ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

THE PRODUCTIVITY OF TAX SYSTEM IN ETHIOPIA (1961-2005)

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Abstract

This study evaluates the productivity of the tax system in Ethiopia for the period 1961-2005. It examines the role played by elasticity and discretionary tax measures in the government's efforts to reduce the budget deficit, and measures the income elasticity of the tax system by decomposing elasticity into tax-to-base and base-to-income elasticities.

The analysis shows that tax revenue tend to be inelastic with respect to changes in tax base. It is estimated that the tax-to-base elasticity is relatively lower than the base-to-income elasticities. The relatively low tax-to-base elasticity may be explained by inefficient and poor tax administration and the existence of exemptions.

A result of economic regression also indicates that the major tax categories together with the overall tax system possess a buoyancy coefficient that exceeds their respective elasticity coefficients.

The study makes policy recommendations in the direction of improved response of tax-to-base, improved alignment of taxes, and establishment of a strong tax administration, reducing exemption and broadening the tax base.

Chapter I
Introduction

1.1 Background

Ethiopia is one of the poorest countries in the world. Its per capita gross national income is less than one-fourth of the sub-Saharan average. Based on the 2006 World Bank report, Ethiopia's per capita gross national income is US$ 110. It also has the lowest human development index in the world. It is estimated that 44.2 percent of the population lives under the poverty line (Sònia Muñoz and Stanley Sang-Wook Cho, 2003). The economy is largely dependent on agriculture, which provides about 85 percent of the employment. Because of high dependency on agriculture, some of the daunting challenges the country faces are very low factor productivities, unreliable rainfall, high population growth and structural bottlenecks. Poor macro-economic performance is also indicated for most of the study period. According to the Ministry of Finance and Economic Development (MoFED), the GDP growth rate in 2002/03 was (minus 3.8 percent) and this was followed by a positive growth rate per annum for the following three years.

But this positive growth rate resulted from a large inflow of financial resources in the form of aid, extensive borrowing and perhaps a miss-calculation of the heavy cost in the retrenchment of pubic sector workers, dislocation of people, brain drain, and the move towards heavy dependency on foreign assistance following regime change.

In many developing countries, taxation serves multiple objectives, such as mobilization of resources to finance government expenditure, promoting public savings and investment; directing investment into desirable activities, encouraging the use of labour-intensive production techniques and bringing about greater equity in the distribution of income (Islam 2002, Osoro 1993).

Taxes constitute the basic resources that finance government interventions to correct market failures, combat inefficiencies arising from market control, and provide public goods for which private markets are non-existent. Tax reform is a key to improving economic performance, and attaining the goals of equitable income distribution and sustainable growth.

Tax reforms in recent years have been focused on economic performance in general and more specifically to enhance competitiveness in the global market.

Following the departure of the Italian Fascists and the reestablishment of the Ethiopian government in 1942, the Ethiopian government were tried to establish a tax system which, inter alia, meets international standards and driven by the same international precept of fiscal finance; revenue generation, equity and enhancing economic growth and development.

The intention of tax reforms of the country has been growth and diversification of the tax base. While in 1942, the tax base was land taxation, by the middle of the 1960s, the tax bases were broadened, thus tax revenues were collected from land taxes, agricultural income taxes, rent incomes, business and employment taxes and import/exports. The contribution of taxes from lower levels grew steadily from 1942 to 1960s and tax was the main revenue source financing government expenditure.

The role of taxation in the system of government financing in Ethiopia has not retained its predominant position through out the period of the study. As we shall show in this study report, government deficit have been steadily on the rise and taxable capacity therefore on the decline.

On the other hand, a stage was reached in the early 1990s, when tax effort through discretionary reform could not yield any growth in tax revenue. Post 1990 tax reforms were based essentially on a new economy that was dependent on foreign aid and borrowing. These sources of revenue cannot be sustainable as well as reliable to finance government expenditure and direct the economic transformation of the country.

1.2 Statement of the Problem

Any government incurs expenditure to maintain infrastructure, social security, education, health, property rights and the environment as well as to alleviate emergencies such as drought, floods or defense requirements etc. To finance these different expenditures resources should be mobilized from internal sources as well as external sources. The source of internal resources are taxation which is appropriate way of financing (Burgress and Stern, 1993), domestic borrowing which may crowd out private investment (Chu and Hemmiy, 1991) and printing money which likely imposes inflationary pressure (Vito, 1991, Teshome, 1992). However, if the domestic revenue is not sufficient to finance the expenditure the country would turn its face to foreign borrowing that may cause debt crisis (Sachs, 1989).

In many developing countries the government budget is characterized by worsening budget deficits. The budgetary deficits (or the gaps between domestic revenue and government expenditure) have continued to worsen over the years in Ethiopia. During the period 1961-1974, 1975-1991 and 1992-2005 the average budget deficit as a ratio of GDP were 3 percent, 8.4 percent and 10.3 percent.

Budget deficit for a country is not a welcome phenomenon particularly if it is found to be growing over time. This is because it can cause economic instability which in turn may retard investment, lead to inflation and increase balance of payments (BOP) deficit, depending on the way the deficits are financed (Bird and Zolt, 2003). This concern, thus, brings to the fore the question of what to do in order to abolish or reduce the fiscal deficit. One possible response to this question will be enhancement of the capacity to generate revenue from domestic sources. The existing literature suggests three approaches to budget deficit: raising revenue, reducing expenditure and/or both. This requires, among others, information on performance of existing tax system, which in turn requires evaluation of the achievement of taxation and assessment of the tax system.

As in other LDCs, taxation has been the most important source of domestic revenue in Ethiopia. During the period 1961-1974, 1975-92 and 1993-2005 tax revenue as a proportion of domestic revenue was 85, 76 and 68 percent while during the same period tax revenue as a proportion of total expenditure was 64%, 51% and 44 percent respectively. The consistent decline in the ratio of tax revenue to total expenditure over the years is explained by the relatively higher growth of expenditures than revenues.

The nature, structure of taxes and their respective elasticities and revenue effectiveness constitute important examinations of tax property. Whether or not budgetary deficit can be bridged by tax reform gives the answer to the question of viability or feasibility of tax financing of government expenditures. In this respect, the increasing Ethiopian budgetary deficit and solutions to tackle the growing deficit is of policy relevance and academic interest.

1.3 Objectives of the Study

Revenue from taxes has often- increased over time in absolute magnitude. High revenue productivity is considered as one of the criteria of a good tax system in developing countries. In the face of widening or large budget deficits and the increasing need for development finance in Ethiopia, there is a need to devise a more efficient tax system that will be in line with expenditure.

In general, the objective of this study is to make use of tax revenue data over the period 1961-2005 to evaluate the productivity of tax system in

Ethiopia. Thus, this study attempts to estimate the buoyancy and elasticity of the tax system over the period indicated above.
The specific objectives of the study are the following;

1. To analyze and review the structure of tax system and its evolution over time.
2. To investigate the mode of financing budget deficit.
3. To estimate the built-in elasticity (elasticity) of individual tax and the over all tax system.
4. To make appropriate policy recommendation based on the above study.

