

Step 3- 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 rateontaxablebusinessincome.

Illustration 1. Hawasa food complex, share company business has reported the followinginformationfor theyear endedSene30,2011:

Sales revenue	birr2,000,000
Rentalincome	100,000
Interestincome	10, 000
Total deductions andexemptions for thesametaxyear	birr754,000.

- i. Determinethebusiness profittaxforthe year 2011
- ii. Prepare tax declaration forms

Answer

Business profittax =2110, 000x0.3-754,000 = **121000**

1. Determining Direct tax

1.1.Determining employment income tax

Assume Ato Gobeze is an employee in MAX cooperative union with a monthly salary of birr 6,200 birr and is required to work 172 hours monthly. Here receives monthly transportation allowance of birr 1000, which is taxable. In the month of GINBOT, he worked for 172 hours and not worked extra-hours on weekends. Further he received Br 1,200 as bonus during the month.

- iii. **Determine the employment income tax for the month of Ginbot 30, 2011**
- iv. **Prepare tax declaration forms**

1.2.Determining business income tax

Bahir Dar Textile Factory, (Sole proprietorship) business has reported the following information for the year ended Sene 30, 2011: (Hint use tax bracket)

Sales revenue	birr 1,500,000
Rental income	300,000
Interest income	20,000
Total deductions and exemptions for the same tax year	birr 754,000.

- iii. **Determine the business profit tax for the year 2011**
- iv. **Prepare tax declaration forms**

LG #12	LO #3 –Identify and apply indirect tax
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Instruction sheet
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> • Terminologies of indirect taxation • Analyzing effect of business structure on indirect tax • Identifying the rate of indirect tax • Computing indirect tax • Using Tax declaration forms <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> • Terminologies of indirect taxation • Analyze effect of business structure on indirect tax • Identify the rate of indirect tax • Compute indirect tax • Use Tax declaration forms
Learning Instructions:
<ol style="list-style-type: none"> 1. Read the specific objectives of this Learning Guide. 2. Follow the instructions described below. 3. Read the information written in the information Sheets 4. Accomplish the Self-checks

Information Sheet 3

3.1. Terminologies of indirect taxation

- **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 shifts the burden of the tax to the consumers by raising the selling 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 bear its burden. Thus, indirect taxes can be shifted.

- **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 of efforts by individual, firms, and other entities to evade the payment of taxes by breaking the law. Tax evasion means fraudulent action 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, falsification of accounts”.

Examples for Tax evasion:

Under-invoicing of sales and inflation of purchase A trader makes
a sale for birr 20,000 and does not account it in his books under sales Interest earned from lending
of money does not include in total income

A manufacturing business employs 30 workers but includes 2 more
additional names as workers (not in actual) in payrolls.

Cause of Tax evasion:-

- ✓ High rates of taxation

- ✓ Complexityoftaxlaws
- ✓ Inadequateinformationastosourceofrevenue.
- ✓ Moral andpsychologicalfactors
- ✓ Lackof integrity
- **Tax avoidance**

Itis the methodofreducingones taxliabilitybymaking useofloopholesin ataxlaw.Therefore,tax avoidanceisnotillegal. It is theartofescapingtaxes without breaking thelaw.

- **Shifting of tax**

Itreferstothe process bywhichthe moneyburdenoftheataxis transferredfromonepersontoanother.

- **Incidence of a tax**

Itreferstothe money burdenofataxonthe personswhoulultimately bears it. Inotherwords,whenthemoney burdenofataxfinallysettlesor comestorest on theultimatetaxpayer iscalledIncidenceofatax.

3.2. Analyzing effect of business structure on indirect tax

Indirect taxes imposed on consumption of goods and services. Unless stated in the proclamation all persons and organization liable for indirect taxes, it depends on the type of items imported and the service provided.

