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Title: Taxation of educational services in Ethiopia

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Certification

I hereby certify this thesis entailed, **Taxation of Educational service in Ethiopia, Abdulwahid Umer** submitted for LLB degree at Jimma university, school of law, is carried under my guidance and supervision is a bona fide work. This thesis has not been previously submitted to any university for award of any degree, diploma or other similar titles.

Date, June 2013

Signature of Advisor…….

Declaration

I declare that this entailed **Taxation of Educational service in Ethiopia,** which, Iam submitted for award of degree of bachelor of laws(LLB) is my original research work carried under the guidance of Mr Yosef Alemu jimma university. Ideas and expressions borrowed from others authors and materials are duly acknowledged and properly cited. I further declare that this thesis wholly or in part, has not previously formed the basis for award of any degree, diploma or other similar title.

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ACCRONOMY

CIT– Corporate income tax

EU– European Union

FDRE–Federal Democratic Republic Of Ethiopia

IDEA–Individual with disabilities Education Act

ISCE–International Standard Classification of education

KG–Kindergarten

LEDCs–Least Economic Development Countries

PIT–Personal Income tax

TOT–Turn Over Tax

TVET–Technical and Vocational Education Training

UNESCO–United Nation Educational, Scientific and Cultural Organization

VAT–Value Added Tax

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Abstract

The primary goal of Education and training policy is to increase knowledge; skill and competence of the learner. Higher skill levels promote employability and individual's chance of remaining in the labor market.

Taxes are important sources of public revenue. The existence of collective consumption of goods and service necessitates putting some of our income in to government hands for the public goods like road, hospital, Education and other public goods or infrastructure has favorable result to public at large. Since education is public good it has an obligation to promote such service to benefit the public. Among the mode of promotion of education, taxation system of a given country is important. Different countries of the world provide some incentives to encourage education service, through providing exemption, deduction and by putting some special measures in order to provide equitable education service for all. The Ethiopian tax

system is not different in this respect. It exempted education service from VAT and TOT. It is an incentive provided by government to promote education Service. But the scope of exemption is only limited to VAT and TOT taxes.

INTRODUCTION

A. BACKGROUND OF THE STUDY

Taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income in to government hands[1]. The literature on education has analyzed the effects of tax policy on education. In particular, the effects of a constant proportional labor income tax on education depend on the presence of non deductable cost or profit.[2] Tax policy may influence investment on education in two ways. The first concerns the tax treatment of revenues that education and training providers receive from those who pay for learning services .It takes the form of taxes on value added and or sales as well as tax on profit[3].

The second approach to tax policy may influence investment in lifelong learning. Tax incentives have different form such as introducing a tax allowance reducing some amount or expenditure from taxable income, by giving a tax credit against relevant spending or introducing a tax exemption for income accrued by specific group[4]. Tax policy can influence both economic incentives to invest in lifelong learning and the availability of the financial means for such investment, as well as a mechanism for sharing financial responsibilities among different actors[5].

The desire to use taxes for more than raising revenue result in the introduction of tax exemption to Education service, Because it need same incentive to equally distribute this social utility. VAT proclamation explicitly exempts education service from VAT. But the income tax

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[1] 1 Jira Jebessa,Fantahun Melles, dieter Gagel ,Grhard quincke .Taxation in ETHIOPIA (ETHIOPIAN CHABER OF COMMERCE AND BUSINESS DEVELOPMENT SERVICE NETWORK)ADISS Ababa(2007) p 5

[2] Lari artur viianto : on the positive effect of taxation on education (2007)

[3] Cedofop panorama series: using tax incentives to promote education and training; office of official publications of European communities: Luxembourg (2009) p 21 .at www.cedefop.europa .ed. accessed on 27 03 2013

[4] ibid

[5] ibid

proclamation did not exempt Education service from taxable income for education expenses.

B , Statement of the problem

Ethiopia is developing country and its education system needed support from government and education is the main tools to eradicate poverty because of this the VAT proclamation exempted education service from VAT with the fulfillment of certain condition. But when we come to the implementation or the practice in the exemption to training fields there is a problem with implementation of this protected right.

In case of Income tax proclamation Education services expenses that incurred by tax payer are not exempted or not deductable expenses from the taxable income of the firm .Paying income tax in the case of Business Income tax or the expense of Education service or training expenses are not deductable from the taxable income of the firm. In the case of personal income tax individual tax payer not allowed to deduct expenses that incurred for education service from taxable income of tax payer .But in other countries education expenses are deductible from taxable income this reduce the tax burden of an individual this will help him to upgrade his knowledge or to acquire basic education.

In the VAT regulation same vocational training kills that need exemption are not exempted from VAT. This may negative side effect on those who train in the course because they oblige to pay more payment, but it is exempted it will reduce the charge for such course

C. Research Questions

This paper tried to answer the following major research question.

I Is all Educational institutions are free from any tax obligation. Particularly in case of VAT and Income Tax.

II What are the practical and legal problems that impede the implementation of the exempted educational service?

III What are the legal problems in exemption of some training courses from VAT.?

D. Objective of the study

1. Examining the possible effect of Tax on Education.

2. Examining the condition for exemption Education service from VAT.

3. Analyzing the scope of exemption educational service from VAT and IT.

4. Examining the practice in other countries in the exemption of Educational institution from Tax

5. Indicating possible solution for the identified problems.

F **.Methodology of the Research**

The researcher has employed a combination of several approaches. Literature review has provided the conceptual basis on the subject matter. Analysis and explanation are investigated particularly the Ethiopia VAT and Income tax Laws. And it Employs interviews with concerned personal are as sources.

G. Significance of the study

This paper examined and explained the practice of different countries regarding tax on Education and it explores the reason why Educational services are free from tax and the possible effect of such exemption on the overall development of a country.

And it examines and analyzed the Ethiopian tax law in the exclusion of Education service from VAT and income tax. And it provides possible solution for the problem identified.

Generally the paper has the following possible significance

- It will help the government and concerned stake holders to analyze the tax system on Education service and to correct the problem attach to it
- It would also serve as base for future research on the issues.

H. Limitation of the study

There are only few relevant published materials, Reliance is made on electronic sources and even in this case the majority of apparently relevant materials are encrypted are not freely accessible. Especially in Ethiopia tax on Education no reference materials for such research only few in number. Since the Researcher was preparing himself exist exam and, then after, was engaged in externship program out of the campus and no material and internet access was a problem to conduct research.

I. Organization of the study

This research has attempted to explore the practice of other countries in relation to tax on Education services and the incentives that provide to such sector to promote education development. And it is analyzed Ethiopian laws in relation to the subject matter. This research paper has three chapter, chapter one introduce Education in general and its historical development and type of education. Chapters two explore the practice of other countries about tax on Education services. Chapter three Examine and analyze Ethiopian tax laws about tax on Education Recommendation for the problems identified.

CHAPTER ONE

1.1 Introduction

Education is an act or process of acquiring knowledge or imparting knowledge from school, college or University and etc. Education is the base for the development of one country. Education is essential for countries to be able to achieve high level of economic growth.

From its history we can conclude that education began millions of years ago. Education as a science cannot be separated from the educational traditions that existed before. The first large established university is thought to be Nalanda established in 427 AD in India.

In short in this chapter we will see the Definition of education, History of Education, purpose of schools, Internationalization (Globalization and education), International standard classification of Education, system of education, and Ethiopian education system.

1.2 Definition of education

Education can't be defined in a single term. It is defined differently by different dictionary and peoples. Education in its general sense is a form of learning in which knowledge, skill, and habits of a group of people are transferred from one generation to the next through teaching, training, research, or simply through auto didactical[6]. Generally, it occurs through any experience that has a formative effect on the way one thinks, feels, or acts.