1.4 Significance of the Study

Assessment of the productivity of the tax system for the period 1961-2005 helps to devise a reasonably accurate estimation of Ethiopia's sustainable revenue profile. It also assists in the design of an appropriate expenditure profile as a means of averting the aggravating fiscal deficit in the country. Moreover, the study produces a comparative analysis on the productivity of the tax system for three regimes, which will provide important information on efficiency of different tax policies.

1.5 Limitation of the Study

The scope and depth of this study suffers from lack of appropriate data. For example, in the estimation of tax-to-base and base-to-income elasticity, base-to-income elasticity cannot be decomposed into the two elasticity components. That is tax-to-income elasticity can be measured as a product of tax-to-base and base-to-income elasticities. But the tax-to-income elasticity cannot be decomposed into its two components due to the data lacuna regarding tax base. However, the limitation of this study does not affect the findings of the research. This is because it uses the proxy bases.

Chapter II
Literature Review

This chapter deals with the theoretical and empirical literature related to the productivity of tax systems. Productivity, in the sense used here, relates to tax yield. Basic concepts relating to tax productivity as well as empirical literature on the subject are introduced.

2.1 Theoretical Development of Taxation

According to Trotman-Dickenson, the two main theories of taxation are the benefit theory of taxation and the ability to pay theory. Benefit Theory of taxation is based on the assumption that all should contribute to the cost of the state in relation to the benefits they derive from that state. Taxes have therefore regarded based on this theory, as payment for value received and as a reflection of the demand for the public services.

The Ability to pay theory of taxation is based on proposition that, on grounds of equity and expenditure, people should contribute to the finance of the state according to their means. According to the ability to pay principle, where citizens with greater ability to earn income, should be taxed more heavily than those with less capacity to earn should. It is based on the notion of horizontal and vertical equity. Horizontal equity is achieved when individual of the same economic capacity pay the same amount i.e. horizontal equity in taxation is generally taken to require that equals (people in like circumstances) should be treated equally. Whereas vertical equity in taxation is typically taken to mean that people with higher income or consumption of wealth should be taxed more heavily than with that of lower income. However, both these concepts are subjective and are difficult to administer (Hyman, 1996).

A theory states an increase in the excess burden caused by a rise in tax could result in a decrease in consumer surplus. Therefore, a good tax system is expected to fulfill minimization of excess burden, i.e. efficiency consideration. Similarly, to demonstrate the incidence of tax (who bears the cost of tax) economists usually use partial equilibrium analysis in the literature. They conclude that the equation of who pays the tax cannot be answered without the price elasticity of demand and price elasticity of supply (Hyman, 1987).

A theory of partial equilibrium analysis of both efficiency and equity consideration of tax perhaps does not show the overall effect of particular tax such as selected excise tax or income tax up on the economy. So, economists use the general equilibrium analysis to show the welfare cost of taxation and to show its incidence upon the economy. The trade-off between equity and efficiency loss is as the heart of the quest for what has become known as “optimal taxation” Cullies and Jones (1998). However, Browing and Johnson (1984) have criticized this optimal taxation tends to concentrate on the calculation of optimal marginal tax rates using an assumed social welfare function and hypothetical data and consequently does not directly estimate the actual trade-off society faces.

In the recent public choice literature Cullies and Jones (1998) argue that optimal taxation is based not on what is ‘best’ for the community but, rather, on what is ‘best’ for actors in the political process and on how a tax system can constrain the self-seeking behaviors of those who design it.

According to Stern and Burgress (1993), there are number of features of developing countries which are not present in optimal taxation and which are critical to tax analysis. These include the limited availability of tax tools and their restricted coverage, lack of resource and poor administration, different institutional and sectoral structures, and a variety of types of market functioning. This makes, in many ways, the analysis of the impact of taxation in developing countries more challenging and more interesting.

2.2 Taxation in Developing Countries

Literature related to developing countries, and especially in those that aim at becoming integrated with the international economy, proposes that the tax policy must play a particularly insightful role. That is, the tax system should: (1) raise enough revenue to finance essential expenditures without recourse to excessive public sector borrowing; (2) raise the revenue in ways that are equitable and that minimize its disincentive effects on economic activities; and (3) do so in ways that don't deviate substantially from international norms.

However, in practice, the establishment of effective and efficient tax systems, in developing countries, faces some formidable challenges. The first of these challenges is the structure of the economy that makes it difficult to impose and collect certain taxes. The second is the limited capacity of the tax administration. The third is the paucity, or the poor quality, of basic data. Finally, in many developing countries the political set up is less willing to rational tax policy than in advanced countries.

Because of the structure of the economy, and as the result of low literacy and low human capital, it is difficult to combine all the ingredients that make for a good tax administration. When the staffs of the tax administration is not well educated and well trained, when resources to pay good wages and to buy necessary equipment are not there, when the taxpayers have limited ability to keep accounts, when the use of telephones is limited and the mail is not reliable, it is difficult to create an efficient tax administration. Consequently, countries often develop tax systems that allow them to exploit whatever options they have rather than develop modern and efficient tax systems. One consequence of this situation is that many developing countries often end up with too many small tax sources, too heavy a reliance on foreign trade taxes, and a relatively insignificant use of personal income taxes.

Given the often-precarious fiscal situation of developing countries, this uncertainty would expose them to potentially serious fiscal difficulties. Consequently, marginal changes are often preferred over major structural changes, even when the latter would be clearly preferable. This perpetuates the inefficient tax structures.

Therefore, in developing countries, tax policy is often the art of the possible rather than the pursuit of the optimal. It is, thus, not surprising that economic theory, and especially the optimal taxation literature, have had relatively little impact on the formulation of tax systems in developing countries (Vito and Zee, 2000).

2 .3 Literature on Tax Productivity

Although taxation serves a multiplicity of objectives, including, inter alia regulatory, income distribution, public good provision and correcting market failure objectives, often tax policy is not used to effect LDC. Government expenditure financing is at the root of the problem of public finance in these economies. Taxes make a most significant contribution to the finances of government in virtually all market economies. However, the existing and persistent budget deficits in many developing countries suggest that the tax system is not revenue productive. Taxes, as indicated already have a number of feasible policy objectives other than revenue generation.

Keynesian anti-cyclical or countercyclical fiscal policy measures are applied to promote overall economic stability (Osoro, 1993). These fiscal policy measures distinguish two kinds of flexibility. The first is the automatic flexibility of tax, which results in changes in tax revenue receipts arising from economic growth (growth in national income) without intervention from the government by way of discretionary tax reform. A measure of this tax revenue response is referred to as the buoyancy of tax. The second is the built-in flexibility of the tax, which takes into account the effects of the discretionary changes, including, changes in the tax base, tax rate and tax administration. There is a general consensus that developing counties do often use these stability variables to measure the productivity of tax.

As introduced above, the common measure of such productivities are buoyancy and elasticity. Two factors can cause tax revenue to rise: the legalization or the rate of tax can be changed to raise more revenue from the same base, or the base on which the tax is imposed may grow. The growth of tax in response to GDP can therefore be decomposed into two components. Accordingly, the first is the automatic growth; as the base on which the tax is charged grows in response to growth in income (GDP). This is commonly known as the built-in elasticity of the tax system (the automatic response of tax revenue to income changes). Thus, the built-in elasticity of a tax system is the built-in responsiveness of its revenue yield to movements in national income (GDP). It can also be some other measure of total income or output, abstracting from the effect of discretionary tax measures over the period. This elasticity has been often subdivided into a tax-to-base and base-to-income elasticity to measure the growth resulting from discretionary changes made in tax system. These include changes in rate and structure involving such changes as widening or extending the tax base as well as improvements in tax administration. Therefore, discretionary changes refer to changes in tax revenue in response to changes in tax rates, tax bases and tax administration. The combined effect of the discretionary changes and built-in elasticity is known as the buoyancy of a tax (Osoro, 1993, Mansfield, 1972). This study thus tries to measure tax buoyancy and elasticity based on this approach.

