

Addis Ababa, Ethiopia

Table of Contents

Introduction to the Module	1
LO #1 Identify and apply the role of taxation	2
Instruction sheet	2
Information Sheet 1	3
Self-check 1	15
LO #2 Identify and apply direct tax	16
Instruction sheet	16
Information Sheet 2	17
Self-Check 2	31
Operation Sheet 2.....	33
LAP test 2.....	35
LO #3 Identify and apply indirect tax.....	36
Instruction sheet	36
Information Sheet 3	37
Self-Check 3.....	51
Operation Sheet 3.....	53
Lap test 3.....	55
LO #4 Identify and apply stamp duty tax.....	56
Instruction sheet	56
Information Sheet 4	57
Self-Check 4	60
LO #5 Manage tax liability	61
Instruction sheet	61
Information Sheet 5	62
Self-Check 5	64
Reference Materials	65

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 #20

LO #1 Identify and apply the role of taxation

Instruction sheet

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

- 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)

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 & 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:

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

Page 5 of 69	Ministry of Labor and Skills Author/Copyright	Cooperative Accounting and Auditing Level -1	Version -1
			August , 2022

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 "fair 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

Page 12 of 69	Ministry of Labor and Skills Author/Copyright	Cooperative Accounting and Auditing Level -1	Version -1
			August , 2022

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 yfile 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 tax payers (finger prints) and issuance of tax Identification numbers (PIN), broadening the VAT tax base, improvement in tax administration and trade facilitation were some of the measures taken by ERCA.

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

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

Self-check 1

Written test

Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Choose the best answer (4 point)

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

Test II: Short Answer Questions (16 point)

1. Define Tax and taxation
2. Write and discussed the objective of taxation
3. What are the Characteristics of Taxation?

Note: Satisfactory rating - 20 points

Unsatisfactory - below 15 points

LG #21	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”

Information Sheet 2

2.1. Terminologies of direct taxation

- **A direct tax**

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

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

Taxable income” means the amount of income subject to tax after deduction of all expenses and other deductible items allowed under this Proclamation 979/2016 and Regulations 78/2016 issued.

- **Sources of Income**

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

- ✚ 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 is much 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 than 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 hard ship allowance): It is amount paid to employee as a part of salary package, or to defray their out of pocket expense incurred on the behalf of firms
- **Capital gain/appreciation:** It is the amount of income received or gain on the disposal of immovable property, a share, or bond. Or gain or losses from investments drive from changes in asset value during ownership b/n the asset's original cost and its market value at the time of sale. If you sale an asset for more than you paid for it, you have a gain. If you sell an asset for less than you paid for it you have a loss.
- **Dividends:** Represent a disruption of corporate earning to company shareholders and usually take place in the forms-cash or stock. Each organization's board of directors determines the actual dividend that the firm will pay out. Most cash dividend are paid on an annually bases, meanwhile, stock dividends are generally paid at infrequent intervals.
- **Gross income;** The total amount of income received in tax period. Income before tax and expense.
- **Deductions:** A fixed amount or percentage permitted by taxation authorities that taxpayer can subtract from his or her adjusted gross income to determine the taxable income.
- **Exemption threshold:** It is the maximum amount on which tax will not be levied. For

example, in Ethiopia, a person earning as salary less than birr 600per month will not be levi1ed tax. Individual business earning less than 7200per tax year will not be levied tax.

A person received $\frac{1}{4}$ 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 Birr10, 000 in any one transaction or contract and services involving more than Birr500 in one transaction.
- In additions a withholding agent who makes payment to a person who has not supplied a TIN is required to withholding 30% of the amount payment.

Who is Withholding agent?

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

- **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 paper work you need to file, and your personal liability.

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

The most common business structures includes:-

- **A sole proprietorship** is a business owned by one person and usually managed by the owner. No special legal requirements must be met to start a sole proprietorship and usually only a limited investment is required to begin operations.

A sole proprietorship is a separate entity for accounting purposes but it is not a separate legal entity from the owners. That is, from the legal point of view, the owner and the business are treated as one and the same. The owner will be held personally responsible for the debts and actions of the business.