> *"Education is the act or process of acquiring knowledge, the act or process of imparting knowledge, esp. at school, college, or university,*

[6] http://en .wikipedia.org\wiki\history- of -education

the theory to teaching and learning, a particular kind of instruction or training."[7]

Education is also defined by Albert Einstein as:

"What remains after one has forgotten what one has learned in school."[8] Education is also defined as

"The act or process of educating; the result of educating, as determined by the knowledge skill, or discipline of character, acquired; also the act or process of training by a prescribed or customary course of study or discipline; as, an education for the bar or pulpit; he has finished his education.[9]*"*

Etymologically, the word "education" is derived from the Latin education ("A breeding, a brining up, a rearing") from educo ("I educate, I train") which is related to the homonym educo("I lead forth, I take out; I raised up, I erect") from e-("from, out of")and duco(" I lead, I conduct").[10]

From the above definition we may understand that: there is no universally agreed definition of education. But we may conclude that: Education is the process of teaching and learning in which knowledge or skill is transferred from and generation to another generation. Education transfer the way we live the coming generation. It imparts or transfer knowledge, skill and socially acceptable behavior to generation.

1.3 Economics and Education

It has been argued that high rates of education are essential for countries to be able to achieve high levels of economic growth.[11] Empirical analysis tend

[7] Dictionary .reference.com /browse/education
[8] www.brainquote.com/words /ed/education 15899
[9] Ibid
[10] Supra note 6
[11] ibid

to support the theoretical prediction that poor countries should grow faster than rich countries because they can adopt cutting edge technologies already tried and tested by rich countries. However, technology transfer required knowledgeable managers and engineers who are able to operate new machines or production practices borrowed from the leader in order to close the gap through imitation. There for, a country's ability to learn from the leader is a function of its stock of "human capital". Recent study of the determinants of aggregate economic growth has stressed the importance of fundamental economic institutions and the role of cognitive skills.[12] Economics is a powerful tool for scholars and educational practitioners who wish to develop a better understanding of educational institutions and decisions. The program in Economics and Education at Teachers college was one of the first of its kind and has maintained its position of leadership in this rapidly growing field.[13]

1.4 History of Education

The history of education according to Dieter Lenzen, president of the Frey University of Berlin 1994, "began either millions of years ago or at the end of 1770". Education as a science cannot be separated from the educational traditions that existed before. Adults trained the young of their society in the knowledge and skills they would need to master and eventually pass on. The evolution of culture, and human beings as a species depended on this practice of transmitting knowledge. In preliterate societies this was achieved orally and through imitation. Story-telling continued from one generation to the next. Oral language developed in to written symbols and letter. The depth and breadth of knowledge that could be preserved and passed soon increased exponentially. When cultures began to extend their knowledge beyond the basic skill of communicating, trading, gathering

[12] ibid
[13] www.colubia.edu /epsa/economics

food, religious practices, etc., formal education and schooling in this sense was already in place in Egypt between 3000 and 500Bc.[14]

The first large established University is thought to be Nalanda established in 427 AD in India. The first University establishments in the western world are thought to be University of Bologna (founded in 1088) and late Oxford University (founded around 1096). In the waste, Ancient Greek philosophy arose in 6th century BC. Plato was the classical Greek Philosopher, mathematical and writer of philosophical dialogues who founded the Academy in Athens which was the first institution of higher learning in the Western world.[15]

In the East, Confucius (551-479), of the state of Lu, was china's most influential ancient philosopher, whose educational outlook continues to influence the societies of china and neighbors like Korea, Japan and Vietnam.[16]

In the Western Europe after the fall of Rome, the Catholic Church emerged as the unifying force. Initially the sole preserver of literate scholar ship in Western Europe, the Church established cathedral school in the early middle Ages as centers of advanced education. Some of these ultimately evolved in to medieval universities and fore bears of many of Europe's modern universities.[17]

Elsewhere during the middle Ages, Islamic science and mathematics flourished under the Islamic caliphate established a cross the middle East, extending from the Iberian peninsula in the west to the Indus in the east and to the Almoravid Dynasty and Mali Empire in the South.[18] Ethiopia is an old and proud African nation with a long tradition of education. With each era new forms of education were added to previous from, which continue to

[14] Supra note 6
[15] ibid
[16] ibid
[17] ibid
[18] ibid

function and provide literacy IN Ge'ez, Amharic, and Arabic. The old religious schools still can be relied on to provide basic literacy in remote regions.

Secular's schools now build on this Foundation and extend it.[19] Education in Ethiopia has been dominated by the Ethiopian Orthodox Church for many years until secular education was adopted in the early 1900s.[20]

Prior to 1974, Ethiopia had an estimated illiteracy rate well above 90% and compared poorly with the rest of Africa in the provision of schools and Universities.[21]The Renaissance in Europe ushered in a new age of scientific and intellectual inquiry and appreciation of ancient Greek and roman civilizations. Around 1450, Johannes Gutenberg developed a printing press, which allowed works of literature to spread more quickly. The European Age of Empires saw European ideas of education in philosophy, religion, arts and scholars also brought back new ideas from other civilizations-as with the Jesuit China missions who played a significant role in the transmission of knowledge, science, and culture between China and the west, translating western works like Euclid Elements for Chinese scholars and the thoughts of Confucius for western audiences. The Enlightenment saw the emergence of a more secular educational outlook in the west.[22] Literary education, which has always been powerful, came to the for in Rome in the third century B.C.[23]

Nowadays some kind of education is compulsory to all people in most countries. Due to population growth and the proliferation of compulsory education, UNESCO has calculated that in the next 2o years[24] more people will receive formal education that in all of human history thus far.[25]

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[19]. en.wikipidia.org /wiki/ education-in- Ethiopia
[20] ibid
[21] www.education.stateuniversity.com /pages//463/Ethiopia.html
[22] Supra note 1
[23] David pratt ,curriculum design and development,(1980)p 456
[24] supra note 1
[25] ibid

Illiteracy and the percentage of populations without any schooling have decreased in the past several decades. For example the percentage of population without any schooling decreased from 36% in 1960 to 25% in 2000. Percentages of the population with no schooling varied greatly among LEDCs in 2000, from less than 10% to over 65%. MEDCs had much less variation, ranging from less than 2% to 7%.

1.5 Purpose of Schools

Individual's purpose for pursuing education can vary. However in early age focus is generally around developing basic Interpersonal communication and literary skill in order to further ability to learn more complex skills and subjects. After acquiring these basic abilities education is commonly focused towards individuals gaining necessary knowledge and skills to improve ability to create value and a livelihood for themselves. Satisfying personal curiosities (education for the sake of itself) and desire for personal development, to "better oneself" without career reasons why people pursue education and use schools.[26]

The purpose of education according to Malcolm Forbes is to replace an empty mind with an open one.[27]From these we understand that, education have tremendous influence in shaping of the behavior of individuals or people. Widen the mental thinking of people and make them receptive of the new ideas.