For example, a buoyancy coefficient of 1.4 would imply that for every one percent increase in GDP, revenue from the tax had on average grown by 1.4 percent. While an elasticity coefficient of 1.4 would imply that for every 1 percent increase in GDP, revenue from tax would have grown by 1.4 percent if the legislation and rate of tax had remained unchanged (Osoro, 1993).

The tax system is assumed to be sufficiently elastic, both in terms of buoyancy and in terms of built-in elasticity. This scenario likely enables the government to generate high revenue yield. Study reports and experiences of developed countries suggest that a high-income elastic tax system is needed mainly for its anti-cyclical impact. In least developed countries, however, the rate of economic development depends on the income elasticity of the tax system. That means to mobilize a substantial portion of the additional income generated by the economy; the tax must be structured in a way that it enables the revenue generated to increase by more than the proportional growth in national income (Teame, 1985, Yoseph, 1989). This study situates its argument in line of the assumptions in the LDCs.

The elasticities of tax revenue to income is often presented in a general model as a single, it is more elastically visualized as the weighted average of the sum of the elasticity of separate taxes that often have widely divergent responses to changes in income. Thus, overall tax elasticity must be examined by studying the separate elasticities of individual taxes. In turn, the income elasticity of each separate tax may be decomposed into two elements. These are the elasticity of the tax-to-the base and the elasticity of the base- to-income.

A related but slightly different approaches look at the revenue generated by individual taxes over time within an individual country. Tax buoyancy studies relate total revenue from a particular tax to income, by regressing tax revenue on income to identify the proportionate change in the former with respect to the latter. That is tax buoyancy measures the responsiveness of tax revenue to changes in income or output with no attempt to control for discretionary changes in tax policy as stated above.

2.4 Empirical Literature Review

Some earlier studies on measurements of elasticity and buoyancy were been conducted for both developed and developing countries. Studies related to developed countries include Prest (1962), Singer (1968), Graytak and Thursby (1970), Baas and Dixon (1974), and Wasylenko (1975). The studies on developing countries include Mansfield (1972), Choudhry (1975), Wilford (1978), Rao (1979), Byre (1983), and Osoro (1990).

Apart from Mansfield (1972) and Byrne (1983), most of the studies on developing countries have not involved the decomposition of income elasticity i.e. elasticity of tax-to-base and elasticity of the base-to-income. In spite of that, all the above studies used more or less the same method for estimating buoyancy coefficient (Osoro, 1992).

Mansfield (1972) estimated the yield of tax revenue in Paraguay for the period (1962-1970) by using a method of buoyancy and elasticity. He found that the discretionary change resulted in a buoyancy of 1.69 for total taxes, which is higher than that of built-in elasticity of tax revenue to income. He also found that the relatively high base-to-income elasticity of major taxes have an important significant impact on both elasticity and buoyancy. These quantitative results point to a picture of expanding tax bases and significant discretionary changes, in part offset by evasion, exemption, the specific nature of duties, and probably weak administration effort in collecting taxes at existing rates.

The other important study was Osoro (1992), the revenue productivity of the tax system in Tanzania for the period 1979-1989. He uses the proportional adjustment methods to eliminate discretionary measure effect and the dummy for the known discretionary measure. His finding suggests that the income elasticity of individual taxes and overall tax elasticities has failed to raise revenue. However, estimated buoyancy coefficient was greater than one for all taxes except company tax and pay as you earn (PAYE) tax, indicating that discretionary changes were important in raising tax revenue.

Sahota (1961) undertook a study on the tax performance of the tax system of India for the period 1948-1958 using the proportional adjustment method and found that the tax system was inelastic even though the country had a highly progressive income tax at that time. The reason was due to a defective tax structure and rate schedule, wide spread tax evasion and income distribution in favor of the ‘’non-income tax payers group” or in favor of the low-income brackets within the tax paying group.

Ademolar (1997) examined the productivity of the Nigerian tax system for the period (1970-1990) by using a time series data and analysis the relationship between gross domestic product (GDP) and the yield of aggregate tax-based revenue. He found that the elasticity of total tax revenue to GDP was 1.18.

2. 5 Literature Review Specific to Ethiopia

There were studies on tax components and tax systems for different periods in different regimes in Ethiopia. Wogene (1983) tried to examine the contribution of taxation. He argued that taxation and tax system was used as a tool for establishing the material basis of socialism. He estimated the buoyancy and built-in elasticity of the total tax revenue and examined the difference between the two measures to reflect the impact of the tax reforms on tax revenue for the period 1975-1981. He used the constant rate structure method to separate the revenue impact of discretionary tax measure. His result indicated that the tax reforms have significantly contributed to increasing tax revenue in the country.

A study by Teshome (1979) also tried to see tax elasticity in Ethiopia. He used built-in elasticity method to examine the revenue effectiveness of the Ethiopia's coffee export taxes. His empirical finding shows that revenue elasticity with respect to change in volume and value of exports is unity i.e. the revenue was price inelastic. He thus concluded that the present coffee tax formula requires constant revisions of tax laws whenever significant changes in the price and /or volume of coffee exports occur.

A study by Teshome (1986) also saw tax progressivity. He studies the tax progressivity based on the Ethiopian personal income taxation. He used gross incomes without deductions and allowances, which are collected, at the source by the employer on a PAYE basis. His empirical finding has shown that the slope of the average tax declines as income is increasing. This suggests that there is a declining trend in tax progressivity based on the concept of average tax progression and between income intervals. There is also a rising trend as income increases based on utilization of the average tax elasticity measures.

A study by Teshome (1987) also addressed the major developments in reforming the tax laws in Ethiopia. Based on the tax law reforms, he analysed the important properties of the tax. He used the buoyancy, revenue effectiveness and built-in flexibility of the taxes based on the reforms. His empirical finding has shown that overall automatic response of personal income tax revenue to changes in GNP is high. According to his findings, the built-in flexibility of the tax ratio was 0.07. This suggests that about 7 percent of the fluctuations in national income have cushioned by the built –in flexibility of personal income tax.

A study by Teshome (1992) on agricultural taxation in Ethiopia has shown that the marginal tax rate exceeds the average rate of taxation in each income intervals. The average tax rate, therefore, rises with income, clearly establishing the tax as progressive. He also found that the revenue from coffee exports have unitary elasticities with respect to changes in the quantity or volume of exports i.e. they are not price elastic. According to him, the two factors that determine the levels of agricultural tax revenue were agricultural income and the level of agricultural exports. His finding also shows that the agricultural tax revenue in Ethiopia is inelastic with respect to change in the level of agricultural exports and it is not very responsive to changes in agricultural GDP. He has also found that discretionary changes introduced in 1976 have doubled the agricultural tax receipts for the post-1976 period. The 1976 law resulted in agricultural tax receipts as being more responsive to changes in the value of agricultural exports and less responsive to changes in agricultural incomes.