How will sole proprietorship affect taxes? Personal income tax must be paid on all business profit. **(Single taxation)**

- **Partnership** is an association of two or more persons as co-workers of a business for profit. According to the commercial code of Ethiopia (1960) article No 211; a partnership agreement is identified as follows:

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

How will partnership affect taxes?

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

A company/ corporation is a voluntary association of persons, recognized by law, having a

distinctive, name, a common seal, formed to carry on business for profit, with capital divisible into transferable shares, limited liability, a corporate body and perpetual succession.

How will company/ corporation affect taxes?

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

Page 21 of 69	Ministry of Labor and Skills Author/Copyright	Cooperative Accounting and Auditing Level -1	Version -1
			August , 2022

- **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;**

Any company incorporated under the laws of Ethiopia or in a foreign country and other entities having annual turnover of more than Br 500, 000.

Those who are categorized under “A” have to **maintain all records and account** which willenable them to submit a **balance sheet and profit and loss account**.

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

- **Category “B” Taxpayer**

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

- **Category “C” Taxpayer**

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

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

account, they shall pay taxes on the basis of their books of account.

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

Tax rate business profit tax

Corporate businesses are required to pay **30% flat rate** of business income tax For **unincorporated or individual businesses** the business income tax ranges from **10% - 35%**. Unincorporated or individual businesses are taxed in accordance with the following schedule below:

Schedule "A" Business Income

No	Taxable Business Income / Net Profit per year		Tax rate	Deduction in birr
	Over Birr	To Birr	%	Birr
1	0	7,200	Exempt threshold	
2	86,401	19,800	10	720
3	19,801	38,400	15	1710
4	38,401	63,000	20	3630
5	63,001	93,600	25	6780
6	93,601	130,800	30	11460
7	Over 130,801	*****	35	18000

In the determination of business income subject to tax in Ethiopia, deductions would be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer.

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

- The direct cost of producing the income, such as the direct cost of manufacturing, purchasing, importation, selling and such other similar costs;
- General and administrative expenses connected with the business activity;
- Premiums payable on insurance directly connected with the business activity;

- Expenses incurred in connection with the promotion of the business inside and outside the country, subject to the limits set by the directive issued by the Minister of Revenue; Commissions paid for services rendered to the business;
- Sums paid as salary, wages or other emoluments to the children of the proprietor or member of the partnership shall only be allowed as deduction if such employees have the qualifications required by the post.

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

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

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

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

- ✓ On income of bodies 30% of taxable income
- ✓ On income of persons according to the following schedule

Schedule "B Income from 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	1710
4	38,401	63,000	20	3630
5	63,001	93,600	25	6780
6	93,601	130,800	30	11460
7	Over 130,801	*****	35	18000

- **Conditions of payment:**

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

- **Schedule “D” Other Incomes.**

- Tax on Interest Income on Deposits

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

- **Dividend Income Tax**

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

- **Tax on Income from Royalties**

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

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

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

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

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

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

Such income is taxable at the following rates:

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

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

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

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

- **Rendering of Technical Services Outside Ethiopia**

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

- **Agricultural Income Tax**

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

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

entitled to issue a Proclamation providing for such a tax and rent.

Accordingly, the Oromia 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.

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

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

- **Land Use Tax**

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

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

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

- **Declaration and Payment of Tax**

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

- Taxpayers categorized as “A”** are required to declare their taxable income within four months from the end of the tax period.
- Those taxpayers who are categorized as “B”** are required to declare their taxable income within two months from the end of the tax period.
- Category “C” taxpayers** shall declare taxable income within one month i.e. between July 07 and August each year.

Tax declaration forms in Ethiopia include but not limited:

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

Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Multiple choice (2 point for each)

1. Which one of the following deducted form gross income in calculating taxable income?
 - A. cost of producing the income
 - B. expenses connected with the business owner activity
 - C. Premiums payable on insurance directly connected with the business
 - D. Expenses incurred
2. An obligation to withhold the employment income tax from each payment is _____
 - A. Revenue agency
 - B. Employee
 - C. Employer
 - D. Regional office
3. A fixed amount of tax determined by estimation or best judgment is known as _____
 - A. Income tax
 - B. Direct tax
 - C. Presumptive tax
 - D. Flat rat
4. 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 _____
 - A. B
 - B. C
 - C. A
 - D. None

Test II; Short answer (12 point)

1. List and describe at list 5 direct tax

2. Write at list six expenses shall be deductible from gross income in calculating taxable income
3. List Personal liable to obtain TIN

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

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

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, over time and other

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

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

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.