1.6 Internationalization/ Globalization and Education/

[26] ibid
[27] Supra note 8

Education is becoming increasingly international. The most represented case is the spread of mass schooling. Mass schooling has implanted the fundamental concepts that everyone has a right be educated regard less of his/her culture back ground and gender differences.[28] The right to get education equally without discrimination based on race, nation, nationality, or other social origin, color, sex, language, religion and other is also provided under our FDRE constitution.[29] The system has also promoted the global rule and norms of how the schools should operated and what is education. Though the system can have variation in local, regional, and country level, the similarities-in system or even in ideas-that schools share also enable the exchange among students at all levels which are also playing an increasingly important role in globalization process. In Europe, for example, the Socrates- Erasmus program stimulates exchange across European universities.[30]

Some scholars argue that, regard less of whether one system is considered better or worse than another, experiencing a different way of education can often be considered to be the most important, enriching element of international learning experience. The global campus online led by American universities allows free access to class material and Lecture files recorded during the actual classes. This facilitates the globalization of education.[31]

As the major formal agency for conveying knowledge the school features prominently in the process and theory of globalization. Early examples of educational globalization include the spread of global religions, especially Islam and Christianity, and colonialism, which often disrupted and displaced indigenous form of schooling through much of the nineteenth and twentieth

[28] Supra note 6
[29] FDRE constitution art 25 &41(4)
[30] Supra note 6
[31] ibid

century's. Post colonial globalization influence of education has taken on more subtle shapes.[32]

In globalization, it is not simply the times of economic exchange and political agreement that bind nations and societies, but also the shared consciousness of being part of a global system.[33]

As part of the globalization process, the spread of education is widely viewed as contributing to democratization through the world. Schools prepare people for participation in the economy of polity, giving them the knowledge to make appropriate contribution to the well being of society, and a consciousness about the consequences of their behavior.[34]

1.7 International standard classification of Education

The international standard classification of education (ISCE) is classification structure for organization information on education and training maintained by the United Nations Educational, scientific and cultural organization (UNESCO). It is part of the international Family of economic and social classifications of the United Nations.[35]

The ISCED was designed in the early 1970s to serve as an instrument suitable for assembling, compiling and presenting statistics of education both within individual countries and internationally. It was approved by the international conference on Education (Geneva, 1975), and was subsequently endorsed by UNESCO's General conference. The UNESCO institute for statistics has proposed a revision to ISCED (ISCED, 2011), which has approved by UNESCO's general conference in November 2011 and which will replace ISCED-1997 in international date collection.[36]

[32]Supra note 21
[33] ibid
[34] ibid
[35] Supra note 6
[36] ibid

Related materials from European centre for the Development of Vocational Training provide further information and statistical guidance for classification of sub-fields of education as a companion to ISCE. Due to the population growth and the proliferation of compulsory education, UNESCO has calculated that in the next 30 years more people will receive formal education than in all of human history thus for.[37]

There are for types of education, such as: formal education, adult education, alternative education and special education. Formal education can be defined as a hierarchically structured and chronologically graded education system. It comprises of primary education, higher education and full time professional training. Adult education refers to a practice of education, namely, formal class based learning, e-learning and self-directed learning. Alternative education is actually on alternative approach to traditional or mainstream education. This education alternative is often rooted in several philosophies that are quite different from that of mainstream education. The last one is special education learning needs, which are addressed through special education. According to IDEA (individual with Disabilities Education Act), a child is first identified as one who requires special education support; then, the child is evaluated and on its basis, his/her eligibility is determined.[38]

1.8 System of education[39]

System of schooling in relation involves institutionalized teaching and learning in relation to a curriculum, which itself is established according to a predetermined purpose of the school in the system. Schools systems were also based on people's religion giving them different curricula.

1.8.1 Curriculum

[37] ibid
[38] ibid
[39] ibid

In formal education, a curriculum is the set of courses and their Content offered at a school or university. As an idea, curriculum stems from the Latin word for race course, referring to the course of deeds and experiences through which children grow to become mature adults. A curriculum is prescriptive, and is based on a more general syllabus which merely specifies what topics must be understood and to what level to achieve a particular grade or standard.

Educational institution may incorporate fine arts as part of K-12 grade curriculums or within majors at colleges and universities as electives. The various types of fine arts are music, dance, and theater.

1.8.2 Preschool

The term preschool refers to a school for children who are not old enough to attend kindergarten. It is a nursery school. Preschool education is important because it can give a child the edge in a competitive world and education climate. While children who do not receive the fundamentals during their preschool years will be thought the alphabet, counting, shapes and color and designs when they begin their formal education they will be behind the children who already possess that knowledge. The true purpose behind kindergarten is “to provide a child-centered, preschool curriculum fir three to seven year old children that aimed at unfolding the child’s physical, intellectual, and moral nature with balanced emphasis on each of them.

1.8.3 Primary schools

Primary (or elementary) education consists of the first 5-7 years of formal, structured education. Under the Education for all programs driven by

UNESCO, most countries have committed to achieving universal enrollment in primary education by 2015, and in many countries it is compulsory for children to receive primary education. The division between primary and secondary education is somewhat arbitrary, but it generally occurs at about eleven or twelve years of age. Some education systems have separate middle schools, with the transition to the final stage of secondary education taking place at around the age of for teen.

1.8.4 Secondary Schools

In most contemporary educational system of the world, secondary education comprises the formal education that occurs during adolescence. It is characterized by transition from the typically compulsory, comprehensive primary education for minors, to the optional, selective tertiary, “post-secondary”, or higher education (e.g. university, vocational school) for adults. The exact boundary between primary and secondary education also varies from country to country and even within them, but is generally around the seventh year of schooling. Secondary education occurs mainly during the teenage years. In the United States, Canada and Australia primary education together are sometimes referred to as K-12 education, and in Newzerland year 1-13 is used. The purpose of secondary education can be to give common knowledge, to prepare for higher education or to train directly in profession. The emergence of secondary education in the united states did not happen until 1910, caused by the rise in big businesses and technological advances in factories (for instance, the emergency of electrification), that required skilled workers.

1.8.5 Auto didacticism

Auto didactics is self-directed learning that is related to but different from informal learning. In a sense, auto didacticism is “learning on your own” or “by yourself,” and autodidact is a self-teacher. Some autodidacts spend a

great deal of time reviewing the resources of libraries and educational websites.

1.8.6 Vocational education

Vocational education is a form of education focused on direct and practical training for a specific trade or craft. Vocational education may come in the form of an apprenticeship or intern ship as well as institutions teaching courses such as carpentry, agriculture, engineering, medicine, architecture and the arts.

1.8.7 Anarchistic Free Schools

An anarchistic free school (also called anarchist free school and free school) is a decentralized network in which skill, information, and knowledge are shared without hierarchy or the institutional environment of formal schooling. Free school students maybe adults, children, or both. The open structure of free school is intended to encourage self-reliance, critical consciousness, and personal development. Free school often operates outside the market economy in favor of a gift economy.

1.9 System of Higher Education[40]

Higher education, also called tertiary, third stage, or post secondary education, is the non-compulsory education level that follows the completion of school providing a secondary education, such as high school or secondary school. Tertiary education is normally taken to include undergraduate and post graduate education, as well as vocational education and training. Collage and universities are the main institutions that provide tertiary education. Collectively, these are sometimes known as tertiary institutions. Tertiary education generally results in the receipt of certificates, diplomas or academic degrees.

[40] ibid

Higher education generally evolves work towards a degree-level or foundation degree qualification in most developed countries a high proportion of the population (up to 50%) now enter higher education at some time in their lives. Higher education is therefore very important to national economic, both as a significant industry in its own right, and as a source of training and education personnel for the rest of the economy.

1.9.1 University system

University education includes teaching, research and social services activities, and it includes both the undergraduate level (sometimes referred to as tertiary education) and the graduate (or postgraduate) level (sometimes referred to as graduate school).University are generally composed of several colleges. In the United States, universities can be private and independent, like Yale University, they can be public and state governed, like the Pennsylvania state system of higher education, or they can be independent but state funded, like the University of Virginia.

1.9.2 Open Education

Higher education in particular is currently undergoing a transition towards open education; learning alone is currently growing at 14x the rate of traditional learning. Open education is fast growing to become the dominant form of education, for many reasons such as its superior efficiency and results compared to in most countries today. Open education is generally significantly cheaper than traditional campus based learning and in many cases even free. Many large university institutions are now starting to offer free or almost free full courses such as Harvard, MIT and Berkeley teaming up to form other universities offering open education are Stanford, Princeton, Duke, Johns Hopkins, Edinburgh, U. penn,U. Mirginia, U. Washington, Caltech. It has been called the biggest change in the way we learn since the printing press. Many people despite favorable studies on effectiveness may still despite favorable studies on effectiveness may still

desire to choose traditional campus education for social and cultural reasons.