- Organization free from VAT;
 - ✓ Health service
 - ✓ Educational institutions
 - ✓ Charities

3.3. Identifying the rate of indirect tax

Themaintypes ofIndirecttaxInEthiopianare:-

- Turnover Tax
- ExciseTax
- Value Added Tax
- Customs Duty

- **Turnovertax/TOT/**

Turnover tax is payable on goods supplied and services rendered by persons not registeredfor VAT. It's an equalization tax that came into force to tax persons below the VATregistrationthresholdofBirr500,000.

TOTischarged at2%ongoods locallysold and 10% onservices,exceptcontractors,grinding mills, tractorsandcombine harvesters whichare taxedat2%.Thebasisofthetaxisthegrossreceiptsofgoodsandservicessold.

- **Excise tax**

Theexcisetaxis chargedonadvaloremrateoncertainconsumergoods onimportationandon similar

products locally produced.It is believed that this tax should be imposed on **luxurygoods and basic goods**, which are demand inelastic. It is also believed that imposing the taxon goodsthatarehazardous to healthandwhichare causestosocial problems will reducetheconsumption thereof.Theexcisetaxwouldbe imposedongoodsimported oreitherproduced locallyinaccordancewiththe giveninExciseTaxProclamation No.307/2021.

InEthiopia,boththefederalandregionalgovernmentscollectexcisetax.ERCAisresponsibleforcollectinge xcisetaxfortheFederalgovernmentandcollectsexcisetaxlevied on locally produced and imported items into the country. The minimum excise tax rateappliedtoexcisablegoodsis 0%whilethe maximumis100%.

- **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.

AlltradersorbusinesseswhosetaxableturnoverexceedsBirr500,000peryearareobligedto makean applicationforregistration.Howeverperson mayvoluntarilyapplyforregistration, if he regularly is supplying or rendering at least 75% of his goods and services toregisteredpersons.

Most business transactions involve supplies of goods or services. VAT is payable if they are:SuppliesmadeinEthiopia;

- ✓ Madebyataxableperson;
- ✓ Madein the course orfurtheranceofa business;
- ✓ Are notspecificallyexemptedor zero-rated.
- ✓ TheValue Added Taxwouldbeleviedatthe rateof15%ofthevalueof:
 - Everytaxable transactionbyaregisteredperson;
 - Everyimportofgoods,otherthanan exempt import;and Importofservices
Exempt import items includes i.e. educational materials, health equipment and medicine

- ✓ **DeterminationofVATpayable inEthiopia**

Outputtax:-isaVATthat is calculated andchargedonthesaleofgoodsorservices fromyourbusiness,ifyouarevat-registeredperson.

Inputtax:-is a VATthatis addedtothepricewhengoods or servicesarepurchasedthatareliabletoVAT,ifthebuyeraVAT-registeredperson.

VATpayable:ifyour VATonsalesexceedVATonpurchasein agivenperiod.The differencewillpositiveand payabletogovernment.

VATrefund:-ifyourVATon purchaseexceedtheVATonsalesinagivenperiod,the differencewillnegativeandrefundedtoyou.

- **Customs Duty**

Unless exempted bylaw,itemsimportedintoEthiopiaaresubjecttoanumberoftaxes.Governmentleviesfivekinds

oftaxesonimport items.Thesetaxes areassignedprioritylevelsandare calculatedinasequential order.These taxes,intheirsequentialorder,are**customs duty, excise tax, VAT, surtax and withholding tax**. Taxes on imported goods arecollected by the Ethiopian Revenues and Customs Authority (ERCA). These taxes provideconsiderablerevenue^{to}thegovernment.

Ethiopia’s Ministry of Finance (MOF) released a revised tariff manual on 6 August 2021, updating rates on over 8,000 import items, including duty for specific products, whereas previously rates only applied to categories.

The MOF stated that rate changes focused on manufacturing and agriculture, aiming to replace imported finished goods with locally produced items. Consequently, as well as increasing rates on some imports, items such as spare parts for domestically-assembled products and manufacturing raw materials now have lower rates, from zero to 5%.