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. Includes sales, interest income, rent income and other

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

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

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

Illustration 1. Hawasa food complex, share company business has reported the following information for the year ended Sene30, 2011:

Sales revenue	birr2, 000,000
Rental income	100, 000
Interest income	10, 000
Total deductions and exemptions for the same tax year	birr 754,000.

- Determine the business profit tax for the year 2011
- Prepare tax declaration forms

Answer

Business profit tax = $2110,000 \times 0.3 - 754,000 = \underline{\underline{121000}}$

LAP test 2

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. He receives monthly transportation allowance of birr1000, 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 bones 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 Sene30, 2011: (Hint use tax bracket)

Sales revenue	birr1, 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 #22

LO #3 Identify and apply indirect tax

Instruction sheet

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

- 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

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:

- 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:

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 shift the burden of the to the consumers by raising the selling g price. Here the impact of excise taxes falls on the manufacturer and the incidence on the ultimate consumers. The person who is required to pay the tax does not bears its burden. Thus, indirect taxes can be 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 for efforts by individual, firms, and other entities to evade the payment of taxes by breaking tax the law. Tax evasion means fraudulent action of on the part of the taxpayer with a view to violate civil and criminal provisions of the tax laws. it can be defined as “ tax evasion implies the activities involving an element of deceit, misrepresentation of facts, falsifications of accounts”.

Examples for Tax evasion:

Under-invoicing of sales and inflation of purchase A trader makes a sale for birr20,000 and does

not account it, in his books under sales Interest earned from lending of money does not includes on total income

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

Cause of Tax evasion:-

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

- **Tax avoidance**

It is the method of reducing ones tax liability by making use of loopholes in a tax law. Therefore, tax avoidance is not illegal. It is the art of escaping taxes without breaking the law.

- **Shifting of tax**

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

- **Incidence of a tax**

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

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

The main types of Indirect tax In Ethiopian are:-

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

- **Turnover tax /TOT/**

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

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

- **Excise tax**

The excise tax is charged on ad valorem rate on certain consumer goods on importation and on similar products locally produced. It is believed that this tax should be imposed on **luxury goods and basic goods**, which are demand inelastic. It is also believed that imposing the tax on goods that are hazardous to health and which are causes to social problems will reduce the consumption thereof. The excise tax would be imposed on goods imported or either produced locally in accordance with the given in Excise Tax Proclamation No. 307/2021.

In Ethiopia, both the federal and regional governments collect excise tax. ERCA is responsible for collecting excise tax for the Federal government and collects excise tax levied on locally produced and imported items into the country. The minimum excise tax rate applied to excisable goods is 0% while the maximum is 100%.

- **Value Added Tax**

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

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

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

Supplies made in Ethiopia;

- Made by a taxable person;
- Made in the course or furtherance of a business;
- Are not specifically exempted or zero-rated.
- The Value Added Tax would be levied at the rate of 15% of the value of:
 - ✚ Every taxable transaction by a registered person;
 - ✚ Every import of goods, other than an exempt import; and Import of services
 - ✚ Exempt import items includes i.e. educational materials, health equipment and medicine

- **Determination of VAT payable in Ethiopia**

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

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

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

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

- **Customs Duty**

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

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, fertilizers, 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 declaration forms are attached in the Annex

I. Turnover Tax declaration form

		በኢትዮጵያ ገቢዎች ሚኒስቴር የተርን ኦቨር ታክስ ማስታወቂያ ቅጽ
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ሀ – የታክስ ከፋይ መረጃ