There has been a culture forming around distance learning for people who are looking to enjoy the shared social aspects that many people value in traditional on campus education that is not often directly offered from open education. Examples of this are people in open education forming study groups, meet UPS and movements such as a college.

1.9.3 Liberal Art College

A liberal arts institution can be defined as a “college or university curriculum aimed at imparting brood general knowledge and developing general intellectual capacities, or technical curriculum.” Although what is known today as the liberal art college began in Europe, the term is more commonly associated with universities in the United States. Examples include St. John’s College, Reed College, Carleton College, and smith collage. [41]

Liberal arts colleges in the United States are certain undergraduate institutions of higher education in the United States. The encyclopedia Britannia concise offers a definition of the liberal arts as a “college or university curriculum aimed at imparting general knowledge and developing general intellectual capacities, in contrast to a professionally, Vocational or technical curriculum.” Generally, a full-time, four-year course of study at Liberal Arts College leads students to earning a Bachelor of Art of or Bachelor of Science degree. While there is no nationwide legal standard in the united states, the term “university” is primarily used to designate graduate education and research institutions, and is reserved for doctorate-granting institutions, and some Us states, such as Massachusetts,

[41] ibid

will only grant a school ”university status” if it offers graduate programs in multiple disciplines.[42]

1.9.4 Community Colleges

Community college is a non residential junior college offering courses to people live in particular area. Community college is type of education institution. The term has different meanings in different countries. For instance community colleges carry on the tradition of adult education which was established in Australia around mid 19th century when evening classes were held to help adults enhance their numeracy and literacy skills. Today, courses are designed for personal development of an individual and/or for employment out come. The education program covers a variety of topic such as arts, languages, business and life style; and are usually are time tabled to be conducting in the evening or weekends to accommodate people working full-times.[43]

In Canada, the term community college is not widely used. There are 150 institutions that could be roughly equivalent of the US community college in certain contexts. They are usually referred to us simply as “colleges” since in common usage a degree granting institution is, almost, exclusively a university. Colleges are educational institutions providing higher education and tertiary education, granting certificates, and diplomas.[44]

In the united stets, community colleges, sometimes called junior college, technical colleges, city colleges, are primarily two years public institutions providing higher education and lower level tertiary education and lower level tertiary education, granting certificates, diplomas, and Associate’s degrees.[45]

[42] en.wikipedia.org/wiki/ liberal art –art – collage
[43] Supra note 6
[44] en .wikipedia.org/wiki/ community collage
[45] ibid

1.10 Ethiopian Educational system[46]

Without exception every Ethiopian is desperate to attend school. To do well at school is to gain the highest acceptance with your peers. School enrollment is at seven, although some assessed by height and teeth private fee-paying kindergartens are in cities and some rural market towns.

Public school is elementary Grades 1 to 8, secondary 9-10 and by selection to pre-university 11 and 12. Classes in cities are in shifts, morning, afternoon and evening. Class size officially is so but often is many more. There are few facilities for disabled students.

Every year a student must pass a promotion exam; at 8 and 10 these are nationally assessed. Failure means repeating a year, after a second failure the student can no longer attend a government schools but students must provide their own books and writing instrument to continue education.

The grade 10 exam (school leaving certificate) cannot be retaken at public or private school. After grade 10 students are streamed in to pre-university (Grade 11 and 12) or technical and vocational Education Training (TVET). TVETs cover artisan trades, physical education, teaching, art, secretarial and computer science or IT. TVETs offer certificate course for two years or Diploma courses for three years. University is from three years to six years, dependent on the course undergraduates are not always given either their choice of course or vocational of university. Attendance is principally free, but students must “payback”(known as cost sharing) after graduation when in employment. There are now private fee-paying universities.

The system of education in Ethiopia is similar with that of the above expression as provided by the ministry of education. The system of education as provided by the ministry of Education are the following

[46] http://www.a_cet .org/schools id =11o56

respectively: pre-primary Education, primary Education (Grade 1-8), First cycle secondary Education (Grade 9-10), Technical and vocational Education and Training (TVET), and Higher Education.[47] Expressing them one by one is not seems important, because I have discussed on the above topic.

[47] Education system in Ethiopia, ministry of education (19980)pp27-30

CHAPTER TWO

TAX ON EDUCATION GENERAL PRESPECTIVE

Education has positive effect on production, productivity growth, and it might have positive externalities in direct economy sense.[48]The literature on education has analyzed the effect of tax policy on education. In particular the effects of constant (proportional) labor income tax on education depend on the presence of non-deductible cost or profit.

According to human capital accumulation theories, in the absence of non-deductible cost or profit, a constant labor income tax has no effect on education.[49] This is due to the fact that both cost and profit are reduced in the same way or proportion. In the presence of non-deductible cost a constant tax rate has a negative effect on education. In the presence of nondeductible profit the effect will be profit or positive. Nondeductible cost can be any monetary cost that not subject to fiscal deduction (fees, traveling cost, and books. etc). The existence of nondeductible profit argued, may be any kind of direct utility increase, such as social status.[50]

There are two main ways in which tax policy may influence incensement in education and training activities, either through the tax investment or revenue from the sale of learning service or through tax incentives on expenditure in education and training activities.[51]

The first concerns the tax treatment of revenues that education and training providers receives from those who pay for learning service. It takes form of taxes on value added and or sales as well as taxes on profit, where these taxes become a monetary difference between what the purchases of

[48] Supra note 2
[49] ibid
[50] ibid
[51] Supra note 3

learning related service pay, and what the providers of such service effectively receives as income (especially in the case of VAT).[52]

The second approach is that tax policy may influence investment in lifelong learning. Tax incentives can have different forms such as introducing a tax allowance reducing some amount of expenditure from taxable income, by giving tax credit against relevant spending or introducing a tax exemption may be sunhat to thresholds (when expenditure is below a limit, tax provision do not apply) and selling (tax provision do not apply to the expenditure which is above such selling.[53]

2.1 EXPERIENCE OF OTHER COUNTRIES

2.1.1 THE EXPERIENCE OF INDIA TAX ON EDUCATION

The primary goal of education and training policy is to increase knowledge, skill and competence of the learners. High skill level promotes employment ability and individual's chance of remaining in the labor market.

In India, taxation on service is based on listing system. In 2012 India introduced new system of tax on service this system known as negative list. The new changes are paradigm shift from existing where only services of specified description are subject to taxation.[54] In India educational service is in the negative list that means it is not subject to tax, but in order to exempt from tax it must fulfill some condition.

The education services that exempt from tax are

1. Pre-school education and education up to higher secondary school or equivalent.
2. Education as part of a prescribed curriculum for obtaining a qualification recognized by law the time being in force it important to

[52] ibid
[53] ibid
[54] Taxation of service :An Education Guide, central Board of Excise and Custom development of Government of India (2012).p38

understand that to be negative list the service should be delivered as part of curriculum conduct of degree courses by colleges, universities or institutions which lead grant of qualification recognized by law would be covered.[55]

3. Educational as part of approved vocational education course. This vocational education includes the following.[56]
    - A course run by individual training institution or an industrial training center affiliated to national council for vocational training.
    - Modular employable skill course, approved by national council of vocational training, run by registered person.
    - A course run by institute affiliated to the national skill development corporation. India international school that gives certificate also covered by negative list or it exempted from tax.

From Indian taxation system on education we understand that to be exempted from tax the educational service must be in negative list. To be in the domain of negative list it must be the education delivered as part of curriculum for obtaining qualification recognized by law. Therefore, under Indian law education to be exempted from tax it must be delivered based on curriculum and it must be for obtaining recognized qualification certificate. For example training given by private coaching institution would not be covered because such training would not lead to grant a recognized qualification.

