Barriers for the estimation and reporting of tax expenditure in Ethiopia

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November, 2021
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❖ Challenges of estimation and reporting of tax expenditures

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# Introduction

## Ethiopian Overview

<table>
<thead>
<tr>
<th>External Debt</th>
<th>29.5 Bil USD (27.13% of GDP) (2020/2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Debt</td>
<td>26 Bil USD (23.97% of GDP) (2020/2021)</td>
</tr>
<tr>
<td>Tax To GDP R.</td>
<td>&lt; 7%</td>
</tr>
<tr>
<td>Revenue R.</td>
<td>311.5 Bil Birr (2019/2020)</td>
</tr>
<tr>
<td>Annual Budget</td>
<td>561.7 Bill Birr (2021/22)</td>
</tr>
</tbody>
</table>

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<th>Population</th>
<th>&gt; 113M</th>
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<td>Governance</td>
<td>Federal Parliamentary Republic</td>
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Capital City: Addis Ababa

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- Population: > 113M
- Area: 1,104,000 KM²
- Currency: Birr (ETB) (1 USD = 47.105)
- Governance: Federal Parliamentary Republic
- Capital City: Addis Ababa
Cont...
✓ Proper and well managed tax incentives are used as vehicle for sustainable development.

Economic Sustainability
- Investment Promotion, Import Substitution; Employment, Wealth Creation (Source of Revenue).

Social Sustainability
- Inclusive (Reduce inequality), Human health,

Environmental Sustainability
- Availability of Natural resources, Ecosystem health, unpolluted Environment, Zero Emission

TAX EXPENDITURE
(As Instrument For Sustainable Development)
Objectives of Tax Expenditure

- Regulation of Consumption and Production
- Reducing Income Inequalities
- Encouragement of Exports

1. Regulation of Consumption and Production
2. Stimulating Investment
3. Raising Revenue
4. Encouraging Domestic Industries

- Promoting Economic Growth
- Ensuring Price Stability
- Preventing Harmful Consumption
- Development of Backward Regions
- Capital Accumulation

- Creation of Employment Opportunities
## Definitions of the Benchmark Tax System and Tax Expenditures

**Benchmark Tax System:**
Includes the standard rate structure, accounting conventions, deductibility of compulsory payments, provisions to facilitate tax administration, and international fiscal obligations (see for example, Kraan (2004 as cited in OECD 2010), Krelove et al (2012), CRC Sogema (2013)).

**Tax Expenditures (TE):**
- Reduction of tax revenue (tax liability);
- It results in deviations from a standard/benchmark tax structure in a given country;
- It targets a particular group of taxpayers or economic activity; and/or
- It could be replaced by direct spending. (*WBG 2017a*).
TE in Ethiopia – Legal Framework

For each of the tax regimes set out in the law, a TE inventory will list all the reliefs, but from many sources:

❖ **Proclamations:** Investment and industrial parks proclamations, income tax, VAT, Excise, Customs etc;

❖ **Regulations:** e.g. Customs Tariff Regulation;

❖ **Directives:** Special concessions approved by MoF

❖ **Agreements:** international conventions (Vienna, Geneva, Florence); trade agreements (COMESA, WTO); mining concessions; bilateral aid or loan agreements;

❖ **Other:** Role of line ministries and sector legislation; Investment Board decisions; regional / local level tax reliefs; administrative rulings etc.
Significance of TE Reporting

• **Transparency** and accountability of otherwise ‘hidden costs’

• **Evaluation** of effectiveness and efficiency (cost-benefit analysis)

• **Forecasting** of revenues

• **Efficient allocation** of limited resources between cash and tax expenditure

• **Completeness** of reporting on sectoral and distributional government intervention

• **PFM reform**

As Source of information and knowledge, related to; the forms of TE; types of Taxes accounted as TE; period tax incentive, scope (location) of tax incentive, Sectors concerned for tax incentives.
Exemption: Income or transactions that are free from tax at the federal, state, or local level.

Reduced Rate: a deduction that lowers a person's or an organization's tax liability by lowering their taxable income.

deferral of tax liabilities
### Income tax exemptions in Ethiopia

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
</table>
| Transport and Hardship Allowance | - less than 1/4th of monthly salary or less than 2200 birr (e.g. for field work);
|                                   | - less than 600 birr (from home to office and office to home transport);
|                                   | - 25%, 40% and 60% of monthly salary based on the risk availability.                                                                                                                                 |

| Per Diem                          | Only for the daily paid of less than 1000 birr or less than 5% monthly salary; less than 600 birr or less than 3% of monthly salary (for breakfast, lunch & dinner) for managers & Assistant manager;
|                                   | 500 birr or less the 4% monthly; less than 300 birr or less than 2.5% of monthly salary (for breakfast, lunch & dinner) salary for others;                                                                                           |

**International Competitors, Innovators, Extraordinary Workers.**
Cont…

- Mining and petroleum operations;
- Hotels & Restaurants;
- Agriculture & Horticultures;
- Manufacturing.

Freely delivered of foods and non-alcoholic beverages for employees,

Based on the sub-sector, investment type and the location (Addis Ababa and the Special Zone of Oromia surrounding Addis Ababa versus other areas) (from 1 to 9 years).

UN agencies and diplomatic services
- Emergency issues
- Religious Institutions
- Disabilities
- All exporters
- Media & Embassy

Investment (tax holiday)

Others
Challenges of estimation and reporting of tax expenditures

Lack of Central database administration

The data of tax incentive for investments are recording manually at each branch revenue offices and regions separately.

Several stand-alone incentives:

Until the resent time, tax incentives in Ethiopia were issued by various ministiries and institutions

Under estimation of revenue forgone

loss incurred on certain organizations (such as UN agencies and bilateral diplomatic services), emergency issues, and certain religioues institutions are not captured.
Cont...

There are no monitoring and evaluation strategies and activities.

Lack of Awareness and knowledge gap

Lack of Strong Cooperation

Tax and duty incentives were taking place in several ways; nevertheless, there are no impact as assessment, Monitoring and Evaluation all in all.

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The Partnership of the Concerned Ministries (MoF - MoR) are weak.
Reccomendation

A CENTRAL DATABASE SHOULD BE ESTABLISHED

✓ Integrated information system should be developed electronically;
✓ Data of tax incentives should record as tax types, time, sector, branch and tax type format;

B ATTENTION AND COMMITMENT

The government should take in to attention to Tax expenditure and allocate the budget to it properly;

C PARTNERSHIP

Ministry of Finance and Ministry of Revenue should pay attention to Monitor, Evaluate and other activities collaboratively;
ALL REVENUE FORGONE SHOULD TAKE INTO THE ACCOUNT

Based on the tax expenditure benchmark, all revenue forgone should take into the account, while the ministry of revenue preparing the annual Performance Report;

CAPACITY IMPROVEMENT

ATI development partners and supporting organizations should assist the partner countries to enhance the capacity of development and tax policy practitioners;
Thank you for your Attention!