Yoseph (1989) analysed the productivity of tax system in Ethiopia for the period 1960/1-1995/96 by using the simultaneous equation model and measured short run and long run elasticity of all individual tax revenues with respect to their respective bases. Empirically he has found that the elasticities of import tax, domestic indirect tax, personal income tax, agricultural tax and business taxes with respect to their respective bases are 0.737, 0.86, 0.8566, 1.3 and 0.589 in the short run and 0.763, 0.915, 0.8566, 1.313 and 0.589 in the long run respectively. All short run and long run elasticity with respect to their base are less than one, except agricultural tax, which is elastic in both short run and long run. The elasticity of import tax, domestic direct tax, personal income tax and agricultural tax base to GDP are 0.948, 1.02, 1.083 and 0.557 respectively.

His finding has indicated that the built-in elasticity of all tax system is less than one in both short run and long run. His finding also indicated that the tax-to-base and base-to-income elasticity are 0.763, 0.915, 0.8556 and 1.313 and 0.948, 1.02, 1.083 and 0.557 for import tax, domestic indirect tax, personal income tax and agricultural tax respectively. He also tried to measure the buoyancy and built-in elasticity for total taxes. His finding shows that the Ethiopian tax system as a whole is income inelastic.

A study by Fassil (2000) also examined the performance of the major income tax categories by estimating buoyancy and elasticity. He used the decomposition of tax elasticity into tax-to-base and base-to-income elasticity components. He made point estimates of the buoyancies and elasticity for the total direct tax and the major individual direct taxes for the periods 1970-1978, 1979-1992 and 1993-1998 using the Pc-Give program. His empirical finding shows that over the years indicated above both personal and business income taxes were buoyant and elastic.

CHAPTER III

Review of the Ethiopian Tax System

The changes in the tax system of Ethiopia overtime have occurred through discretionary measures. The changes were related to the tax rate structure and the tax base. However, changes that were introduced in the rate structure were more important.

After liberation in 1942 a special regulation was issued for the payment and collection of tax, and the Negarit Gazeta was established in (1942) as official publication media for all proclamation, laws, notice of public interest etc. A cursory review of the tax laws over the period 1942-2005 indicates four specific periods of fiscal reform in Ethiopia.

3.1 Tax Reform during the Period 1942-1963

The first and the earliest tax reform occurred in Ethiopian during 1942-1963, which includes land taxation, customs tariffs, personal and business income taxes, education and health taxation and transaction taxes. The Money and Banking proclamation was also introduced during this period, for the purpose of balancing government revenues and expenditures through short term government borrowing. The main tax reforms during this period are summarized in table annex V and it is briefly illustrated as follows.

Land Tax

The earliest tax in Ethiopia was land tax (proclamation No 8/1942). This law classifies the land into three and the land tax was imposed on landowners according to this classifications. An annual land tax is collected at the rates of Birr 15, 10 and 5 respectively on a Gasha of fertile, semi-fertile and poor land.

The rate was not uniform and distinctions were made between measured and unmeasured land. This law provides for the measurement and classification of land by local administrators. But application of land tax during this period was constrained due to lack of cadastral survey and land administration. It also shows static rate and has no regular adjustment. The 1942 law was amended by proclamation No 70 of 1944. There are basically two land based taxes introduced by the proclamation i.e. the Asrat and the land tax, even though these are not applicable in all cases and there are many complexities of the law.

According to the 1944 law, the landowners were required to pay tax at the flat rates per Gasha of Birr 35, Birr 30 and Birr 10 on fertile, semi-fertile, and poor land respectively. That is, this law required land tax to be paid based on fertility and it was applicable to all parts of the region implying that it was enacted on grounds of easiness for administration and its capacity to generate stable revenue (Teshome, 1992).

In 1947 the education tax, and in 1958, health tax were introduced to be paid as one with the land tax. The education tax was based on rural land ownership and it was introduced for the purpose of financing elementary education in the provinces the tax was collected. The base of the tax was later extended to include urban land ownership and personal incomes. The law imposes a 30 percent educational tax on urban property and on personal emoluments at the rate of 0.50 Birr on monthly earning of 50-100 Birr and at the rate of 2 percent on all monthly earnings in excess of 100 Birr. Similarly, health tax was introduced during this period (1958) to finance health services in the respective provinces of the tax was collected. It imposes a tax rate of 15, 12 and 4.50 Birr per Gasha of measured fertile, semi-fertile and poor land.

Income Tax

The first personal and business tax proclamation was issued in 1944 (proclamation No 60/1944). In this proclamation, personal income includes every sort of income whether earned or unearned, accruing, derived from, or received in Ethiopia but it does not include the salaries received by members of the regular armed forces and any income earned from agriculture. According to the law, the tax rate of professional and vocational occupations varied for traders, retailers and for premises and sundry establishments and also within these categories the rate varies depending on sub-categories and classes of each category. However, under proclamation No 107/1949 personal income includes unearned whether in the form of gains, profits, rents, salaries, wages or compensation for personal service and any source derived within or abroad but excluding any income earned from agriculture.

According to the law, the Ministry of Finance and its branch offices have responsible to collect the tax and the rate was based on the schedule A, B and C. Accordingly, schedule A, monthly personal income less than Birr 30 was exempted and the rate on monthly income from Birr 30-50, 50-75 and 75-100 was Birr 0.10, 0.20 and 0.30 respectively. The specific rate of Birr 2-900 was imposed on monthly income of Birr 100-150 to 9000-10,000. Under schedule B, different tax rates (based on first, second and third classes) were imposed on traders, retailers and premises and sundry establishment. The maximum amount of tax was Birr 500 on first class wholesale and retailer of special importer. According to schedule C, a surtax of 25, 30 and 40 percent were imposed on annual income Birr 10,000-25,000, 25,000-50,000 and 50,000-100,000 respectively.

However, the efficiency of this particular tax law is uncertain, since it was based on the East African Currency, which although a legal tender at the time, was not widely circulated. The tax law had also confused coverage, which must have affected adversely its implementation. Following the establishment of the State Bank of Ethiopia and the issuance of its new currency, “the Birr”, a new tax proclamation based on the Birr issued in 1949 (Proclamation No 107/1949). The tax under schedule “A” of this proclamation was payable on “incomes such as wages and salaries, emoluments, or personal composition and on rents from property”. The tax rates were set within closed income intervals and the system was described by step functions with constant sums of money taken away as taxes under each income intervals (Teshome, 1986).

During this tax reform period, personal income taxes have been revised five times since 1944 (i.e. in 1944, 1949, 1954, 1956 and 1961) as shown in table 3.1. On the decree No 19/1956, monthly personal income of up to Birr 30 was exempted from paying tax and over Birr 1500 a tax rate of 15 percent was applied. This decree was amended by proclamation No 173 of 1961. In this proclamation specific tax rates (from Birr 0.75 to 67.50) and advalorem rates (from 10 to 20 percent) were introduced. Accordingly, specific rates applied on monthly income of Birr 30-750 and advalorem rates applied on monthly income of Birr 750-5000.

The other reform implemented during this period was rental income tax. This tax initially introduced by decree No 19 of 1956 covered income from the rent of non-agricultural land and buildings, which later extended to apply to all kinds of land and buildings and income from crop-sharing arrangements between landowners and tenants by proclamation No 173 of 1961.