Imported Industrial inputs like ores, slag and ash, fuels, oils and distilled products, waxes and bituminous substances, now have zero tariffs. Similarly, items such as grains, fertilisers, some raw-leather materials, metals and manufacturing machines, are also tariff free. Most chemicals, precious metals, and some agricultural products now have just 5% duty.

The MOF stated that the updated tariffs will help two strategies. The first aims to use higher tariffs to make locally made products price competitive with imported goods of the same quality. The second strategy focuses on imposing lower tariffs on imported inputs unavailable locally, in order to support local producers.

3.4. Computing indirect tax

Computing indirect tax mean determining tax liability by using tax rate stated in the proclamation of each categories of indirect taxes.

3.5. Using Tax declaration forms

For each categories of indirect tax there is declaration format developed by ERCA and regional revenue office. The declarationforms are attached in the Annex

I. Turnover Tax declaration form

<p>v.</p>	<p>በኢትዮጵያ ሲኖሩት ስቴር</p>	<p>ተርጓሚ ስቴር</p>
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U - የታከሰከፋዩ መረጃ

1. የድርጅቱስምወይምግለሰብዚህ ስም የአባትስምናየአያትስም		2. የታክስከፋይስም		3. የግብርከፋይሙሳያቁጥር		8. የክፍያጊዜ			
2a. ክልል		2b. ዞን/ክፍለከተማ		4. የታክስሂሳብቁጥር		የሰነድቁጥር (ለ/ሲኤንገልግለት/ቻይ)			
2c. ወረዳ		2d. ቀበሌ/ገበሬሚበር		2e. የቤትቁጥር				5. የግብርሰተሰቢ ጽ/ቤትስም	
6. ስልክቁጥር		7. ፋክስቁጥር							

ለ - የጥያቄዎችዝርዝርሰብ

2% ተርንኦቪርታክስዮሚኒስትገቢ			10% ተርንኦቪርታክስዮሚኒስት		
ተ. ቁ	የዕቃው የአገልግሎት አይነት	ታክስዮሚኒስት ገቢ	ተ. ቁ	የዕቃው የአገልግሎት አይነት	ታክስዮሚኒስት ገቢ
ጠቅላላ 2% ተርንኦቪርታክስዮሚኒስትገቢ			ጠቅላላ 10% ተርንኦቪርታክስዮሚኒስትገቢ		

	ሐ. የተርንኦቨርታክስስሌት		
ተ.ቁ	የሰውብድር		ብዛት
1	ጠቅላላ 2% ተርንኦቨርታክስስሌት ለሰውብድር አገልግሎት	5	
2	ጠቅላላ 10% ተርንኦቨርታክስስሌት ለሰውብድር አገልግሎት	10	
3	2% ተርንኦቨርታክስስ (ተራቁጥሮ 1 X 2%)	15	
4	10% ተርንኦቨርታክስስ (ተራቁጥሮ 1 X 10%)	20	
5	ሰውብድር ተርንኦቨርታክስስ (ተራቁጥሮ 3 + ተራቁጥሮ 4)	25	

መ - የትክክለኛነት ማረጋገጫ

<p>ከላይ የተገለፀው ማስታወቂያ የተሰጠው መረጃ በሙሉ የተሟላና ትክክለኛ መሆኑን አረጋግጣለሁ።</p> <p>ትክክለኛ ያልሆነ መረጃ ማቅረብ በግብር አገልግሎት ሆነ በወጪ ለኛ መቅጫ ሕግ የሚያስቀጣ መሆኑን እገነዘባለሁ።</p>	<p>ለበረከት አገልግሎት ብቻ</p>
---	------------------------

			የተከፈለበት ቀን	ደረሰኝ ቁጥር
የግብር ከፋይ / ሕጋዊዉሉ	ሚተም	የግብር ባለስልጣን ማባሪት	የገንዘብ አክ	ፍክቁጥሮ
ስም _____		ስም _____	የገንዘብ ተቀባይ ፈረማ	
ፊርማ _____		ፊርማ _____		
ቀን _____		ቀን _____		



