

CLASSIFICATION OF TAXES

Taxes can be classified in different way based on various factors.

1. Base of tax

Depending on on which source is the tax levied on , taxes are classified into :

- Income based tax
- Capital based tax
- Consumption based tax (VAT, TOT, Excise)

2. Direct and indirect tax

This classification is relied on whether the formal and economic incidences fall in the same person or not.

Hence, direct tax is paid entirely by those persons on whom the tax is imposed. On the other hand, an indirect tax is a tax whereby the taxpayer's burden to pay the tax can easily be passed on to another person.

- Examples of direct tax in Ethiopia:
 - Personal income (employment income)
 - Rental and business profit
 - Income from royalty, game and chance, dividend, interest, capital gain,
- Examples of indirect taxes in Ethiopia:
 - VAT, TOT, custom duties, excise tax and stamp duty

3. Unit and Ad valorem

- This classification of tax considers the question on what amount the tax imposed.
- Unit taxes specify the amount of item on which the tax is imposed. For example excise tax
- Ad valorem do not specify the item on which it is imposed rather some percents of the tax base.

History of taxation in Ethiopia

- The history of taxation in Ethiopia traces back to Axum civilization. The history of taxation can be divided in three phases:
 - Prior 1941
 - 1941 to 2002
 - 2002 on

Prior 1941

The taxation at this time can be characterized as traditional period in terms of the taxation system. This period was a period where an arbitrary, abusive, and subjective tax system prevailed, and it was closely related with land, especially in the high land areas. In these period there had been a system called the *Gabar System*.

1941 to 2002

The second period is the time from 1941 to 2002. When Italians came to Ethiopia, they murdered officials who were collecting the tax and incapacitated the system. Later, with the restoration of Haile Selassie to power, he wanted to modernize the tax system, and this witnessed the demise of the *Gebar* system. He began it by enacting a land tax in 1942 (Proclamation No.70/42). According to this law, tax rate (percentage of tax per fixed item) varied mainly based on fertility of the land

Then after, excise tax, custom duties in 1943; income tax in 1944 (Proc. No.60/44), education tax in 1947, and health tax in 1959 were added. This way, tax laws proliferated from time to time one replacing or amending the other. The Ethiopian tax system assumed its present feature in the period 1941-2002.

After 2002 (the time of tax reform in Ethiopia)

The change of economic arena needs the reform of tax system in Ethiopia since 1992. the reasons for this reform can be summarized as:

- Complex and outdated tax law
- Weak tax administration

Outcomes of tax reform

- Change of tax rate income tax from 85% 35%
- Introduced business profit withholding system
- Changes the sales tax to VAT and TOT
- Makes the excise more effective
- Broaden the tax base
- Strength the tax structure empowering a separate organ minister of revenue later Ethiopian revenue and custom authority

Fiscal federalism revenue division in Ethiopia

- Proclamation 33/92 was the first to arrange a federal like tax system in Ethiopia.
- Then the FDRE constitution article 95 to 100 concerns with.
- According to the constitution power of taxation is divided into:
 - Federal exclusive power
 - State exclusive power
 - Concurrent power

Base of the division

- ownership of revenue,
- Regional character of revenues sources,
- Convenience for administration,

Federal exclusive power of taxation

- customs duties, taxes and other charges levied on the importation and exportation of goods;
- income tax collected from employees of the Federal Government and international organizations;
- income, profit, sales and excise taxes collected from Federal Government owned enterprises;

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- taxes collected from national lotteries and other games of chance;
- taxes collected from income generated through air, rail, and sea transport services;
- taxes collected from rent of houses and Federal Government owned properties; charges and
- fees on licenses issued and services rendered by the Federal Government; taxes on
- monopolies; and Federal stamp duties

State exclusive power of taxation

- income taxes collected from employees of the States and private enterprises working within the states;
- fees collected from land usufructuary rights;
- taxes collected from the income of private farmers and farmers incorporated in cooperative associations; p
- profit and sales taxes collected from individual traders operating within state territories;
- taxes on income from water transportation within state territories; taxes collected from

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- taxes collected from rent of houses and State Government owned properties;
- profit, sales, excise and income taxes collected from State owned enterprises;
- taxes on income, royalties, and land rentals from mining operations;
- charges and fees on licenses issued and services rendered by the State Governments; and royalties for use of forest resources.

Concurrent power of taxation

- Joint owned enterprises
- Companies
- Petroleum and large scale minerals

Un designated taxes

- A decision of the two houses is mandatory
- Example VAT and income from bank interest was signed to federal
- TOT from individual and stamp duty from regional activities is given to states

Source of Ethiopian taxes

- Constitution
- Proclamations
- Regulations
- Resolution of both houses
- Directives
- Treaties
- And to some extent ruling letters