

As you can understand from the schedule which appears here in below, the minimum rate imposed by the schedule is 10 percent on incomes falling from 601.00 Birr to 1650.00 Birr. Whereas, the maximum rate provided in the schedule is 35 percent for all incomes from employment that are above 10900 Birr per month.

0 -600			0 %		
601-1,650			10		
1,651-3,200			15		
3,201-5,250			20		
5,251-7,800			25		
7,801-10,900			30		
Over 10,900			35		
Break	Incomes/birr between the tax break ranges	Amount [Specific birr] taxable in for each rate		Rate	Income Tax Payable for each slab
0- 600	600-0	600		0%	-
601-1650	Upper tax bracket of the current slab (1650)- the upper bracket of the previous slab(600)	1050		10%	1050 x10%=105
1651-3200	Upper tax bracket of the current slab (3200)- the upper bracket of the previous slab(1650)	1550		15%	1550 x15%=232.5
		2600			105+232.5= 337.5
3201-5250	Upper tax bracket of the current slab (5250)- the upper bracket of the previous slab(3200)	2050		20%	2050 x 20%= 410
		4650			105+232.5+410= 747.5
5251- 7800	Upper tax bracket of the current slab (7800)- the upper bracket of the previous slab(5250)	2550		25%	2550 x 25%= 637.5
		7200			1385
7801-10900	Upper tax bracket of the current slab (10900)- the upper bracket of the previous	3100		30%	3100 x 30%= 930
		7200+3100=10300			105+232.5+410+637.5+930=2315

	slab(7800)			
Over 10900		The remaining income that cannot be exhausted by above amount will be taxed at 35% and the result will be added on 2315 birr.	35%	

In order to understand how tax from employment income is calculated as per the schedule, have a look at the following example.

Example:- Mr. Kebede earns 2000 birr

1. $2000 - 600 = 1400$, thus, it is from this amount [1400] we will levy a tax.
2. The first 1050 will be taxed at 10 % = 105
3. the remaining birr will be taxed by the next tax rate → 15%
4. The remaining 350 [1400-1050] will be taxed at 15%. i.e. $350 \times 15\% = 52.5$
5. Then aggregate →→→→ $105 + 52.5 = 157.5$.

Example: Mr. Yilma earns 7800 birr

1. $7800 - 600 = 7200$
2. From The first 1050 birr, Mr. Y will pay 105 birr
3. From the next 1550 birr, Mr Y will pay 232.5
4. From the next 2050 birr, Mr. Y will pay 410
5. From the next 2550 birr, Mr Y will pay 637.5
6. Then if we add specific amount of birr from which the tax levied, $[1050 + 1550 + 2050 + 2550] = 7200$. Thus, the tax is paid from the whole amount. As it is exhausted, no need of passing to the next step.
7. Then adding the amount of tax payable at each specific birr $[105 + 232.5 + 410 + 637.5] = \mathbf{1385. \text{ birr}}$

Example:- Mr. Oscar earns 11000 birr, so the taxable income is 11000 birr.

1. $11000 - 600 = 10400$
2. As you see in the above illustration table the net tax from the amount 10300 $[1050 + 1550 + 2050 + 2550 + 3100]$ is 2315 birr $[105 + 232.5 + 410 + 637.5 + 930]$

3. Then as 10400 did not fully exhaust by the above slabs, the remaining 100 birr will be taxed under the next slab and rate. i.e. $100 \times 35\% = 35$ birr

4. Then aggregate the $2315 + 35 = 2350$ birr.

Example: Mr. Hailu earns a salary of 10470 birr and 800 birr for house allowance.