I. Excise Tax declaration form



በኢትዮጵያ ፌዴራላዊ ዲሞክራሲያዊ ሪፐብሊክ ስነ ምግባር

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

MINISTRY OF REVENUE

የሰነድ ቁጥር / Document Number -----

ኢክሳይዝስ መግለጫ / EXCISE TAX DECLARATION

የግብርና ዘመን ተረጋግጦ የሚገኝበት ወቅት / DETAILS OF TAX PERIOD

የሰነድ ቅርጽ / DATE OF FILING -----

የመግለጫ ዓይነት / RETURN TYPE ምና / ORIGINAL ----- የተከለሰ / REVISED --

የታክስ ጊዜ / TAX PERIOD ወር / MONTH -----
ዓ.ም / YEAR -----

የግብርና አወጣጥሪ / TAX PAYER DETAILS

የግብርና አወጣጥሪ ስም -----

Name of organization or tax payer -----

የግብርና መለያ ቁጥር / TAX-PAYER IDENTIFICATION NUMBER (TIN) -----

ንዑስ መለያ ቁጥር (ካለ) / SUB-TIN, IF ANY -----

የኢክሳይዝስ መዝገብ ቁጥር / EXCISE TAX REGISTRATION NO -----

የታክስ አወጣጥሪ / DETAILS OF TAX AGENT

የግብርና መዘጋጃ ባለሙያ አካል (የታክስ አወጣጥሪ) የተዘጋጀው የግብርና መግለጫ : / IF THE RETURN
HAS BEEN PREPARED BY TAX INTERMEDIARY (TAX AGENT), THEN PLEASE PROVIDE
THE FOLLOWING DETAILS/.

የግብርና አወጣጥሪ የግብርና መለያ ቁጥር / AGENT TIN -----



የታክስ መሰረት/የፎክሎር ሰነድ/IF YOU ARE A PART OF ANY TAX AGENT ASSOCIATION/ORGANIZATION.

የታክስ መሰረት ቁጥር/ORGANIZATION TIN -----

የግብርና መሰረት ቁጥር/ AGENT TIN -----

ማረጋገጫ CERTIFICATION

በዚህ ቅጽ ላይ ሰጠው መሆኑን አረጋግጣለሁ : I HEREBY CERTIFY THAT THE INFORMATION GIVEN IN THIS FORM IS TRUE COMPLETE. I UNDERSTAND THAT ANY MIS-REPRESENTATION IS PUNISHABLE BY LAW/

ፊርማ SIGNATURE: ----- ቀን/DATE: -----

ኤክሳይዝስ መግለጫ/EXCISE TAX DECLARATION

10. የተገባዎት የኤክሳይዝስ መግለጫ (አባሪ 1) -----

Excise tax on taxable goods (annex 1e)

20. በወጥሎ ለኤክሳይዝስ መግለጫ (አባሪ 3) -----

Excise tax credit for the month (annex 3g)

30. የወጥሎ ከኤክሳይዝስ መግለጫ -----

Net amount to be paid (line 10-20)

በሚኒስቴር ማብቀሻ ስራ/TO BE USED BY MINISTRY OF REVENUE ONLY

የባለሙያ ስም/OFFICER'S NAME: -----

ፊርማ SIGNATURE: -----

የሠራተኛው ቁጥር/EMPLOYEE ID: -----

ቀን/DATE: -----

የታክስ መስሪያ/TAX CENTER -----

Value Added Tax declaration form

VALUE ADDED TAX DECLARATION የተጨማሪ እሴት ትክክለኛ መግለጫ

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የግብርኒዜን የተመለከተ ዝርዝር መረጃዎች / DETAILS OF TAX PERIOD

