

Ethiopian income tax schedules (art 8 of itp)

- Schedule A – Income from Employment
- Schedule B – Income from rental of buildings
- Schedule C – Income from business
- Schedule D – Income from Miscellaneous Sources (or Other Income) – royalties, technical services, games of chance, dividends, interest, casual rental of property, capital gains and windfall profits.

Schedule A

- Schedule A is sometimes referred to as “Personal Income”
- Two conditions need to be met for Schedule A to kick in.
 - i) Employment relationship;
 - ii) Income must be derived from employment relationship. This suggests that the existence of employment relationship is a necessary,

Employment relationship (art 2/12 of ITP)

- Employee is any individual, other than a contractor, engaged (whether on a permanent or temporary basis) to perform services under the direction and control of the employer.
- The issue here is what the meaning of direction and control?

Income from employment (art 12 of ITP)

- The income must arise from employment relationship like salary, wages, and fringe benefits.
- The income can be in cash or kind.

Fringe Benefits

Fringe benefits are in-kind benefits that various employees receive from their employment. They vary from one workplace to another – company cars, fuel, housing, meals, clothing, discount goods and services, free medical services, free entertainment and fitness services, free training and educational opportunities, etc.

Issues of exclusion and exemption

- **Exclusion** means leaving an income from a given category.
- **Exemption** means leaving income from taxable part of income.
- Exclusions should refer to exemptions by virtue of the nature of the income; while exemptions should be restricted to cases in which reliefs are provided as a result of the person.
- In Ethiopia both terms are used interchangeable (art 12/3, 13 of ITP and art 3 of ITR)

Purposes of exclusion/ exemption

- For economic reasons – e.g., floor exemptions (up to 150 a month or 1800 a year); exemptions for income of casual employees; exemptions o
- For administrative reasons – example: exemptions for domestic employees
- For political reasons – example: exemptions for income of diplomatic communities.

List of exclusions and some issues

Medical allowance

the ITRs stipulate that medical allowances are excludable only the actual cost. The nature as well as scope of medical allowances is not defined in the law. This leaves many questions unanswered: what is a medical allowance? Is a payment for a gym or alternative medicine a medical allowance? How about if employers reimburse employees for dietary supplements ordered by physicians?

Allowance in lieu of transportation

The scope of transportation allowance has been restricted by directives to cases in which the allowance is paid to employees whose jobs require them to travel from one place of work to another (e.g., attorneys, insurance brokers and salespersons). This means that transportation allowances (called commuting allowances) paid to reimburse employees for the costs of transportation from home to work and back are not excluded from income. In addition, the directive places a cap on the amount of the allowances excluded at one time – the amounts may not exceed $\frac{1}{4}$ th of the salary of the employee or 1000 ETB, whichever is the lesser

Hardship allowance

- The meaning of hardship allowance has also been restricted by a directive that defines it as an allowance for a weather condition.
- There are questions as to whether hardship allowance should be restricted t

Housing allowance

- In decision house allowance is exempted particularly for appointed persons. What about others? What about the equity issue?
- In Oromya state it is exempted for all. But the regulation puts the precondition of regional government decision.

Method of assessing schedule A

- Income tax from employment is “pay as you earn” (PAYE)
- Two methods of assessment: withholding employer and self assessment
- Every employer has to hold income tax from the employee each month and pay it to the tax authority within thirty days. But political parties are excluded from this obligation.
- Self-assessment is allowed to employees of in two employer, in international organizations, and diplomatic area.

Problems relating to schedule A

- Problem identification from independent contract services and intellectual services.
- Although fringe benefits are taxable in sense of law, no estimation is yet prepared and are not being taxed.
- Employees in political parties are not paying the tax.

Tax rates

Employment income (per month)		Income tax payable
Over Birr	To Birr	
0	150	Exempted threshold
151	650	10
651	1400	15
1401	2350	20
2351	3550	25
3551	5000	30
Over 5000		35

SCHEDULE B INCOME

- Tax base: income from rental of buildings
- The scope of Schedule B is more contested than Schedules A or C, for example.
- Rental of buildings can be conducted by real estate businesses as well as businesses engaged in non-real estate activities.
- Real estate businesses can be involved in a variety of 'real estate' activities. Some are involved in building and selling of buildings – apartments, villas, condos, etc. Some are involved in building and rental of buildings. Some are involved in both selling and renting of buildings.

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- Rental of buildings can also be done by non-real estate businesses and individuals. Businesses involved in other activities – e.g., banking, insurance, retailing, exporting, manufacturing – are routinely involved in rental of buildings, offices, apartments, guest houses and rooms beside their main activities of banking, retailing, etc.
- Many individuals are also involved in rental of buildings and houses as additional or sole source of income. Individuals rent out their residential buildings as a whole, or a section of their residential buildings. In different parts of Addis Ababa, this constitutes a significant source of livelihood for countless residents of Addis Ababa.

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- There are also certain businesses for which renting of rooms is part and parcel of their business – e.g., hotels, pensions, guest houses, etc.
- Some businesses lease the business to others.
- Last but not the least there are many businesses that are involved in occasional renting out of equipments and other forms of movable property.

How to tax

- It is on year base
- Taxable income – (gross income under Schedule B – deductions).
- Deductions can be in the form of standard deductions for those who do not maintain books and records (20% of gross income) or actual deductions for those who maintain books and records.
- Deductible Expenses: the scope of deductible expenses under Schedule B has been a matter of some controversy. The general rules of deduction under Schedule C appear to apply in some cases (for example, the rules of depreciation deduction). In other cases, it is not clear how far a schedule B taxpayer can obtain deduction for an expense which would be allowable under Schedule C.