1. የታክስ ከፋይ ስም (የደርጅቱ ስም ወይም ማለሰብከሆነ ስም የአባት ስም እና የአያት ስም)			3. የግብር ከፋይ መለያ ቁጥር	8. የክፍያ ጊዜ
2a. ክልል	2b. ዞን/ክፍለ ከተማ		4. የታክስ ሂሳብ ቁጥር	የሰነድ ቁጥር (ለገቢዎች ማስታወቂያ) (አገልግሎት ገጽ)
2c. ወረዳ	2d. ቀበሌ/ገበሬ መከበር	2e. የቤት ቁጥር	5. የግብር ሰብስቢ ጽ/ቤት ስም	
6. ስልክ ቁጥር		7. ፋክስ ቁጥር		

ለ – የማስታወቂያ ዝርዝር ሐሳብ

2% ተርን ኦቨር ታክስ የማስፈለግ ገቢ			10% ተርን ኦቨር ታክስ የማስፈለግ ገቢ		
ተ.ቁ	የዕቃው የአገልግሎት አይነት	ታክስ የማስፈለግ ገቢ	ተ.ቁ	የዕቃው የአገልግሎት አይነት	ታክስ የማስፈለግ ገቢ
ጠቅላላ 2% ተርን ኦቨር ታክስ የማስፈለግ ገቢ			ጠቅላላ 10% ተርን ኦቨር ታክስ የማስፈለግ ገቢ		
ጠቅላላ ተርን ኦቨር ታክስ ስሌት					

ተ.ቁ	የሰራተኛው		ብዛት
1	በቅላላ 2% ተርጓሽ ስራ ላይ የሚገኝ የሥራ ልማት ገቢ	5	
2	በቅላላ 10% ተርጓሽ ስራ ላይ የሚገኝ የሥራ ልማት ገቢ	10	
3	2% ተርጓሽ ስራ (ተራ ቁጥር 1 X 2%)	15	
4	10% ተርጓሽ ስራ (ተራ ቁጥር 1 X 10%)	20	
5	ሙሉ የሥራ ስራ ተርጓሽ ስራ (ተራ ቁጥር 3 + ተራ ቁጥር 4)	25	

ሙሉ የትክክለኛነት ማረጋገጫ

ከላይ የተገለፀው ማስታወቂያና የተሰጠው መረጃ በሙሉ የተሟላና ትክክለኛ መሆኑን አረጋግጣለሁ፡፡	ለቢሮ አገልግሎት ብቻ
ትክክለኛ ያልሆነ መረጃ ማቅረብ በግብር ሕጎች ሆነ በወንጀል መቅጫ ሕግ የሚያስቀጣ መሆኑን እገነዘባለሁ፡፡	

	የተከፈለበት ደረሰኝ ትቀን	ደረሰኝ ቁጥር
--	------------------	----------

የግብር ከፋይ /ሕጋዊ ወኪል ስም _____ ፊርማ _____ ቀን _____	ሙሉ ስም _____ ፊርማ _____ ቀን _____	የግብር ባለስልጣን ማህተም ስም _____ ፊርማ _____ ቀን _____	የገንዘብ ልክ _____ የገንዘብ ተቀባይ ፊርማ _____
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Ministry of Revenue

(Draft as of 4/12/06)

FIRA Form 2301 (5/2006)