Business and Profit Tax

Business tax according to the proclamation No 60/1944 includes any company incorporated or registered under law and any firm, partnership or other body of person whether corporate or unincorporated. According to proclamation No 107/1949, it includes any commercial or industrial activity pursed by any person or company incorporated or registered under any law. The decree No 19/1956 were made distinctions between the rates of tax on incorporated bodies and on unincorporated bodies or persons. The rates on incorporated bodies were 15 percent and the rate on persons were Birr 9-2160 on annual income ranging from Birr 361-15000 and advalorem rate of 15 percent was imposed on income above Birr 15,000. There were a surtax of 10 percent payable on income in excess of Birr 50,000 and additional surtax of 10 percent payable on income above Birr 250,000. This law provides exemption for agricultural and cattle breeding activities, self-employed workers such as weavers, pottery, blacksmiths and tanner, who are not resident in municipal area. This law amended by proclamation No 173 of 1961. This law raised the rate on incorporated bodies to 16 percent of annual taxable income; and applied specific rate on annual taxable income of up to Birr 9000 and advalorem rate on the annual taxable income exceeding Birr 9000 for person. The maximum advalorem rate was 16 percent on annual taxable income above Birr 15,000. In addition, a surtax of 10 percent was payable on income in excess of Birr 30,000 and also additional surtax of 10 percent was payable on annual income above Birr 150,000.

Foreign Trade and Indirect Taxation

An excise tax in its broad and comprehensive sense was introduced in 1943 and has undergone a number of changes since then. This tax was imposed more or less the same rate on domestically produced alcohol but in some domestic products the rate was slightly low. The rate imposed were 10-50 percent on animal, agricultural marine, pastoral products and food staffs, 15-75 percent on textiles, apparel, yarns and fibers, 10-20 percent on metals, metal manufacture, machinery and vehicles, 5-20 percent on minerals, glass ware and earth ware, 10-20 percent on oils, waxes, paints and varnishes, 10-30 percent on chemical drugs and fertilizers, 10-20 percent on leather and rubber and manufactures thereof, 10-50 percent on wood and manufactures thereof and Birr 1.5 to 6 on tobacco. Later an excise tax introduced during 1954 and 1955 include salt, sugar, textile and cotton. Salt tax was introduced in 1954 applied to imported as well as locally produced mined or collected salt. Next to this, in 1955, a proclamation on excise taxes applying to imported and locally manufactured sugar, cotton, yarn and textile fabrics was introduced.

As distinct from excise taxes, domestic indirect taxes were levied on the sales of a wide range of goods. In Ethiopia this tax is characterized by a great multiplicity of types and rates, which imposes great burden on its administration. By proclamation No 143 of 1954, a transaction tax (among the most important in the category of indirect taxes) of 10 percent and 2 percent of the value of imported and exported goods were levied respectively. This law amended by decree No 17 of 1956, which made the rates on imported, exported and locally manufactured goods was 12 percent, 2 percent and 5 percent of manufactures sale price respectively. This law was replaced by proclamation No 205 of 1963, which sets a turnover tax on the sale of movable goods at 1 percent of their gross value and 2 percent of the cost of construction.

Although in Ethiopia the export tariff is entirely dictated by revenue considerations, its role in revenue generation is insignificant. The export duties are levied on a small number of commodities and they are simple compared to the import duties. According to proclamation No 205/1963, imported goods are taxed at the rate of 12 percent and all goods exported at the rate of 2 percent. This law provides an exemption for imported agricultural and industrial machines. The main source of export duties revenue is exports of coffee, followed by export of hides and skins. Others include taxes levied on the export of live animals (mainly cattle), ivory, civet, chat, bees' wax, butter, and leopard skins.

The stamp duty tax was also introduced during this period (Proclamation 41/1943) and the law requires an obligatory use of stamped paper and payment of stamp duty for a variety of instruments such as bills of exchange, petition and applications to government offices, contract of agreement, custom bond, lease/sub-lease or transfer, award, association of company, mortgage and share warrant. Stamp duty tax ranging from Birr 0.50 on share of warrant to 15 percent on lease/sub-lease or transfer.

In general, during this period the main source of tax was land tax and foreign trade mainly from import. This indicates that the reforms undertaken in Ethiopia during this period were not resulted in diversified source of tax base. This shows that basic tax reform has not been practiced during this period and tax does not played its significant role in Ethiopian economy.

3.2 Tax Reform during the Period 1964-1975

The second period covers the year 1964-1975, the period in which major tax changes and new laws were introduced and a revision of former laws were made to improve the performance of the tax system to meet the increasing need for government finance.

During the mid-sixties, a broad-based transaction tax on goods and services were started following the development of industrial sector and subsequent expansion of trade. This post 1964 was the period in which major fiscal reform practiced in Ethiopia. Because there were great expansions of infrastructure, commercialization of agricultures, large-scale manufacturing and expansion of banking, school and health sector which demands high financial resource. Due to these facts the tax bases were diversified to finance these bulk expenditures and this bringing the Ethiopian tax system into international standard to generate high revenue from the tax sources. Some of these diversified taxes and reforms are shown in annex VI.

Income Tax

Income tax passed several modifications from a system of simple tributes to a highly developed modern income tax system. This category includes personal income tax, corporate or business profit tax, taxation of income from agriculture, and tax on income from rent of land and building according to proclamation No 255/1967. This proclamation divided the income tax into four categories. Schedule A applied to taxation of incomes from employment (i.e. personal income tax); schedule B applied to the taxation of income from rent of land and buildings used for other actives than agriculture; schedule C applied to income from any trade, business, professional or vocational occupation i.e. corporate income or business profit tax and schedule D applied to income from agricultural activities. This law lowered the minimum exemption limit from the previous monthly income of Birr 30 to 25 on persons.

The other difference was that it made a slight upward revision of some advalorem rates (more progressive and income brackets increased to twelve from eight in the previous law) and raised the rate from 21 percent to 25 percent on monthly income above Birr 5000. The only change in specific rate was that the formerly exempted taxable annual income of up to Birr 360 also made to pay taxes. The law introduced different rates for incorporated bodies (the rate being 20 percent of annual taxable income) and for person (applied specific rates on annual incomes up to Birr 9000 after dividing income to several brackets and advalorem rate to annual taxable income above Birr 9000).

The other tax reform undertaken during this period was agricultural activities or activities for agricultural purpose tax. This tax was introduced in 1967, by proclamation No 255/1967 as schedule D. The rates were different for bodies and persons. The rate for bodies was 20 percent of their annual taxable income. Its structure on persons was both specific and advalorem. Both rates were applied after dividing the taxable income into several brackets.

Foreign Trade Tax

According to custom duties amendment of legal notice No 354/1969, the schedules and commodities were classified according to the Standard International Trade Classification (SITC) of the United Nations Statistical Office and the Brussels Tariff Nomenclature (BTN) of the customs corporation council. This law provides new advalorem rates of 15 percent on cotton products and some metal manufactures, 75 percent on meat extracts, soups manufactured from meat and other related items. Before the introduction of this law most of the items were taxed at specific rates. However, this amendment changed most of the specific rates to advalorem ones.