ያሳወቁበት ቀን / DATE OF FILING -----

የተ.እ.ታ መሳሰሉ የዓይነት / VAT RETURN TYPE ዋና / ORIGINAL -----

የተከለሰ / REVISED -----

የግብርኒዜ / TAX PERIOD ከ / FROM ----- እስከ / TO -----

የግብርከፋይ ዝርዝር መግለጫ / TAX PAYER DETAILS

ምዝገባውን ያደረገው ድርጅት ወይም የግብርከፋይ ስም -----

NAME OF REGISTERED ORGANIZATION OR TAX PAYER -----

የግብርከፋይ መለያ ቁጥር / TAX-PAYER IDENTIFICATION NUMBER (TIN) -----

-

ንዑስ መለያ ቁጥር (ካለ) / SUB-TIN, IF ANY -----

የግብርከፋይ የተጨማሪ እሴት ታክስ ምዝገባ ቁጥር / VAT REGISTRATION NO -----

----- የታክስ ወኪል ዝርዝር መረጃ / DETAILS OF TAX AGENT

የግብር መስታወቂያው በሌሎች አካላት (የታክስ ወኪል) የተዘጋጀ ከሆነ ቀጥሎ የታክስ ወኪል ዝርዝር መረጃዎች ይሙሉ:: / IF THE RETURN HAS BEEN PREPARED BY TAX INTERMEDIARY (TAX AGENT), THEN PLEASE PROVIDE THE FOLLOWING DETAILS/.

የግብርከፋይ ወኪል የግብርከፋይ መለያ ቁጥር / AGENT TIN -----

የታክስ ወኪል ማህበራት / ድርጅቶች አባል ከሆኑ / IF YOU ARE A PART OF ANY TAX AGENT ASSOCIATION / ORGANIZATION.

የታክስ ወኪል ተቋም የግብርከፋይ መለያ ቁጥር / ORGANIZATION TIN -----

የግብርከፋይ ወኪል የግብርከፋይ መለያ ቁጥር / AGENT TIN -----

ማረጋገጫ / CERTIFICATION

በዚህ ቅጽ ላይ የሰፈሩት ሁሉም መረጃዎች ክክልና የተሟላ መሆኑን አረጋግጣለሁ:: I HEREBY CERTIFY THAT THE INFORMATION GIVEN IN THIS FORM IS TRUE COMPLETE. I UNDERSTAND THAT ANY MIS-REPRESENTATION IS PUNISHABLE BY LAW/

ፊርማ / SIGNATURE -----

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ባዶ ማሳወቂያ/NIL FILER DECLARATION

የሽያጭ ግብር ስላት/COMPUTATION OF OUTPUT TAX

ያሳወቁትባዶ ነው?/ARE YOU A NIL FILER?

አዎ/YES -----

አላሳወቁትም/NO ---

--

		ጠቅላላ ሙጢ/		የምርት ውጤት ታክስ/
		Total amount		Output vat
ታክስ የሚከፈልበት አገልግሎት አቅርቦት/የሽያጭ ዋጋ /Taxable sales/supplies	5		1	
			0	
ዜሮ ምጣኔ ያላቸው ሽያጭ/አቅርቦት /Zero-Rated Sales/supplies	1			
	5			
ከታክስ ነፃ የሆነ ሽያጭ/አቅርቦት/Tax-exempt sales/supplies	2			
	0			
በገዢው ተይዞ የተሰበሰበ የአቅርቦት/የሽያጭ ዋጋ /Services or supplies subject to reverse taxation	2		3	
	5		0	
ታክስ የተስተካከለበት ዲቢት ሰነድ ግብይት ዋጋ ለአቅራቢ/Tax adjustment with debit note for suppliers	3		4	
	5		0	
ታክስ የተስተካከለበት ክሬዲት ሰነድ ግብይት ዋጋ ለአቅራቢ /Tax adjustment with Credit note for suppliers	4		5	
	5		0	
ጠቅላላ አቅርቦት/ሽያጭ Total	5		6	
sales/supplies	5		0	
{ Line 5+15+20+25+35-45 }				