What we discussed earlier tax on educational service in India tax system is based on VAT and CIT in this case if the firm fulfill the condition we discussed before such firm is free from tax, normally public educational institution are not subject to VAT or CIT but what we discussed is private firms that deliver educational service.

[55] ibid
[56] ibid

It is a time to discuss Indian tax system on education regarding income tax. The right to education is fundamental right under Article 21 of the constitution which cannot be denied to citizens by charging higher fee known as the capitation fee. Based on the understanding that education is the right of every citizen and the income of the individual should not restrain to acquire knowledge and the government have obligation to distribute education for all citizens and taking in to consideration the income of individual and investment on education. India income tax system provides deduction from taxable income for educational purpose. Based on the income tax of India the following are deductible expenses are for education expenses or tax is not collected from the person engaged in such activity. The deduction are tuition fees towards full time education including play school activities, pre-nursery classes, of any 2 children of an individual paid to university, college or school in India.[57]In such case the person have the right to seek deduction from his income; the payment he paid to education institution for himself or his children but the deduction cannot exceed gross total income of the person.[58]

2.1.2 THE EXPERIENCE OF GERMANY TAX ON EDUCATION

Income taxes (PIT and CIT) and VAT are the most important taxes in Germany. The Germany income tax act differentiates between unlimited and limited tax liability.[59]Person with domicile or habitual residence in Germany are subject to unlimited income tax liability on their global income. Nonresident with income in Germany are subject to limited tax liability[60]. The Germany corporate income tax law like the income tax act

[57] at http://en.wikipedia.org /wiki/income tax in India.html accessed on 14 /4/2013
[58] ibid
[59] Supra note 3 p 60
[60] ibid

differentiates between unlimited and limited tax liability. Unlimited liability covers all incomes and applies to corporation. The basis of taxation for corporation is the income that the corporation has obtained within fiscal year.[61]The general treatment of education and training expenses incurred by enterprises under Germany CIT are the expenses incurred by enterprises against profit, which means that these expenses can be deducted 100% from taxable income or profit as cost doing business. In this sense, education and training cost are just one of the many expenses categories that an employer can claim as deduction.[62]

In Germany VAT collected from commercial supplies and service for money are subject to VAT. But it have exemption for some specified activities, it includes nonprofit work, service of doctors and hospitals. It also includes education and teaching services.[63] Under VAT legislation of Germany education and training are exempted from VAT with fulfillment of some condition. .VAT exemption include certain private schools and education institution are exempted from VAT. The rational for this special treatment is to prevent distortion of competition as public education and training in public school are not subject to VAT. The conditions for exemption are the following.

A. Private school and general institution that recognized by constitution or by competent authority
B. The service of independent teacher is free from VAT but the teaching activity is based public school curriculum.
C. The supply of service in the form of lectures, courses and other event of scientific or educational nature is exempted from VAT. This exemption is important to promote education.

[61] ibid
[62] Id p 14
[63] ibid

Any education/ training provider that fulfill all previous condition benefit from exemption, supporting all type of education including initial education or training and continuing training for employees, offered by eligible providers the courses are not required to be certified, but the education/training providers has to be acknowledged.

But in India to be exempted from tax the education providers has to be acknowledged and the course has to be certified or must have some qualification.[64]And the teaching must be based on curriculum. In most European countries educational service is exempted from VAT. The exempted activity include the supply of service and goods, closely linked to the protection of children and young person, children's young people's education school or university education vocational training or retraining are exempted.[65]This exemption of educational service from VAT for the benefit of public at large because individual may not have equal income to attain education are of the basic obligation of government is to provide social service because of this education is exempted from VAT.

Regarding personal income tax the Germany law allows deduction of expenses incurred for education activities. In Germany law to determine taxable income all expenses incurred in acquiring, securing and maintaining the revenue must be deducted from the revenue or from the profit that subject to tax.[66] The deductible expense for education includes the following:

Expenses for further continuing education and training, all measures for further education are exempted from income tax. But to be fully deductible education/training has to be related to either to the occupation/ job carried

[64] Supra note 7
[65] VAT in the public sector and Exemption in the public interest (March 1, 2011). At www.COPENHAGENEECONOMICS.COM .Accessed on 1/01/2013.
[66] Id p 65

out or to retraining preparing for a future occupational change (anticipated income related expenses).[67]

Expenses for initial education can be deducted as work related expense only if this education is part of employment. For example, in case of apprenticeship. The deductibility of education cost as work related expenses has being extended significantly in the last two years, triggered by various recent judicial proceeding and decision.[68]

Generally in Germany education is exempted from tax in case of VAT. And in case of income tax it is considered as deductible expenses in case of personal income tax and in case of corporate income tax expenses for education considered as operating expenses and it is deductible from taxable income of the firm.

[67] ibid
[68] ibid

CHAPTER THREE

3.1 TAXATION OF EDUCATIONAL SERVICE IN ETHIOPIA IN GENERAL

Taxes are important sources of public revenue. The existence of collective consumption of good and service necessitates putting some of our income to government hands. Such public good like roads, power. Municipal services and other public infrastructure have favorable result of many families, business, enterprises, industries and the general public.[69]

The primary goal of education and training policy is to increase knowledge, skill and competence of learner. Several European countries have set up tax incentives to foster national education and training activities.[70] The need to provide continuing training for the work force has led to several cost sharing (confining) schemes across Europe, including tax incentives loans, training funds, and individual learning accounts.[71]

Under Ethiopia tax system it set up incentives to accelerate educational and training activities. The incentives under Ethiopian tax system include only specific or it is limited in scope in relation to other countries but the incentives includes under VAT rendering. Educational service provided by educational institution as well as

[69] Supra note 1 p 4
[70] Supra note 3
[71] Ibid

child care institution is exempted for VAT.[72] The other incentive under Ethiopia is cost sharing for educational expenses but it is only limited to higher institutions.[73]

Generally under Ethiopia tax system educational activities are either exempted from taxation in case of VAT and TOT or educational expenses are subject to deduction in case of income tax but with the fulfillment of condition. The other incentives for educational activities under Ethiopian law are cost sharing mechanism we will discuss this issue in the following section.

3.1.1 TAXABEL AND NON TAXABLE EDUCATION SERVICE

Under Ethiopian law of tax, taxability of educational service is based on the type of taxes imposed on the service or income generated from the activity.

Generally taxable activity is activity that obliges the person who generates income from his act to contribute some sort of money to government. According to proclamation No 481/94 any person whose permanent residence in Ethiopia, has to pay tax from the income that he get with in Ethiopia or abroad.

If the person is not resident of Ethiopia gets his income which has its source in Ethiopia also should pay the tax.