The reform on excise tax during 1971 changed the coverage from seven products to twelve products. The products liable to this tax were salt, textiles yarn, sugar, tobacco and tobacco products, alcohol and alcoholic beverages, petroleum products and lubricants, soft drinks and foot wear, iron and steel rods, bars and sheets, plastic, rubber and canvas goods, and matches. The rates under this law are specific except those levied on tobacco and tobacco products, leather and plastic goods. A series of amendments and proclamations were made to improve this tax system in different periods. These include proclamation/ amendments No 285 of 1971 and No 314 of 1973. The 1972 law provides imported goods are in general liable to a transaction tax of 15 percent based on their value as assessed by customs.

During this period surtax introduced and levied on the export of coffee, export of sugar and cottonseeds at their FOB price and cess tax is levied on coffee exports. The reform on turnover tax occurred during this period (proclamation No 254/1967) imposed tax on every sale at all stages of production and distribution irrespective of their origin. The rate is 2 percent on the sale of all goods with the exception of certain commodities for which the rates are 4 percent or 6 percent.

3.3 Tax Reform during the Period 1976-1991

The period between 1976 and 1991 marked the third stage of tax reform in Ethiopia. Two basic changes in revenue base were introduced: expansion of the base of land taxation and following nationalization, capital charges and residual surplus (Teshome, 1992). However, the remarkable growth in government expenditure particularly after 1975 and the swelling of the government activity in the political, social and economic spheres and a massive transfer of resources to the state sector made adverse effect in revenue source.

The tax reform occurred during this Dergue regime destroyed some of tax bases and the revenue generated from tax source declined. Though the government tried to solve this problem by supporting state farm in the form of aid and borrowing from abroad, these sources were mainly consumed by Ministry of Defense and the gap remains steady. Therefore, the erratic behavior of revenue and regular form of expenditure in Ethiopia during Dergue regime was the main challenge and government deficit persists for long period time.

In general, during this period, tax as revenue source declines in importance, because (a) personal income tax decline following nationalization and restriction on private property ownership development, (b) most imports are carried out by government department, which are not subjected to tax.

However, there have been some revisions of existing tax rates although their contribution to tax revenue has been doubtful in view of the sweeping nationalization and the large scale transfer of private sector activities to the public sector. These changes in tax rates are shown in annex VII.

Income Taxes

Regarding the income tax change, after the overthrow of the imperial regime in 1974, the military government issued proclamation No 77 of 1976, which further amended, by proclamation No 155 of 1978 as indicated in table 3.3. The 1978 proclamation resulted in major change on various schedules of the 1967 law. The main changes included: the exemption limit was raised to Birr 50 per month (instead of Birr 25 in the former low), rates were made marginal, more progressive and ranged from 10 percent (on monthly employment income between Birr 50-250) to 85 percent (on monthly employment income exceeding Birr 3750). The law provide incentives for the development of co-operative whose monthly income does not exceed Birr 500, while the monthly income 501-700, 701-900 and 901-1200 were charged Birr 24, 40 and 70 respectively and above Birr 1200 were charged according to schedule C of the proclamation. Similarly, this amendment was changed business profit tax (schedule C). The rate was totally advalorem and varied from 11 percent to 20 percent and annual income less than Birr 1200 was exempted from paying tax under schedule C.

This law shows relatively progressive as it eliminates the old regressive features and introduces marginal rate. In view of the fact that this 1978 income tax reform, the tax category has undergone a major change comparable to that of employment tax. The organizations were required to pay 50 percent of their taxable income as compared to 20 percent in the former law. The rates on persons were made higher and much more progressive, ranging from Birr 10 for taxable annual income of up to Birr 300 per annum to 89 percent for income exceeding Birr 36,000. The law changed majority of the rates on persons to advalorem. Under this law, incomes, which were formerly exempted, enforced to pay taxes. These include taxes on income from dividends to share holders at a rate of 25 percent, chance wining and lottery at a rate of 10 percent, on incomes from royalties at rate of 40 percent and income rendered abroad at a rate of 10 percent. However, the decree No 18/1990 resulted to downward movement in all rates.

Agricultural Income Tax

The nationalization of rural land occurred during this period according to 1976 land reform. The rural land use fee and agricultural activities income tax proclamation No 77 of 1976 and its amended 152/1978 were brought a major change in the rate structure. The 1976 law made the agricultural income tax structure more progressive and reduced the number of taxable income brackets.

The latter law currently in operation in most regional states, and it requires individual farmers and agricultural producer co-operatives earning up to Birr 600 per annum to pay 10 Birr and the tax rates vary on every additional income.

The 1976 land reform, which resulted in the nationalization of rural lands, eliminated all taxes related to land ownership. That is, it abolished land tax, education and health tax. The 1978 law requires individual farmers, who are not member of producer cooperatives, and governments' agricultural organizations to pay a land use fee of Birr 10, 5 and 2 per hectare per annum respectively. In almost all regional states of the country, except Oromia, proclamation No 152 of 1978 is still in operation.

The other tax reform introduced during this period was urban land rent and urban house tax of 1976. According to this law, the payment of rent on urban land was classified in to three grades.

Foreign Trade Taxation

Foreign trade during the Dergue regime was shirked due to the reduction in import and export, which resulted in eroding the tax base. This is because of nationalization of all firms and other private sectors.

Among the measures taken by the military government in 1976 was the customs duties reform. The main features of the reform included the classifications of commodities and schedules according to BTN and SITC and also the tariff rates varied from 5 percent on some necessity goods to a maximum of 125 percent on goods considered luxuries. The reform also provided exemptions to some capital goods, such as imports of agricultural and industrial machinery, equipment and spare parts. Other items that were given duty free privilege include goods such as fertilizers, chemicals used in hospitals and similar institutions, goods imported by or for the religious body, goods for laboratory and scientific use, some spare parts of aircraft and rail ways, etc. According to the legal notice of 42/1976 custom tariff regulations, a variety of taxes are levied on coffee exports. In particular, export duties, transaction taxes, the cess and sur charges are payable to the government on all coffee export.

The 1976 proclamation also introduced quantitative restrictions on imports and total prohibition of importation of some goods. Quantitative restrictions imposed on goods such as foodstuffs, general merchandise, building materials, stationary materials, investment goods, textiles and their components. The tax rates on jewellery, ivory, bone ornament and minerals, carving materials and articles of these materials were raised from 100 percent to 200 percent by the 1979 amendment.

Indirect Tax

In 1990 a new sales tax law, which brought transaction tax, turnover tax and excise taxes together, was issued. The main objective of this law was to consolidate many scattered indirect taxes and make tax administration more simple and efficient and to widen the coverage. According to this law, all the previous proclamation and amendments regarding sales, transaction, and excise and turnover taxes replaced by this sales tax law and are now consolidated in to a single tax system.

These reform actions were taken to encourage the export sector and to increase participation in world trade. Currently, all export taxes levied on goods other than coffees are no longer functional. The coffee export tax is used as a means of generating revenue for the government.

3.4 Tax Reform during the Period 1992-2005

Finally, after the overthrow of the Dergue regime, different tax incentives were introduced to encourage investment and to generate high revenue. Tax reform of this period has specific objectives. Such as (1) to encourage private sector development (2) to rise consumption levels of the people and (3) to reform the bureaucracy and carry out capacity building through budget support. This reform includes foreign trade tax, income from mining and capital gain tax, personal and rental income tax, business profit tax, transaction tax, excise tax, stamp duty, turnover tax and land use tax as shown in annex VIII.