የካፒታል አቅርቦት/CAPITAL ASSET PURCHASES

		ጠቅላላ ሙጢ/		የግብዓት ታክስ/Inpu
--	--	----------	--	----------------



		Total amount		t vat
የአገርውስጥ ካፒታል ንብረቶች/Local purchase capital assets/	6 5		7 0	
የውጭ ሀገር የካፒታል ንብረት ጥገና/Imported capital assets purchase	7 5		8 0	
ታክስ ያልተከፈለ በትግዥ ወይም ተመላሽ የማይጠየቅ ቅጣት /Purchase with no VAT or Unclaimed inputs/	8 5			
ጠቅላላ የካፒታል ንብረቶች/ Total capital assets (lines 65+75+85)	9 0		9 5	
ካፒታል ያልሆኑ ንብረቶች/ NON-CAPITAL ASSET PURCHASES				
		ጠቅላላ መጠን/ Total amount		የግብዓት ታክስ/ Input vat
የሀገርውስጥ ግብዓት ጥገና/Local purchase Inputs/	1 0 0		1 0 5	
የውጭ ሀገር ግብዓት ጥገና/Imported Inputs purchase	1 1 0		1 1 5	
ልዩ ልዩ ወጪዎች ግብዓት ጥገና/General Expense Inputs purchase	1 2 0		1 2 5	
ታክስ ያልተከፈለ በትግዥ ወይም ተመላሽ የማይጠየቅ ቅጣት /Purchase with no VAT or unclaimed Inouts	1 3 0			
በገዢው ተይዞ የተቀናጠለ የጥሬ ምርት ታክስ	1		1	

/Deductible on VAT reverse taxation/	3 5		4 0	
ታክስ የተስተካከለበት ዲዲት ሰነድ ግብይት ዋጋ ለገዢ ዚ /Tax adjustment with debit note for buyers/	1 4 5		1 5 0	
ታክስ የተስተካከለበት ክሬዲት ሰነድ ግብይት ዋጋ ለገዢ ዚ /Tax adjustment with credit note for buyers/	1 5 5		1 6 0	
ጠቅላላ የግብዓት ዋጋ /Total Input/ (line 100+110+120+130+135+145-155)	1 6 5		1 7 0	

175. ሽውቸር ከተከፋይ ሂሳብ ላይ የሚቀነስ የተጨማሪ እሴት ታክስ /VAT on Government Voucher ----

180. ሌሎች በወሩ ውስጥ የሚታሰቡ/ክፍያ፣ በእጅ ያለዕቃ/other credits for month (payments, goods on hand) -----
185. የወሩ አጠቃላይ የተጨማሪ እሴት ታክስ ተከፋይ/ VAT due for month (line 60-95-170-175-180) ---

190. የወሩ የተጨማሪ እሴት ታክስ ተመላሽ /VAT credit for the month (line 95+170+175+180-60) --

195. ካለፈው ወር የዘረብ ልጭ ክፍያ /Credit carried forward from previous month -----

200. ጠቅላላ የተከፈለ ገንዘብ /Amount to be paid (Line 185-195) -----

205. ለቀጣይ ወር የሚታሰብ ገንዘብ ተመላሽ /Credit Available for carry forward (line 190+195-185) --

አባሪ/ATTACHMENT/

ሰንጠረዥ ሀ ዝርዝር ግዢ (የግዢ ግብር ከፋይ መለያ ቁጥር፣ የሻጭ ግብር ከፋይ መለያ ቁጥር፣ የደረሰ ንቁጥር፣ የግዢ ዕቃ/አገልግሎት አይነት፣ የሻያ ጭካኔ ዓመት፣ የሻያ ጭቀን ወዘተ) Annex A: Detailed breakdown of all purchases made including receipt number, date of sale, type of goods/service, VAT paid, TIN of supplier.