II. Excise Tax declaration form



በኢትዮጵያ ፌዴራላዊ ዲሞክራሲያዊ ሪፐብሊክ ገቢዎች ሚኒስቴር

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

MINISTRY OF REVENUE

የሰነድ ቁጥር/Document Number -----

ኦክሲዝን ታክስ ማስታወቂያ/EXCISE TAX DECLARATION

የግብር ጊዜን የተመለከተ ዝርዝር መረጃዎች/DETAILS OF TAX PERIOD

ያሳውቁበት ቀን/DATE OF FILING -----

የመመዝገቢያ ዓይነት/ RETURN TYPE ዋና/ORIGINAL ----- የተከለሰ/REVISED

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

የግብር ከፋይ ዝርዝር መረጃ/TAX PAYER DETAILS

የግብር ከፋይ ስም-----

Name of organization or tax payer-----

የግብር ከፋይ መለያ ቁጥር/TAX-PAYER IDENTIFICATION NUMBER (TIN) -----

ንዑስ መለያ ቁጥር(ካለ)/SUB-TIN,IF ANY -----

የኤክሳይዝ ታክስ ምዝገባ ቁጥር/EXCISE TAX REGISTRATION NO -----

የታክስ ወኪል ዝርዝር መረጃ/DETAILS OF TAX AGENT

የግብር መመዝገቢያው በሌላች አካላት (የታክስ ወኪል) የተዘጋጀ ከሆነ ቀጥሎ ያሉትን ዝርዝር መረጃዎች

ይጻፉ : /IF THE RETURN HAS BEEN PREPARED BY TAX INTERMEDIARY (TAX AGENT), THEN PLEASE PROVIDE THE FOLLOWING DETAILS/.

የግብር ከፋይ ወኪል የግብር ከፋይ መለያ ቁጥር/AGENT TIN -----

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

የታክስ ወኪል ተቋም የግብር ከፋይ መለያ ቁጥር/ORGANIZATION TIN -----

የግብር ከፋይ ወኪል የግብር ከፋይ መለያ ቁጥር/ AGENT TIN -----

ማረጋገጫ/CERTIFICATION

በዚህ ቅጽ ላይ የሰፈሩት ሁሉም መረጃዎች ትክክልና የተሟሉ 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: -----

ኤክሳይዝ ታክስ ማወቂያ/EXCISE TAX DECLARATION

10. የተሸጠዎቹ የኤክሳይዝ ታክስ ማግኘት (አባሪ 1) -----

Excise tax on taxable goods (annex 1e)

20. በወጥ የሚገኝ የኤክሳይዝ ታክስ (አባሪ 3) -----

Excise tax credit for the month (annex 3g)

30. የወጥ የተጣራ ኤክሳይዝ ታክስ ተከፋይ -----

Net amount to be paid (line 10-20)

በሚኒስቴር ማህበራዊ ባለሙያ ብቻ የሚገለጽ/TO BE USED BY MINISTRY OF REVENUE ONLY

የባለሙያው ስም/OFFICER'S NAME: -----

ፊርማ/SIGNATURE: -----

የሠራተኛው ማዕድን ቁጥር/EMPLOYEE ID: -----

ቀን/DATE: -----

የታክስ ማዕከል/TAX CENTER -----

Value Added Tax declaration form

VALUE ADDED TAX DECLARATION የተጨማሪ እሴት ታክስ ማወቂያ

የግብር ጊዜን የተመለከቱ ዝርዝር መረጃዎች/DETAILS OF TAX PERIOD

ያሳወቁበት ቀን/DATE OF FILING -----

የተ.እ.ታ ማሳወቂያ ዓይነት/VAT RETURN TYPE

ዋና/ORIGINAL -----

የተከለሰ/REVISED -----

የግብር ጊዜ/TAX PERIOD ከ/FROM ----- እስከ/TO -----

የግብር ከፋይ ዝርዝር መግለጫ/TAX PAYER DETAILS

ምዝገባውን ያደረገው ድርጅት ወይም የግብር ከፋይ ስም -----

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

የግብር ከፋይ መለያ ቁጥር/TAX-PAYER IDENTIFICATION NUMBER (TIN) -----

ንዑስ መለያ ቁጥር(ካላ)/SUB-TIN,IF ANY -----

የግብር ከፋይ የተጨማሪ እሴት ታክስ ምዝገባ ቁጥር/VAT REGISTRATION NO -----

የታክስ ወኪሉ ዝርዝር መረጃ/DETAILS OF TAX AGENT

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

የግብር ከፋይ ወኪል የግብር ከፋይ መለያ ቁጥር/AGENT TIN -----

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

የታክስ ወኪል ተቋም የግብር ከፋይ መለያ ቁጥር/ORGANIZATION TIN -----

የግብር ከፋይ ወኪል የግብር ከፋይ መለያ ቁጥር/ AGENT TIN -----

ማረጋገጫ/CERTIFICATION

በዚህ ቅጽ ላይ የሰፈሩት ሁሉም መረጃዎች ትክክልና 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 -----

ባዶ የሚሰጠው/NIL FILER DECLARATION

የሽያጭ-የግዢ ስላት/COMPUTATION OF OUTPUT TAX

ያሳውቁት ባዶ ነው?/ARE YOU A NIL FILER?

