Chapter Four

Accounting For Taxes in Ethiopia

4.1. Tax Administration and Tax Assessment in Ethiopia

Tax assessment: is determination of tax liabilities of an organization. To make a tax assessment we must first identify weather the business maintain accounts books or not. If the business maintains accounts financial books then we can determine the tax base based on the financial book. However, if the business does not maintain books for financial reporting then we may assess tax based on estimation per the government proclamation.

The followings are the main steps that we must consider.

1. Identifying the nature/types of the business; to know which tax rate should be applied.
2. Determining the tax bases.
3. Multiplying the tax rate by the tax base.
4. Determination of tax liability.

Categories of Taxpayers

Taxpayers are classified into the following three major categories: Category "A"; "B" and 3) "C" Category "A" Taxpayers

This category of taxpayers includes:

a) Any company incorporated under the laws of Ethiopia or in a foreign country;

b) Any other business having an annual turnover of Birr 1,000,000 or more

Category "A" taxpayers are required to submit to the Tax Authority, at the end of the year, a balance sheet and a profit and loss statement and the following details:

a) Gross profit and the manner in which it is computed;

b) General and administrative expense;

c) Depreciation expense; &

d) Provisions and reserves.

In addition, these taxpayers should register with the Tax Authority the type and quantity of vouchers they use before having such vouchers printed. Any printing press before printing vouchers of taxpayers shall ensure that the type and quantity of such vouchers is registered with the Tax Authority.

Category "B" Taxpayers

Unless already classified in category "A", any business having an annual turnover of Birr 1,000, 000 to 500,000 would be classified under Category "B" taxpayers. This category of taxpayers should submit to the Tax Authority profit and loss statement at the end of the year**.**

Category "C" Tax payers: Unless classified in Categories "A" and "B", those businesses whose annual turnover is estimated up to Birr 500, 000 are classified under this category of taxpayers.

Declaration of Income and Assessment of Taxes: Taxpayers shall submit the tax declaration to the Tax Authority at the time of submitting the balance sheet, and the profit and loss account for that tax year within the time prescribed below:

a) ***Category "A" taxpayers within four months from the end of the taxpayer's tax year;***

b) Category "B" taxpayers within two months from the end of the taxpayers tax year.

A standard assessment method should be used to determine the income tax liability of category C taxpayers. The taxpayer should pay the tax determined in accordance with standard assessment from the ***7th day of July to the 6th day of August every year***, unless, the taxpayer requested and is allowed to make installment payments. If no records and books of accounts are maintained by the tax payer, or if, for any reason, the records and books of accounts are unacceptable to the Tax Authority, or if the taxpayer fails to declare his or its income within the time prescribed by the proclamation, the Tax Authority may assess the tax by estimation. Unless and otherwise provided, the period for tax assessment is the one-year period from ***1st Hamle to 30th Sene***. A body shall not change its accounting year unless it obtains prior approval, in writing, from the Tax Authority and compiles with any condition that may be attached to the approval. If a taxpayer has submitted a declaration of income within the time and manner as prescribed in the proclamation, the Tax Authority has five years to amend the assessment. The five years assessment period runs from the due date of the declaration. In case where the taxpayer has not declared his income or has submitted a fraudulent declaration, no time limit provided in any other law shall bar the assessment of the tax by the Tax Authority.

Assessment Notification

Every assessment notification should contain the following elements:

a) Gross income and deductions applicable; b) Taxable income;

c) Rates applicable or percentage; d) Taxes paid and due;

e) Any penalty or interest; f) Taxpayer's name, address, and TIN; and

g) Brief explanation of the assessment and a statement of the taxpayer's rights.

Right of Appeal against Assessment of Income

Any taxpayer who objects to an assessment may appeal to the Tax Appeal Commission upon fulfilling the following requirements:

- A deposit of 50% of the disputed amount should be made to the Tax Authority;
- The appeal is lodged with the Appeal Commission within 30 days following the day of receipt of the assessment notice or from the date of decision of the Review Committee.
- Members of the Appeal Commission at every level shall be appointed from among persons having good reputation, acceptability, integrity, general and professional knowledge,

The Appeal Commission has the authority to:

- Confirm, reduce or cancel any assessment appealed against on the basis of established factual grounds and the law;
- Instruct the Tax Authority or the taxpayer to submit new facts, if any;
- Order the Tax Authority or the taxpayer or any other person or governmental department or agency to produce supporting evidence relevant to the taxpayer's allegation.

Record Keeping Requirement

All persons who are engaged in a business or trade or who own buildings held all or in part for rental, except for Category "C" tax payers shall keep books and records. Those businesses that are required to keep books of accounts and records are also required to keep the following information:

a) Record of the business assets and liabilities, including a register of fixed assets showing the date of acquisition, the cost of acquisition, and the current book value of each asset;

b) Record of all daily income and expenses related to the business activity and the matter to which they relate;

c) Record of all purchases and sales of gods and services to the business activity showing:

- The particular goods and services sold;
- The name of the buyers and sellers or providers in such a manner that they can be identified by the Tax Authorities;

- Pre-numbered invoices containing the vendor's tax identification number;

d) Record of trading stock on hand at the end of the accounting period, including the type, quantity and cost of that stock as well as the method of valuation of that stock;

e) Any other document relevant for the determination of the tax liability;

f) If a taxpayer has certain books or records in a foreign language, the Tax Authority may require that they be translated into one of the official languages of Ethiopia at the taxpayer's expense.

Penalty for Failure to keep proper Records

The taxpayer shall be liable for a penalty of ***20%*** of the tax assessed if he failed to keep proper books of account, records, and other documents regarding a certain tax year. If the Tax Authority finds that a taxpayer has failed for two consecutive years, to keep proper books of account, records, and other documents the licensing authority would suspend the taxpayer's license on notification by the Tax Authority.