Under income tax proclamation No 78/2002 taxable income is defined as the amount of income subject to tax after deduction of all expenses and other deductable expenses. It includes expenses for securing and maintaining the income.[74] When we see the VAT proclamation taxable activities are supply of

[72] At http://www.hg.org /articles.asp id 23975 accessed on 26/07/2013
[73] Teshome yigzaw: Education financing and cost sharing in the Ethiopian higher education land escape. At http://www.aau.et /nprc/document/dr % 20 teshome%20 yiz.com
[74] Art 2(12) 0f Income tax proclamation no 286/2002

goods and rendering of service by registered person but this proclamation exempted educational activities from VAT obligation.[75]

When we see the deductible expenses under income tax proclamation it is not say anything it include education or not but in other countries in case of corporate or business income tax expense for training cost for staff, supporting apprenticeship, training employees in this case such expenses are deductible for education, so it decrease the tax liability of the company. In case of personal income the Ethiopian income tax law provide some exemption, but it is no for education activities but is only related to the income for the person in such case the person is not oblige to pay beyond this threshold. But in another countries deduction for educational expense are allowed. For example in France individual have income tax credit for expenses higher and secondary education, aimed at parent with dependent children, income exemption for apprentice wages, income tax exemption of wages. This kind of incentives has good contribution to educational development, in America the following are deductible from the taxable income of the person who oblige to pay tax. Expenses for higher education, the expenses must be for eligible student, the student must be the dependent of the person. But in Ethiopia income tax system such kinds of deducting is not allowed.[76]

3.1.2 DEDUCTIBLE EXPENSES UNDER INCOME TAX

Deduction is the subtraction of expenses that the person incurred for the purpose of earning, securing and maintaining the business.[77]

The following expenses shall be deductible from gross income.[78] The direct cost of producing the income, such as the direct cost of manufacturing, purchasing, importation, selling and such other costs

[75] Art 8(2) VAT proclamation no 285 /2002
[76] At http://www.irs.gov /uac/ tax benefit for education – information center.html
[77] Art 20 income tax proclamation no 286/2002
[78] Supra note 1 p 9

- ✓ General administrative expenses connected with business activities
- ✓ Premiums payable on insurance directly connected with the business activity
- ✓ Expenses incurred in connection with promotion of the business inside and outside the country, subject to the limits set by the issued by the ministry of revenue
- ✓ Commissions paid for service rendered to the business
- ✓ Sums paid as salary, wages or other emoluments to the children of the proprietor or member of the partnership shall be allowed as deduction if such employees have the qualification required by the post.

3.1.3 AREA WHICH IS EXEMPTED FORM VAT

VAT is a tax on consumer expenditure; it is collected on business transaction and imports. It is assessed on the value added to goods and services. A taxable person can be an individual firm, company as long as such person registered for VAT.

VAT exemption means of subsidizing for particular service such as health care and education that would otherwise have to be provided by the government. Thus relieving the government of burdens that would it otherwise has to bear.[79]

Under Ethiopian VAT system educational service is exempted from VAT obligation. The exemption is intended to benefit the public at large and encourage and enhance the economy and to protect and promote social and public interest. Pursuant to VAT proclamation, the rendering of educational services provided by educational institution, as well as a child care institution service are exempted from VAT. [80]

[79] Bekure Herouy: The VAT Regime under Ethiopian law with special emphasis on tax Exemption: The Ethiopian on and international experience. at http://www.crdaethiopia.org/policy/dcument/executivesummery . accessed on 27 /04/2013

[80] Art 8(2)(g) of VAT proclamation no 285/ 2002

3.2 CLASSIFICATION OF EDUCATIONAL SERVICES AND TAX IMPOSED ON THEM

3.2.1 PRE-PRIMARY EDUCATION

Pre-primary education is defined as initial stage of organized instruction, designed primarily to introduce very young children to school type environment that is provide a bridge between that home and school based atmosphere.[81]

In most countries pre-primary education services are exempted from VAT. But in case of personal income tax expenses for education is deductible from the taxable income of the parent of child who attained pre-primary education. To be deductible for the purpose of education the education service must be provided by legally recognized institutions and in some countries the education must be provided based on curriculum and in some other countries the education itself should be legally recognized courses. In the case of deductible expenses we can understand that the parent of the child or its dependents when they incurs some expenses for education services such individual have the right to deduct such expenses from his/her taxable income such deductible expense reduce the tax liability of individual. This will have positive contribution for education development especially for those individual with low income or no means to satisfy education expenses.

In case of Ethiopian tax law the tax imposed on pre-primary education institutions should be analyzed based on the type of tax. In case of personal or business income expenses for education service is not subject to deduction from the taxable income of the individual or parents of the child that attaining the pre-primary education. Because of the Ethiopian income tax proclamation not provide any deductible expenses for education

[81] Classifying educational programmes: manual for ISCED – 97 implementation in OECD countries(1999) p 26

expenses, but in most countries education expenses are subject to deduction from the taxable income of the tax payer. The VAT regime of Ethiopia explicitly exempted pre-primary educational service from VAT.[82]But to be exempted such education services, some condition should be fulfilled. The conditions are the education service must be specified in the VAT regulation.[83]And such education service must provide by qualified education institution.[84]The qualification of educational institution must be accredited by the agency that has a power to determine such activity.[85]

If such institution is qualified to render education services such institution have right to exempt from VAT. The exempted activity of education institution include fees and charges related to educational service, transportation service provided by school authority, charges for buildings and similar expenses for educational activity.[86] But the institution and courses should be qualified by accredited by agency.

3.2.2 PRIMARY EDUCATION

Primary education usually begins at the age 5, 6, 7 programs at the primary level generally requires no previous formal education, although it is becoming increasingly common for children to have attended a pre-primary program before entering primary education.[87] The boundary between pre-primary and primary education is typically the beginning of systematic studies characteristics of primary education, example reading, writing, and mathematics. It is common however for children to begin learning basic literacy and numeracy skill at pre-primary level.[88]

[82] Art 8(2)(g) of VAT proclamation no 285/ 2002
[83] Art REGULATIN25(1) of VAT no 79 /2002
[84] ibid
[85] Art 25(4) of regulation no 79/2002
[86] Art 25(6)& 25(7) of VAT regulation no 79/2002
[87] Suppra note 81 p 30
[88] ibid

When we see the tax obligation for the services of education at primary education level most countries exempted it from VAT. This exemption benefit the education institution and indirectly benefit the students because the institution that provide primary education may incur some expenses for educational activities such activities and expenses are exempted from VAT which means VAT is not collected from such activity. In some countries income tax laws allows deduction for education expenses. In this case if the person incurs some expenses for his children or dependents such expenses will deduct from his taxable income.[89]

When we see the Ethiopian tax laws particularly income tax and VAT regarding tax obligation on tax payers who engage in the investment of education service and those who attained or learning education at primary level. The income tax proclamation not provide any exemption and deduction for the expenses incurred for educational activities. From this we can understand that expenses that incurred for education is not deductible from the taxable income of the tax payer.[90]But some countries allowed deduction for educational expenses in case of personal income tax it deduct from the income of the person with some condition and incase of nosiness income tax the education expenses deduct from the taxable profit. Income of the firm by considering such expenses training cost as income related expenses and cost incurred for maintenance of professional or vocational skill.[91]

The Ethiopian VAT proclamation provide exemption for education at primary level pursuant to VAT proclamation rendering of education service provided by educational institution as well as child care service are exempted from VAT obligation.

[89] Tax benefit for education information center. at http://www.irs.gov /uac/tax benefit. Accessed on 28/04 /2013
[90] See art 20 of income tax proclamation no 286/2002
[91] Supra note 3

Under VAT Regulation certain condition should be fulfilled or meet to exempt education institution from VAT. The conditions are;

A qualified charge for education services are should be specified in the VAT regulation.[92] This means that the charges that collected by education institution for education services should specified in the VAT regulation as exempt charges

B They provided to students by qualified education service.[93] This mean that the educational service must provided by the education institution or if the charges are provided by qualified in the regulation and provided by qualified educational institution such educational institution should be accredited by accreditation agency.[94] Therefore the institution only benefit from exemption, if such institution are accredited or being evaluated for accreditation by accrediting Agency at the time the service rendered. The Education institution maybe private operating on profit or nonprofit organization. Generally under the regulation exemption is not allowed for each and every educational institution but some condition should be attain to the activities of such condition maybe the charges must be specified and the institution must accredited such kind of exemption has contribution quality of Education.

The following categories of services are considered as exempted education services. Course of instruction provided to students at a qualified education institution.[95] This is because educational institution is established to render Educational service either for profit or for nonprofit organization such educational instruction of the institution should be exempted from VAT in order to get benefit from the institution.