Tax reform has to be taken in conjunction with economic reform program introduced in the country, privatization, structural adjustment program, public sector reform program, etc. The reform lowered the rate of personal income tax and slight improvement in the taxation of sales tax base such as introduction of value added tax (VAT). These tax reforms are given in annex VIII.

One of the reforms undertaken during this period was mining income and capital gaining tax. Mining income tax was first introduced in 1993 by proclamation No 53. According to this law, the tax rate on large-scale mining and small-scale mining was 45 percent and 35 percent respectively. Proclamation No 23 of 1996 and then 118/1998 amended this law. The former amendment made the tax rates of 35 percent on the taxable income for both large scale and small-scale mining license. The capital gain tax was introduced by proclamation No 108/1994 imposes capital gains tax on shares, bonds and urban houses. The rate of this tax is 30 percent of the gains realized and this law exempts aggregate annual gains of less than Birr 10,000 from paying tax. The other reform under taken during this period was business and profit tax of proclamation No 36 of 1996 and 286/2002, which lowered rate on incorporated bodies to 35 percent from 59 percent.

Income Taxes

Tax on employment income used to be guided by income tax proclamation 173/1961. After 1992, this proclamation amended with modifications to the legislation regulating income tax on employment: rural land and agricultural income tax, rental income tax, taxes on business and other profits, tax on income from mining activities, capital gain tax, and taxes on other sources of income such as chance wining (15 percent), royalties (with tax rate of 5 percent) and tax on non-resident persons offering services in Ethiopia (which carries a tax rate of 10 percent). This reform resulted in a schedule for marginal tax rate, which has currently applied to income exceeding Birr 150. Compared to the marginal tax rate of 89 percent during the Dergue period; the latter reform which reduced the maximum marginal tax rate to 35 percent was quite radical (Alemayehu and Abebe, 2005).

The main feature of this law is that monthly incomes of up to Birr 105 exempted from paying personal income tax, and rates were generally revised downwards. But proclamation No 107/1994 provided exemption up to Birr 120 and this law repealed by proclamation No 286/2002 with the exemption level to Birr 150 on monthly income.

Unlike in most LDCs, Personal income taxation in Ethiopia does not provide exemptions based on marital status and allowance for dependent children. The tax rate is calculated on gross income, and is collected on "pay-as-you earn" basis.

Agricultural Income Tax

The reform on agricultural income tax of 1978 for rural land and agricultural activities was amended in 1995 and 1997. According to the latter law, the land use farmers are taxed Birr 10 for the first hectares and Birr 7.5 for each additional half hectare. Annual income exceeding Birr 1,200 was subjected to a progressive tax rate. The land use fee for state farmers was Birr 15 per hectare. The latest tax policy concerning the agricultural sector promises that an agricultural investor will be exempted from income tax for two consecutive five-year periods.

Relating to this tax, Oromia state formulated proclamation No 8 of 1995, which revised agricultural income tax rates schedule and rural land use fee of proclamations No 77 of 1976 and No 152 of 1978. The law provides a state farm shall pay 40 percent of the taxable income, which realizes from its agricultural activities. Others (agricultural producers other than state farms) are subject to a tax of Birr 15 on annual taxable income of up to Birr 1200, and the rates vary from 5 percent to 40 percent on annual taxable income of above Birr 1200.

In general, the Ethiopian land tax system doesn't consider the objective measure (soil quality), distance from market (market value or net income) and other factors or proxies for presumptive income or productivity.

Foreign Trade Taxation

The main objective of the economic reform program of the transitional government of Ethiopia under proclamation 69/1993 was to establish export trade duty incentive scheme by correcting the distortion in the countries balance of payment and narrowing down the gap between import and export trade. To arrive at this goal the government established incentive scheme for the industries engaged in the production of export goods by providing reduction of tax and duty cost to enable them competitive in international market. Even with this amendment the revenue from foreign trade remains low and the gap still intact or unbroken. For example, reform on Import duties of vehicles especially on vehicles with the maximum horsepower was raised to a maximum of 230 percent in 1990. Customs tariff regulation No 122/1993 reduced the duty rates to 5 - 80 percent from 5 - 230 percent and converted most of specific rates to advalorem. This reform also provided some exemptions to organizations, persons and public bodies, diplomats and consular, churches and related religious bodies, tourists, gifts and donations.

Regulation No 122/1993 was amended by regulation No 2/1996. Under this regulation, the number of free items increased and the highest duty rate (80 percent) in former regulations levied on 410 items was reduced to 60 percent, accordingly reducing dispersion rates significantly.

In general, the custom tariff reform that took place between 1993 and 2002 grouped imports in to 97 categories based on the Harmonized Systems of Tariffs Classification code and an advalorem rate ranging up to 35 percent was imposed. These all revisions and modifications were not generated the expected revenue over the period under review.

Domestic Indirect Taxation

During this period, taxes on goods and services reform refers to excise tax proclamation 68/1993, 77/1997 and 149/1999. The base of excise tax is locally produced goods and because of limited industrialization, excise tax revenue comes from a few selected commodities. Up to 1978, commodities liable to excise taxes were twelve in number and in this law most of the rates were specific. Proclamation No 68 of 1993 changed most of specific rates into advalorem, and made the rates of excise tax on domestic products and imported the same. The applicable tax rate changed from a low of 10 percent on textiles and television sets to 100 percent for alcohol, perfumes and automobiles, sales tax on goods constitutes the second category and these ranged from 5 percent (mainly for agricultural goods) to 15 percent.

The other reform occurred during this period was the introduction of VAT. The VAT replaced the sales tax in Ethiopia as of January 1, 2003. In Comparison to the sales tax, the VAT grants zero-rating to exports, and gives exemptions to fewer basic products. The VAT has expected to enhance revenue, improve economic efficiency, promote exports, and foster growth. However, the broadening of the tax base, the increase of the tax rate, and the choice of exemptions will have differential effects on revenue generation.

In general, the tax system and structure of the country has undergone constant changes and amendments overtime. With respect to direct taxation, income tax laws before the Dergue regime first imposed taxes on personal and business incomes, later on rental income and on income from agricultural activities. During the Dergue regime, incorporating income from dividends to share holders, chance winnings and lottery, royalties and service rendered from abroad and agricultural income broadened the income tax base. After the Dreg regime the introduction of the mining income tax and capital gains tax was expected to broaden the base but it was not attained its objective.

Relating to the development of indirect taxes the following points will be noted. Excise taxes were first levied on tobacco and alcoholic products under tobacco regie tax and alcohol excise tax. Excise tax coverage was widened by levying the tax on other products, such as footwear, coal, petroleum etc, in the latter decades. In 1990, the scattered and multiple taxes were consolidated into a general sales tax. This further broadened the tax base and widened the neutrality of the tax system by bringing the service sector in to the tax net.

To sum up, the tax reforms and incentive systems are assumed to be increase government revenue and finance government expenditure over the study period. However, the budget deficit still persists and is critical challenge for government budgetary finance.