1. Add the two income $\rightarrow 10470 + 800 = 11270$

2. Then subtract the first 600 birr from the aggregate $11270 \rightarrow 11270 - 600 = 10670$

3. As we have seen above the amount of tax from the 10300 birr is 2315.

4. Then the remaining 370 will be taxed at $35\% = 129.5$ birr

5. The add $2315 + 129.5 = 2444.5$

6. The net income after tax is 8825.5

pension 788.90

..... 8035[net]

o Covering taxes by the employer

If an employer pays the employment income tax payable by an employee, in whole or part, without withholding tax from the employment income of the employee, the amount of tax paid by the employer shall be included in the employment income of the employee. For example, an employer may cover the tax mount to 157.5 for the worker in addition to the 2000 birr monthly salary. In such cases, the tax paid or covered shall be added on the salary. $2000 + 157.5 = 2157.5$

The tax will be $2157.5 - 600 = 1557.5$

The first, $1050 \times 10\% = 105$ birr

The remaining $507.5 \times 15\% = 76.1 = 181.1$

The tax authority got a birr amount to 24 by adding the tax benefit covered by the employer.

Fringe Benefits in Employment

Apart from cash payments, the employer may pay the worker in the form of kind benefits or fringe benefits. A 'fringe benefit' is any monetary or non-monetary benefit derived from employment that does not constitute cash salary or wages. Horizontal equity among the taxpayers requires full inclusion of fringe benefits in the tax base. It is also the case that

taxation of fringe benefits protects the revenue base for the government. Furthermore exempting fringe benefits gives strong benefit to provide more incomes in the form of fringe benefits.

Countries follow different approach on taxation of fringe benefits most countries treat fringe benefit as a deductible to the provider and as an income to the recipient of the benefit. This one is a more sensible approach as it gives an opportunity for the government to maintain horizontal equity and still treat as a deductible expense for the employer who spent the money as a fringe benefit for employees. In our country there are many in kind benefits provided by the employer to employees. For instance many organizations provide a transportation service to employees other provided services like foods and drinks, clothing etc. One of the problems with the taxation of in kind fringe benefits is its assessment of the benefit to employees. In the Ethiopian tax system, fringe benefit is taxable income as clearly put under Art 12 (1,b) of the proclamation and under art 7 of the regulations. The regulation enumerates benefits that are regarded as fringe benefits. As per the regulations, the following are fringe benefits a) debt waiver;<< b) household personnel; c) housing; d) discounted interest loan; e) meal or refreshment; f) private expenditure¹; g) property or service; h) an employee share scheme²; i) vehicle³; and j) residual fringe benefit.

A benefit is not a fringe benefit to the extent that, if the employee had acquired the benefit, the expenditure incurred by the employee in acquiring the benefit would have been incurred in deriving employment income. If the employee has expend a money, in order to be rewarded the benefit, the benefit will not be regarded as a fringe benefit. Because it will be regarded as a cost for the derivation of the employment income.

Excluded fringe benefits

¹ The payment of expenditure by an employer is a private expenditure fringe benefit to the extent that the expenditure gives rise to a private benefit to an employee.

² Employee share scheme” means an agreement or arrangement under which an employer company or a related company may allot shares to an employee of the employer company.

³ “Vehicle” means a motor vehicle designed to carry a load of less than one and fewer than nine passengers.

The following benefits are not treated as fringe benefits for the purposes of the Proclamation or this Regulation:

1. A benefit that is exempted income under Schedule "E" of the Proclamation;
2. A benefit the value of which, after taking into account the frequency with which the employer provides similar benefits, is **so small** as to make accounting for it unreasonable or administratively impracticable.
3. **subsidy to a meal or refreshment** provided in a canteen, cafeteria, or dining room operated by, or on behalf of, an employer solely for the benefit of employees and that is available to all non-casual employees on equal terms;
4. the provision of accommodation or housing to a non-managerial employee in a remote area
5. the provision of a mobile phone by an employer for use by an employee; and the payment by an employer of the cost of mobile phone calls made by an employee, including with a mobile phone provided by the employer;
6. tuition fees paid by an employer for the benefit of an employee for attendance at a course offered by a university, college, or other institution providing adult education courses;
7. the provision of the services of a security guard for the benefit of an employee;
8. the provision of food and beverage services by Hotels, Restaurants and other similar establishments for their employees;
9. The provision of uniforms and related work materials.