Unit 4 & 5

TOT and Excise Tax

Scope of Turn -over Tax _ Art 3

- Turn over tax is imposed on those not registered for VAT to equalize and enhance fairness in commercial relations and make complete the coverage of tax system so as to increase government's revenue from taxation.
- Therefore, the scope of application of turn over tax proclamation is on :
  - supply of goods(2(7)) and
  - rendition of services(2(9)) by

  =>By persons not registered for VAT(2(4))

In this respect as per Art 7 the following are ***exempt*** from turn over tax:

- the rendition of financial services;
- the supply of national or foreign currency and securities except for that used for numismatic purposes;
- the rendering by religious organizations of religious or other related services;
- the supply of prescription drugs specified in directives issued by the relevant government agency; and rendering of medical services;
- the rendition of educational services provided by educational institutions as well as child care services for child can at pre-school institutions;
- supply of goods and rendering of services in the form of humanitarian aid
- the supply of electricity, kerosene and water, license fees, etc.

Rates of Turnover Tax

- The base to compute turn over tax is the goods receipts in respect of goods supplied or service rendered (Art 5). Thus, the person who sells goods and services has the obligation to collect the turnover tax from the buyer and transfer collected tax to authority.
- Art 4 incorporates two kinds of rates: 2% on goods sold locally and for services rendered locally again in two rates:2% for contractors, grain mails, tractors and combine-harvesters and 10% on others.

Obligations of Tax Payers under the Turnover Tax Law

- filing of turnover tax return and payment to the tax authority; Art 10
- Keeping records in a manner acceptable by general principles of accounting; and
- notification of change of address if any that helps the authority to have proper follow up.

CHAPTER FIVE: EXCISE TAX

INTRODUCTION

- Excise tax is one variety of sales tax like VAT and turn over tax but unlike turn over tax and VAT, it is applicable ***not on all kinds of goods rather on selected goods***. It is imposed on ***luxury goods and basic goods which are demand inelastic***.
- It is also applicable on goods which are ***hazardous to health*** and ***societal problems***. In certain goods the tax rate reaches 100% implying that the goods are not encouraged to be imported or produced locally.

Products subject to Excise tax

- The scope of application of excise tax proclamation is determined by the schedule ***attached to the proclamation***. Accordingly, excise tax is applicable to goods which are either produced locally or imported from other countries. To this end, **Art 3** clearly states that :*the proclamation applies on goods listed in the schedule attached to the proclamation.*

- The attachment at the schedule indicates that the goods or products are related to ***luxury goods***, **goods dangerous to health** and that ***cause serious problems to the society***, ranging from perfumes to tobacco and tobacco products. The ***purpose*** is basically; to reduce the production and distribution of those goods which are dangerous to health and thus, the rate imposed as we will discuss thereon reaches 100%. The end goal seems to ban their production

Tax-rates, Bases and Payment of Excise Tax

Tax Rates

The excise tax is imposed on goods imported or produced locally in accordance with the schedule attached with the proclamation proc. No. 307/2002.

Art 4 clearly forwarded rate of taxes as:

The excise tax shall be paid on goods mentioned under the schedule attached to this proclamation.

- *when imported;*
- *when produced locally at the rate prescribed in the schedule*
- The rate specified above is uniformly applied for goods produced locally and imported from abroad, what matters is the type of product. The rate varies from 10% in textiles and textile products to 100% for other alcohol drinks, perfume and toilet waters; and motor vehicles above 1800 C.C.

Bases of Excise-Tax

- The base of the taxation according to the proclamation is a produced thing: whether produced locally or imported from abroad.
- Art 5 runs:
- *Art 5- Base of computation of excise tax*
- *in respect of goods produced locally,* ***the cost of production***
- *in respect of goods imported, cost, insurance and freight (C.I.F)*
- ***Cost of production*** is taken as base to calculate the amount to be imposed on goods produced locally. Cost of production as per Art 2(8) is to mean direct labor and raw material cost incurred in the production process, cost of indirect inputs and overhead costs, but does not include depreciation costs of machineries.
- In respect of goods imported, the base of computation of the tax as mentioned above is cost, insurance and freight.

Payment of Excise Tax

- The excise tax shall be paid with in the time prescribed;
- in respect of goods produced locally, by the producer;
- in respect of goods imported by the importer.

To implement the obligation of tax payers, the time when the tax is to be paid by tax payers has to be clearly determined.

- In connection with this Art 6 provides that:
- Art 6. payment of excise tax

time of payment

- unless decided otherwise as provided for under sub-article 2(b) of this proclamation, the excise tax on goods specified under the schedule shall be payable.

- when imported at the time of clearing the goods from customs area.
- when produced locally not later than 30 days from the date of production;

b. where the tax payer requests for permission to deposit goods produced in a bonded ware house without payment of the tax and if the request is approved by the tax authority the payment of the tax on such goods so deposited shall be effected at the time they are being removed from the bonded ware house.

c. If the tax authority believes that the activity of the tax payer requires, a bonded warehouse may give him permission to establish such bonded ware house.

d. where a producer fails to keep proper accounts and records or fails to submit a monthly declaration or pay the tax with in the time limit prescribed in this proclamation or submit a declaration which up on investigation is found incorrect the tax authority shall be empowered to forbid to producer to remove any good from the place of production or bonded ware house.

Obligation of Tax Payers

Taxpayers are imposed with the following obligations:

- Maintaining books and accounts and supporting documents in accordance with proper accounting principles and in a manner acceptable by Tax-Authority.
- Submit every 30 days to the tax authority, in a from which would be supplied by the authority, a declaration containing the necessary information for the proper collection of the tax.
- Comply fully with the requirements of inspection of his premises by the delegates of the Tax Authority.
- Immediately communicate to the Tax Authority the type and address as well as the commencement and termination date of his business.
- Pay in full the tax due with in 30 days from the date of the termination where such business is terminated.

Administration of Excise Tax

- Administration, among others, requires huge responsibility on the part of tax Authority. To discharge its duties, the authority is vested with the following responsibilities and duties as indicated under Art 9. The powers include:
- the implementation and enforcement of this proclamation
- requiring the person or employee who has access to or custody of any information, records or books of account to produce the same and to attend during normal office hours at any reasonably convenient tax office and answer any question relating there to.
- Enter business premises or stores of the tax payer or to any place suspected to be storage of the products, inspect, collect information and take appropriate measures.
- Notify the tax payer the additional tax to be paid in accordance with the proclamation.
- Requiring any person including a municipality body, financial institution, department or agency of Federal or regional government to disclose particulars of any information or transactions.