ለታክስ ሰራተኛ ብቻ ተጠቃሚ/FOR USE ONLY TAX AUTHORITY/

የባለሙያው/ሥራ/OFFICER'S

NAME:-----

ፊርማ/SIGNATURE:-----

የሠራተኛው መታወቂያ ቁጥር/EMPLOYEE ID:-----

ቀን/DATE:-----

የታክስ ማዕከል/TAX CENTER -----

• **Indirect tax declaration date**

Sr. No	tax	Date of declaration
1	Turnover Tax	
2	ExciseTax	At the time of ✓ Import goods ✓ Export goods ✓
3	Value Added Tax	Within 30days starting from the end of the month
4	Customs Duty	On the date goods cross the boundaries of the country

Self-Check – 3	Written test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Multiple choice (2 point for each)

- Which one of the following is not cause of tax evasion?
 - Moral and psychological factors
 - High rates of taxation
 - Purpose of tax
 - Complexity of tax laws
- A tax imposed on luxury goods and basic goods is known as _____.
 - Turnover tax
 - Excise tax
 - VAT
 - Customs duty
- A tax that is calculated and charged on the sale of goods or services from your business known as _____.
 - Input tax
 - Output tax
 - VAT payable
 - VAT refund
- TOT is charged at _____.
 - 15% flat rate
 - 10%-35% rate
 - 2% on goods and 15% on service
 - 2% on goods and 10% on service

Test II; short Answer (12 point)

- Write the difference between tax avoidance and tax evasion

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2. Write causes of tax evasion

3. What criteria voluntarily to apply for registration VAT?

Note: Satisfactory rating – 15 points Unsatisfactory - below points 10

You can ask your teacher for the copy of the correct answers

3.1. Equipment and procedure for determining VAT (Value Added Tax)

A. Equipment and documents

- I. Computer
- II. Calculator
- III. Documents

B. Procedure for determining VAT (Value Added Tax)

- ✓ If sales or purchase is made excluding VAT, the VAT amount will be multiplied by the sales or purchase price by 15%.
- ✓ If sales or purchase amount is made inclusive VAT, the VAT amount will be multiplied by sales or purchase amount by (15/115).

3.2. Computing VAT liability or Receivable

Illustration 1. During the VAT period, shop X (which is VAT registered) purchases 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:

$$65,000 \text{ Birr} \times 15\% = \text{-----} 9,750 \text{ birr}$$

Input VAT:

Purchase amount, inclusive VAT $\times (15/115)$

$$62,000 \times 15/115 = \text{-----} \underline{\underline{8086.96 \text{ birr}}}$$

$$\text{VAT payable} \text{-----} 1,663.04 \text{ birr}$$

✓ **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	<u>Birr</u>
Purchases of raw materials...	Br2,000
VAT paid on raw material ($15\% \times 2,000$).....	<u>300</u>
Sell to the wholesaler the finished goods.....	Br4,000
VAT ($4,000 \times 15\%$)...	<u>600</u>
VAT liability of the manufacturer ($600 - 300$).....	Br300
Wholesaler stage	
Sells to the retailer at a price	5,600
VAT ($5,600 \times 15\%$)...	<u>840</u>
VAT liability of the wholesaler ($840 - 600$)	240
Retailer stage	
Sell to the final customer at a price.....	8,400
VAT ($8,400 \times 15\%$).....	<u>1,260</u>
VAT liability of the retailer ($1,260 - 840$)	420
Total VAT paid to Tax authority--- ($300 + 240 + 420$).....	Birr <u>960</u>

Lap test 3

1. Computing Indirect Tax

Task 1. Compute VAT

Assume XYZ cooperative union registered VAT, the union purchased one Tractor for Br 152,000 inclusive vat further the union provide service to the customers for Br 280,000 before VAT.

Based on the above information compute

- I. OutputVAT
- II. InputVAT
- III. VATpayable or receivable

Task 2. Calculatethecustomsduty

Assume XYZ union imported Toyota pic up model 2020 from Japan, the union incurred the following costs

Purchase price Br 650,000, insurance Br 120,000 and fright Charges Br 150,000,

- ✓ Compute the custom duty tax by obtaining tax rate from appropriate body.