[92] VAT regulation no 79/2002 art 25(1)(a)
[93]VAT regulation no 79/2002 art 25(1)(b)
[94] VAT regulation no 79/2002 art 25(2)

[95]Art 25(5)(a) of VAT Regulation No 79/2002

Qualified meal plans, and other associated goods or service provided in kind as part of education program provider of the education service.[96] From this exemption we can understand that meal plans and other associated good or service provided by the Educational institution not as part of education program is not qualified for exemption for Education services. The other issues in this exemption is that what is associated good or service it should be understand in way that it is services provided by the institution to promote educational activities or providing soft drank during holy days or some other programs related with meal plans but it must provide by qualified institution as part of educational program.[97]

Instruction in or the administration of examination if provided by educational institution and instruction or tutoring related to qualified courses.[98]The other exempted Education service under VAT regulation is school bus transportation to and from pre-primary, primary or secondary school but such transportation service should be provided by school authority .but it is not exempted if it is provided by Privet Company under contract of Education or school authority.[99]

One of the problem of such sub article is according transportation exemption only the transport service of pre-primary, primary, and secondary education institution are subject to exemption and the transportation service of technical colleges or universities are not exempted and according to Art 25(1)(a) of VAT regulation to be exempted such activity or charge should be specified in the regulation but exemption for transportation at the technical and universities are not exempted from VAT . We validly conclude that transportation services provided under universities are not exempted from VAT. But such conclusion is not true so the

[96] Art 25(5)(b) of VAT Regulation No 79/2002

[97] Art 25(5)(c) of VAT Regulation No 79/2002

[98] Art 25(5)(d) of VAT Regulation No 79/2002

[99] VAT regulation no 79/2002 art 25(6)

transportation exemption should be also extended to the transportation services of technical college or universities.

Under VAT Regulation the following charges are qualified charges for exempt education service. It means that such charges are not collected from exempt education service.[100]It includes the following.

- ✓ Charges for tuition, facilities, and curriculum related activities and instruction
- ✓ Compulsory levies for facilities are part of a supply of exempt education service
- ✓ Student council fees, athletic fees, and other mandatory fees related to course registration
- ✓ Charges for reports, library services, identity cards, record keeping and other administrative service provided by education institution and directly related to the supply of education courses
- ✓ Charges for course material, the rental of curriculum related goods by the supply of education.
- ✓ Student accommodation (including hostels) supplied by supplier of the education. Generally charges are to be qualified the education service should be related to the Education service based on the instruction of the school or supply of exempt services and charges or fees that directly related with education service and education facilities.

3.2.3 Secondary Education

The lower secondary level of education continues the basic programmers of the primary level, although teaching is typically more subject-focused, often employing more specialization teachers who conduct classes in their field of specialization. Lower secondary education may either by terminal i.e.

[100] VAT REGULATION NO 79/2002

preparing the students for entry directly in to working life and preparatory i.e. preparing students for upper secondary education.[101]

The Tax imposed on such Education service are in most countries such services either exempted in the case of VAT or deductible in case of income tax. For example Educational activities or service is exempted from VAT. For example in France General primary school, secondary or tertiary educational activities are exempted from VAT. Whatever the legal status of the providers this includes all type of courses provided by individual who are directly paid by either pupil.[102]In case of income tax the business enterprises can deduct expenses for education and training expenses from profit when these expenses meet two criteria. I.e. they are carried out for the purpose of trade and compulsory contribution required by law.

When we come to Ethiopian law the VAT Regimes explicitly exempted education service from VAT.[103] But to be exempted it provides some condition. The condition is the education service should provide by qualified educational institution and the exempted educational activity and its respective charges should be specified in the VAT regulation.[104]

From this we can understand that being Education institution is not automatically benefit the institution to be exempted from VAT. Generally to be exempted from VAT under Ethiopian law the institution itself should be accredited or qualified by accreditation Agency and the exempted education service should be specified in the regulation.

When we see the income tax proclamation it is not provide dedication or exemption to education expenses.[105] From this we can argue that the income tax proclamation impose obligation to tax payer that cover that

[101] SUPPRA NOTE 81 P 33
[102] Supra note 3 p 53
[103] VAT proclamation no 285/2002 art 8(2)(g)
[104] Art 25(1) (a) of VAT Regulation proclamation 79/2002
[105] See Art 8 of income Tax regulation No 78/2002

cover by this proclamation not to deduct expenses encored for educational expenses. But personal the income and business income tax under this proclamation have some trash hold from which the tax is pied below such income tax is not collected or it is exempted even it is directly not for education service it maybe for such expenses or other similar expenses.

3.2.4 Vocational education and training

It is education program teaching of more practical nature. The field of studies is economics art, agriculture, and engineering.

The tax obligation of those who engage in the vocational education services, such services are exempted from VAT in EU The VAT Directives state that certain activities of general interest linked to education and training activities are exempted from VAT, such provision of children or young people's education, school or university education vocational training and retraining, including the supply of services and foods closely related thereto. However only educational activities provided by organization recognized by member state are exempted from vat, which implies that the entities covered by the exemption can be different among member state[106] regarding CIT the expenses incurred by enterprises in training employees in their trade expenses can be deducted from taxable profit as a cost of doing business. In this sense, education and training cost are just one of the many expense categories that an employer can claim as deduct able expense in profit calculation.[107]

Ethiopian VAT Regimes Explicitly exempted educational service that provided by vocational institutions.[108] But to be exempted two conditions should be fulfilled. The exempted education service should be specified in

[106] Supra note 3 p 10
[107] ibid
[108] VAT regulation no79/2002 art 25(2)(b)

the VAT regulation as exempted service and the exempted education service should provide by qualified educational institution.[109] To be considered as qualified educational institution it should be accredited by accreditation institution or agency.[110] The exempted Education service may be course of instruction, administration of examination provided by the institution. Tutoring related to qualified course.[111] When we see the exemption of transportation service provided by vocational institution such service are not exempted under article 25(6) only the transportation of pre-primary, primary and secondary schools are exempted from VAT. Even if the sub article has gape in practice vocational institution transportation service should be exempted from VAT because it is part and parcel of educational service.

Exempt education service rendered by a university or technical college includes courses, but such course should be quality for credit but the student no needs to peruse the diploma or degree.[112] From such condition we understand that in Ethiopia the technical college courses that credited or courses that grant degree or diploma are exempted from VAT in such case the intention or the need of student to get or not to get degree or diploma is not requirement what required is that the education institution should be qualified to provide course that will enable student with some skill or knowledge certificate of qualification but such certificate is only limited to diploma or degree.

Not only Education services are exempted from VAT but also same charges that connected with the service are also exempted from VAT under the regulation. The charges maybe charges that related with education

[109] VAT regulation no79/2002 art 25(1)
[110] VAT regulation no79/2002 art 25(4)
[111] See art 25(12) VAT regulation no79/2002
[112] see art 25 (12) of VAT regulation No 79/2002

activities and curriculum related charges of the institution, Education fees, Administrative charge, and charge for student accommodation service are exempted from VAT.[113]

On the following educational service rendered by vocational and technical education and its respective charges are exempt from VAT or the charges collected from such services VAT are not imposed.[114]

Adult education courses leading to a degree or diploma or courses that are likely to enhance employment related skills of student enrolled in the course.[115] This means if an employee attends education institutions to upgrade his skill that related to his employment and education institution that provide such courses are exempted from VAT but such courses should lead to degree or diploma. But one problem of such requirement is that some people upgrade their education level in to diploma or degree with the course that not related with employment related skill and what if students enrolled in the course are need to upgrade their skill in to diploma or degree just for personal investment or to be started new business or what if student with different aim that enrolled in the same courses that mean some of them acquire the kill because it related with the employment and some learns the course not related to the employment but either they attained the course to peruse new job or for any other purpose. From the issues we raised in adult education courses are if the employee attends education institution to upgrade his employment related skill in to diploma or degree, education service fees and charges he pied to education institution that qualified to provide such service are exempted from VAT. But if the person learn courses that led to degree or diploma in education institution that provide course related to adult education courses and such courses are not related to employment skill he is not exempted from VAT because the course is not related to his employment, but practically it have problem

[113] See Article 25(7) of VAT regulation No 79/2002
[114] See Article 25(13) of VAT regulation No 79/2002
[115] ibid

because student in the same class my pay differently because some exempted from VAT and some not, this will have negative effect on education development particularly personal filings because they exempted from VAT only when they learn skill that related to employment this makes education service fess higher than other student.