አዎ/YES -----

አላሳውቅም/NO -----

		ጠቅላላ መጠን /Total amount/	የምርት ውጤት ታክስ/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 አቅርቦቶች/Tax-exempt sales/supplies	2 0		
በገዢው ተይዞ የተሰበሰበ የአቅርቦት/የሽያጭ ዋጋ /Services or supplies subject to reverse taxation	2 5		3 0
ታክስ የተስተካከለበት ደብዳቤ ሰነድ ግብይት ዋጋ ለአቅራቢ/Tax adjustment with debit note for suppliers	3 5		4 0
ታክስ የተስተካከለበት ክሬዲት ሰነድ ግብይት ዋጋ ለአቅራቢ /Tax adjustment with Credit note for suppliers	4 5		5 0
ጠቅላላ አቅርቦት/ሽያጭ Total sales/supplies {Line 5+15+20+25+35-45}	5 5		6 0

የካፒታል እቃዎች ግዢ/CAPITAL ASSET PURCHASES

		ጠቅላላ ሚኒስቴር/Total amount		የ ግብዓት ታክስ/Input vat
የ አገር ውስጥ ካፒታል እቃዎች ግዥ/Local purchase capital assets/	65		70	
የ ወጪ ሀገር የ ካፒታል እቃዎች ግዥ /mported capital assets purchase	75		80	
ታክስ ያልተከፈለበት ግዥ ወይም ተሟላ የ ሚኒስቴር ቅጣቸው ግብዓት/purchase with no VAT or Unclaimed inputs/	85			
ጠቅላላ የ ካፒታል እቃዎች ግዥ/ Total capital assets (lines 65+75+85)	90		95	

ካፒታል ያልሆኑ እቃዎች ግዥ/NON-CAPITAL ASSET PURCHASES

		ጠቅላላ ሚኒስቴር/Total amount		የ ግብዓት ታክስ/Input vat
የ ሀገር ውስጥ ግዥዎች ግብዓት /Local purchase Inputs/	100		105	
የ ወጪ ሀገር ግብዓት ግዥ/Imported Inputs purchase	110		115	
ልዩ ልዩ ወጪዎች ግብዓት ግዥ/General Expense Inputs purchase	120		125	
ታክስ ያልተከፈለበት ወይም ተሟላ የ ሚኒስቴር ቅጣቸው ግብዓት ግዥ /Purchase with no VAT or unclaimed Inouts	130			
በገዢው ተይዞ የተቀነሰ የተጨማሪ	135		140	

እሴት ታክስ /Deductible on VAT reverse taxation/				
ታክስ የተስተካከለበት ዴቢት ሰነድ ግብይት ዋጋ ለገዢ /Tax adjustment with debit note for buyers/	145		150	
ታክስ የተስተካከለበት ክሬዲት ሰነድ ግብይት ዋጋ ለገዢ /Tax adjustment with credit note for buyers/	155		160	
ጠቅላላ የግብዓት ዋጋ /Total Input/ (line100+110+120+130+135+145-155)	165		170	

175. ሽወቸር ከተከፋይ ሂሳብ ላይ የሚገኝ የተጨማሪ እሴት ታክስ/VAT on Government Voucher ----

180. ሌሎች በወሩ ውስጥ የሚታሰቡ/ክፍያ፣ በእጅ ያለ ዕቃ/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 የዞረ ብልጫ ክፍያ /Credit carried forward from previous month -----

200. ጠቅላላ ተከፋይ ሽት/Amount to be paid (Line185-195) -----

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

አባሪ/ATTACHMENT/

ሰንጠረዥ U ዝርዝር ግዢ(የግዢ ግብር ከፋይ ማለያ ቁጥር፣ የሽጭ ግብር ከፋይ ማለያ ቁጥር፣ የደረሰኝ ቁጥር፣ የግዢ ዕቃ/አገልግሎት አይነት፣ የሽያጭ አይነት፣ የሽያጭ ቀን