Instruction sheet

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

- Concept of stamp duty tax
- Identifying the amount paid to stamp duty tax in Ethiopia

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

- Understand concept of stamp duty tax
- Identify the amount paid to stamp duty tax in Ethiopia

Learning Instructions:

5. Read the specific objectives of this Learning Guide.
6. Follow the instructions described below.
7. Read the information written in the information Sheets
8. Accomplish the Self-checks

Information Sheet 4

1.1. Concept of stamp duty tax

1.1.1. Definition of 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 is a tax that is levied on documents historically this included the majority of legal documents such as cheques, receipts, military commissions, 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 a rate charged upon certain documents

1.1.2. Terms used in stamp duty tax

- **Ad valorem 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 arbitrator or arbitrators on a matter 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's obligations 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 representatives of employees or organization
- **Instrument**:- means written document by which any right or obligation purpose to be created, re-ordered, transferred, extinguished or by which its scope is limited or extended

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- **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 inter term 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 grantor gives to a lender a charge upon a part or the whole of these property.

1.2. Amount paid to stamp duty tax in Ethiopia

- **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

1.3. Rate and mode of valuation of stamp duty

The rates might be flat or they may be depending 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 a. Any business organization upon first execution b. Upon subsequent execution	Flat	Birr 350 Birr 100
3	Award	On 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	Birr 350

Self-Check – 4	Written test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Multiple choice

- The basis of the stamp duty tax is _____
 - Price
 - Type of income
 - Cost
 - Willingness
- A tax on executed documents relating to properties or interests in properties is known that ____
 - VAT
 - TOT
 - Stamp duty
 - Income tax
- Which one of the following is NOT chargeable on stamp duty tax?
 - Award
 - Bond
 - Security deeds
 - Profit

Test II; short answer

- Define stamp duty tax
- Write at list five items Chargeable for stamp duty

Note: Satisfactory rating – 15 points Unsatisfactory - below points 10

You can ask you teacher for the copy of the correct answers

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LG #16

LO #5 – Manage tax liability

Instruction sheet

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

- Identifying tax payers tax liability
- Analyzing under or over payment of tax

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

- Identify tax payers tax liability
- Analyze under or over payment of tax

Learning Instructions:

9. Read the specific objectives of this Learning Guide.
10. Follow the instructions described below.
11. Read the information written in the information Sheets
12. Accomplish the Self-checks

Information Sheet 5

5.1. Determining tax payers 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:
 - Lodging returns and paying governments;
- Land tax where applicable

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- 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 policies
 - ✓ Easements and mortgages
 - ✓ Motor vehicle purchases
 - ✓ Property transfer

5.2. Analyze under or over payment of tax

• Involving under or over payment 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 underpayment 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 between what you actually paid and 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
- ✓ Amended assessments of earlier years
- ✓ Paying interest on overdue amounts

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Self-Check – 5	Written test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Multiple choice

- The total amount of tax debt owed by an individual, corporation or other entity is known as ____
 - Tax credit
 - Tax debit
 - Tax liability
 - Tax assessment

Test II; Short Answer

- What is tax liability? (2 points)
- How can the taxpayer determine their tax liability?

Note: Satisfactory rating – 15 points Unsatisfactory - below points 10

You can ask your teacher for the copy of the correct answers

Reference Materials

Books:

Ethiopian tax accounting, by MisirakTesfaye AbateTax accounting in Ethiopia, by GebrieWorkuTaxation inEthiopia, publishedby:EthiopianChamberofCommerce(ECC),

EthiopianBusinessDevelopment ServicesNetwork,Jan.2005, A.A

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Web addresses

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Employment Income Tax in Ethiopia – Fikadu and Associates Law Office (ethiopianlaw.com)

Federal Income Tax Proclamation No. 979-2016 - iportal (investin.et)

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