Courses of study at vocational school that develop or enhance a student's is occupational skill. [116]Courses leading to or to maintain or upgrade a professional or trade accreditation[117]

Examination is the course for designation. But in the person improves his skill just for recreational, hobby or artistic the charge paid for such Education service is subject to VAT. Because the purpose of his education is not benefit the public at large or such services can provided by .individual trainer or personal coach and it may not need much investment .But when we say VAT exemption it is a kind of subsidizing the institution that provide certain services because providing such services are at first place the obligation of government but it fail to fulfill such services to public at large due to economic problems because of this government exempted education service from VAT but not all education services are exempted.

Skill related to recreational hobby or artistic education services not exempted from VAT, because governments have no obligation to provide such service. Vocational and Technical Education institution are exemption from VAT in Ethiopia with the fulfillment of certain condition. But even if such educational institutions are exempted from VAT they are paying VAT. Particular driver training institution are not exempted from VAT practically they are pay. VAT. When we ask why the law and practice is different that they argue that driving is for only for personal purpose only or driver train not for future job opportunity. But such kind of understanding is not true most new driver train in order to get job not for recreational or not only for

[116] ibid
[117] ibid

sale purpose personal interest. There for such practices should be corrected.

Generally Ethiopian VAT system exempted technical and vocational institution from VAT to promote such educational service for the benefit of public at large.

3.2.**3 HIGHER EDUCATINAL INSTITUTION**

The requirement for entering in to this program is the successful completion of 10^{+2} year schooling in Ethiopia.

Bachelor degree can be earned in universities, technological institution or teacher training schools. The duration depends on field of education 3 to 5 years (6 years in some case like medicine.

The primary goal of taxes is to raise enough revenue to government activities however, it is known that government also use tax law for achieving wider policy goals: public authorities can intendance tax incentives as part of social and or economic policies Examples of such tax incentives loss of government revenue because they reduce either the tax base or tax due.[118] The following type of tax are exempted or deducted from the taxable income for Education expresses in other countries.

- Personal income tax mainly affecting individual incurring training/education expenditure, as well as same type of legal norms of enterprises. It may also impact on revenues obtained by individual.
- Corporate income Tax mainly affecting enterprises incurring training/education expenditure

[118] Supra note 3 p 18

- CAT mainly affecting enterprise involved in supply education/training activities.[119]

Training expenses are treated as income- related expenses reducing tax able income both for enterprises and individual.

For example in Finland services provided by public or publicly founded institution are exempted from VAT. This applies also to further and continuing education, such as Open University courses or tailored training programmers provided by higher education organization[120] and less than 26 years old who have Job are exempted from income tax on their wages earned by apprentices in the frame work income tax to the limit of annual minimum wages[121]. Income tax credit for education expenses in higher and secondary education, aimed at parents with depended children and influencing PIT returns, Income tax exemption of wages earned by pupils and students aimed at student (or their parents) and affecting PIT returns.[122]

In Ethiopia higher education institution are exempted from VAT.[123]But they are subject to Income Tax. Under VAT proclamations rendering educational service at higher education institution are exempted from VAT. VAT regulation specified the education service that subject to exemption. The exempted services are,[124] Courses, including correspondence courses that quality for credit towards a degree or diploma, whether or not the student is pursuing a degree or diploma program. Adult education courses leading to degree or diploma or courses that likely of the student enrolled in the courses.

[119] ibid
[120] Supra note 3 p 43
[121] Id p 57
[122] ibid
[123] Art 8(2)(g) of VAT proclamation No 285/2002
[124] Art 25(12) of VAT regulation No 79/2002

Courses enhance employment-related skill if the course objectives specify that skill that students will acquire and there is reasonable expectation that the skill thought will be used by the student in their employment, businesses professions or trades.[125] Here what we understand that the reasonable expectation is based on the demand of the skill in the market of employment or in the labor market. But in order to exempt these Education service the Educational institution should be qualified institution and such qualification should be accredited or being evaluated for accreditation by accrediting agency.[126]

[125] Art 25(14) of VAT regulation No 79/2002
[126] Art 25(4) of VAT regulation No 79/2002

CONCLUSION

Education is an act or process of acquiring knowledge or importing knowledge from school, college or university. Educational has positive effect on production productivity growth and it might have positive externalities in direct Economic sense.

Taxes are important source of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income to government hands.

The literature on Education has analyzed the effects tax policy on Education. Tax policy may influence education; it may be negative or positive influence. Because tax law is related income or how to collect income and to whom such obligation is imposed that means paying a tax. A tax law will determine taxable activities, taxable income, deduction and exemption from tax.

There are two main ways in which tax policy may influence investment in education and training activities, either through the tax investment or revenue from the sale of learning service or through tax incentives on the expenditure in education and training activities.

Tax incentives can have different forms such as introducing a tax allowance reducing same amount of expenditure from taxable income, by giving tax credit against relevant spending or introducing a tax exemption may be subject to thresholds.

In most countries of the world education services that provided by qualified Education institutions exempted from tax particular from VAT. In the case of Income tax the expenses for education services are deductible from the taxable income the person either natural or legal person. The exempted and deductible expense may Education service to children or young people’s

education, vocational training, University education, including the supply of service and goods closely related to education service are exempted from tax or they are deductible expenses.

The Ethiopian tax system exempted educational service from VAT.

The education institutions are pre-primary or secondary school, technical or vocational college or universities, institution established to promote adult education, vocational training, technical education, or education or training of physically or mentally handicapped persons. If these institutions are accredited by accreditation Agency the service they provide that related with education are exempted from VAT. But the income tax proclamation not provides deductable or exempted expense for Education services. This may negatively affect the student and the parents with low income. Especially in private school because education expenses that they pied for education service are not deductable from taxable income and at the same time education charges and fees at private schools and institution are very expensive even if it exempted from VAT. In government schools education service fees are very cheap and such institution are not subject to VAT. But in some other countries education expenses are deductable from the taxable income of the tax payer.

VAT regimes of Ethiopia provides exemption for education service with the fulfillment of some condition from this we can understand that being educational institution is not automatically benefit the institution and student learn in such institution. To benefit from VAT exemption the service should specified as exempted service in the VAT regulation and the institution that provides the service should be qualified institution to render education service.

Recommendations

Based on the findings the writer recommends the following points:

1. Vocational and Training institutions that train with some specific fields such as driving cars are exempted from VAT. But in practice they are paying VAT. This kind of practices are inconsistent with the VAT regulation, because of this the right protected under the low are violated, what recommended is that government should take part and correct such kind of malpractice of imposing tax on what the law exempted from tax.
2. Same vocational courses such as looking and computer training that provide by qualified institution should be exempted from VAT because. They are not only for personal purpose and there may be reasonable expectation that such looking skill may be used employment opportunity or such person may use his skill to create job opportunity. And such exemption may benefit poor people that attained such train because it reduces the education charges or payment.
3. Income tax proclamation should provide deduction and exemption for education service. This dedication and exemption may benefit those people with low income because it reduces the tax liability of tax payer.

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