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 ባለስልጣን ብቻ የተተወ/ FOR USE ONLY TAX AUTHORITY/

የ ባለ መያዣ ስም/OFFICER'S NAME: -----

ፊርማ/SIGNATURE: -----

የ ሠራተኛው መታወቂያ ቁጥር /EMPLOYEE ID: -----

ቀን /DATE: -----

የ ታክስ ማከል /TAX CENTER -----

• **Indirect tax declaration date**

Sr. No	tax	Date of declaration
1	Turnover Tax	
2	Excise Tax	At the time of <ul style="list-style-type: none"> • 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

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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)

1. Write the difference between tax avoidance and tax evasion

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 you teacher for the copy of the correct answers

Operation Sheet 3

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 multiply the salesor purchase price by 15%.
- ✓ If sales or purchase amount is made inclusive VAT, the VAT amount will be multipliesales 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 person purchase goods worth of birr 62,000, including VAT with a 15% VAT rate and sales goods at birr 65,000, excluding VAT with a 15% VAT rate.

Find the VAT payable/refund

Solution: Output VAT:

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

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...	Br 2,000
VAT paid on raw material (15% x 2,000).....	<u>300</u>
Sells to the wholesaler the finished goods.....	Br4,000
VAT (4,000 X 15%)...	<u>600</u>
VAT liability of the manufacturer (600-300).....	Br 300
Wholesaler stage	
Sells to the retailer at a price	5,600
VAT (5,600 X 15%)...	<u>840</u>
VAT liability of the wholesaler (840-600)	240
Retailer stage	
Sells to the final customer at a price	8,400
VAT (8,400 X 15%).....	<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. Output VAT
- II. Input VAT
- III. VAT payable or receivable

Task 2. Calculate the customs duty

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 freight Charges Br 150,000,

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

LG #23	LO #4 Identify and apply stamp duty tax
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 of stamp duty tax • Identifying the amount paid to stamp duty tax in Ethiopia <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 of stamp duty tax • Identify the amount paid to stamp duty tax in Ethiopia 	
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 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 that rate charged up on certain documents

1.1.2. Terms used in stamp duty tax

- **A devaluate tax:-** is a tax based on the assessed value of real estate or personal property in other words
- **An ad valorem tax** can be property tax or even duty on imported items the word ad valoremis Latin for according to value
- **Award:-** means decision in writing rendered by an arbiter or arbitrator 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 obligation shall be paid
- **Collective agreement:-** means an agreement relating to the condition of work concluded in writing between one or more employees or agents or representatives of employees organization
- **Instrument:-** means written document by which any right or obligation purpose to be created, reorders, transferred, extinguished or by which its scope is limited or extended
- **Contract of employment:-** means an agreement formed where a person agrees directly or indirectly, to perform work for a definite or indefinite period or piece work interterm for reminder actions

- **Notaries act:-** means an act of attestation and certification performed by persons authorized to perform such acts
- **Security deeds:-** means any instrument where by a borrower or grantor gives to a lender a charge up on 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 a Up on first execution b. Up on subsequent execution	Flat flat	Birr350 Birr100

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	Birr350

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

LG #24

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:

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 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
- 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
 - + Eases and mortgages
 - + Motor vehicle purchases
 - + Property transfer

5.2. Analyze under or over payment of tax

- **Involving of under or overpayment of tax**

An overpayment of tax happens when you have paid more tax than you were liable to pay.

If you have overpaid tax you will get a tax refund

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

- **Penalty for understatement of tax:**

If the amount of tax shown on a declaration understates the amount of tax required to be shown, the taxpayer is liable for a penalty in the amount of 10% of the understatement or 50% if the understatement is considered substantial. The understatement is considered substantial if it exceeds 25% of the tax required to be shown on the return or 20,000 Birr;

The penalty shall continue to apply until, the Appeal Commission or a Court, as the case may be shall have rendered its final decision.

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

- + Income tax
- + Amended assessments of earlier years
- + Paying interest on overdue amounts

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? (2point)
- How the taxpayer can determine their tax liability?

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

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

Reference Materials

Books

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