3.5 The Composition of Ethiopian Tax Revenue

The composition and amount of the revenue from each tax base was presented in table 3.1. The ratios of total tax revenue and non-tax revenue during the period under review are 72.6 percent and 27.37 percent respectively. The revenue to GDP ratios were 6.97, 10.21, 14.11 and 11.62 percent for total tax revenue and 1.26, 2.03, 6.13 and 5.81 percent for non-tax revenue in 1960s, 1970s, 1980s, and 1990s respectively. The ratio is highest in the 1980s relative to other decades.

The ratio of direct tax was increasing up to 1990 but declined during 1990 to 2000. The ratio of indirect tax has also similar trend as direct tax. From the two components of indirect tax, foreign trade tax had the highest ratio. Comparisons for the ratios of direct and indirect tax revenue indicates that the ratio is highest for total indirect tax throughout the period.

The data in the table shows that the revenue GDP ratio for two types of government revenue was increasing up to the end of 1980s, being highest in the 1980s. The composition of tax revenue is dominated by indirect taxes, which on the average contributed 48.18 percent throughout the period under review. The share of direct tax in total tax revenue is on an increasing trend, while that of indirect tax is on a decreasing trend up to 1980s. The status of government revenue over the study periods showing decreasing trend in terms of the needs of government expenditure.

The share of direct tax revenue in total tax revenue was 24.18, 30.57, 44.42 and 39.02 percent while that of indirect tax was 75.82, 69.43, 55.58 and 61 percent during the period of 1960s, 1970s, 1980s and 1990s respectively. From the components of direct tax, business profit tax is the most important followed by personal income tax. During the period under review, the average contribution of personal income tax, business profit tax, agricultural income tax and other direct tax to total tax revenue were 23.8, 43.4, 8.7 and 6.8 percent respectively. Even though Ethiopia is an agrarian country, the contribution of agricultural taxation was low as compared to other tax sources. The contribution of total direct tax was highest during 1975-1991 and indirect tax was highest during the period of 1961-1974, however, both direct and indirect taxes were low during the period 1992-2005.

Within indirect tax, tax on the international trade contributes more than domestic indirect tax. The taxation of domestic transaction and taxation of international trade respectively contributed 37 percent and 63 percent to total revenue during the period under review. Within the international trade tax, import tax contributes nearly 91 percent of total tax on the average. Examination of the role and structure of non-tax revenue suggests that it contributed 27 percent of total revenue throughout the period under review. The higher shares push up this share in the 1980s and 1990s; accordingly the share was being 30 percent and 33 percent for the two periods respectively.

The structure and composition of Ethiopian domestic revenue shows that, the average percentage contribution of tax revenue to total revenue ranged between 67 percent and 85 percent. Over the time percentage contribution to total revenue by domestic tax revenue were 85, 83, 70 and 67 percent and that of non-tax revenue were 15, 17, 30 and 33 percent during the 1960s, 1970s, 1980s and 1990s respectively. This clearly shows that the share of tax revenue in total domestic revenue has been declining while that of non-tax revenue has been increasing. Despite this fact tax revenue have remained the main sources of government revenue in Ethiopia. The largest part of Ethiopian government revenue was drawn from taxes on international trade, but their share has been declining over time and it shows a slightly up ward trend in 1990s.

In general, the structure of Ethiopian tax system was dominated by in indirect tax. The level of average government revenue to GDP ratio was about 13.31 during the period under review, which is very low as compared to other SSA. However, the low-income countries, middle-income countries, OECD (Organization for Economic Cooperation and Development) and SSA (Sub Saharan African) as a whole the ratio of public revenue to GDP averaged 29, 34, 42 and 23.5 percent respectively Alice (2006). This indicates that the governments of Ethiopia mostl likely depend on the foreign aid and assistance to finance its expenditure.

Table 3.1 The growth rates, structure and tax level of Ethiopian government domestic revenue (1961-2005) in million of Birr.

Ethiopian fiscal year	1960-1970	1971-1980	1981-1990	1991-2000	2001-2005	1960-1974	1975-1991	1992-2005
Fiscal year ending July 7	asGDP	asGDP	asGDP	as GDP	asGDP	as GDP	as GDP	asGDP
Tax revenue	6.97	10.21	14.11	11.62	18.36	7.34	13.10	14.79
Direct Taxes	1.67	3.22	6.60	4.76	8.15	1.96	5.71	6.33
Personal income	1.23	1.09	1.52	1.06	1.85	1.18	1.40	1.42
Business profits	0.08	1.14	3.51	2.47	2.87	0.35	2.87	2.66
Agriculture income	0.38	0.57	0.77	0.40	0.52	0.41	0.71	0.45
Others*	0.02	0.00	0.02	0.16	1.03	0.02	0.01	0.56
Indirect Taxes	5.25	7.32	8.26	7.44	12.90	5.39	8.05	10.00
Domestic Tax	1.81	2.74	4.31	2.83	4.06	2.30	3.91	3.37
Foreign Trade	3.09	4.59	3.95	4.61	8.84	3.09	4.14	6.63
Import	2.40	2.74	2.59	4.33	8.83	2.38	2.65	6.47
Export	0.69	1.84	1.36	0.28	0.01	0.71	1.49	0.16
Non-tax revenue	1.26	2.03	6.13	5.81	5.36	1.23	4.97	5.72
2. Structure of Domestic Revenue (as % Contribution)								
2.1. Total Tax Revenue	84.7	83.44	69.73	66.66	77.41	85.68	72.50	72.11
2.1.1 Direct Tax	24.0	31.57	46.78	40.94	44.40	26.63	43.58	42.81
2.1.2 Indirect Tax	75.4	71.70	58.54	63.98	70.27	73.37	61.47	67.63
2.1.2.1 Domestic	34.4	37.39	52.14	38.01	31.47	42.71	48.62	33.69
2.1.2.2 Foreign	58.9	62.61	47.86	61.99	68.53	57.29	51.38	66.31
a. Import	77.6	59.83	65.54	93.98	99.89	77.10	64.01	97.54
b. Export	22.4	40.17	34.46	6.02	0.11	22.90	35.99	2.46
2.2 Non-Tax Revenue	15.3	16.56	30.27	33.34	22.59	14.32	27.50	27.89
3. Structure of Tax Revenue (as % contribution)								
3.1. Total Direct Taxes	24.18	30.57	44.42	39.02	38.72	26.63	41.49	38.76
3.1.1. Personal income	73.20	33.68	22.96	22.35	22.67	60.34	24.49	22.38
3.1.2. Business profits	4.85	35.22	53.14	51.90	35.14	17.84	50.29	42.10
3.1.3 Agriculture income	22.88	17.76	11.71	8.42	6.33	20.88	12.41	7.17
3.1.4 Others*	1.41	0.10	0.24	3.31	12.69	0.94	0.20	8.88
3.2 Indirect Taxes	75.82	69.43	55.58	60.98	61.28	73.37	58.51	61.24
3.2.1 Domestic Tax	34.40	37.39	52.14	38.01	31.47	42.71	48.62	33.69
3.2.2 Foreign Trade	58.88	62.61	47.86	61.99	68.53	57.29	51.38	66.31
a. Import	77.60	59.83	65.54	93.98	99.89	77.10	64.01	97.54
b. Export	22.40	40.17	34.46	6.02	0.11	22.90	35.99	2.46

Source: Computed from annex I.

* Other taxes include capital gain charges, interest income, rent income, chance winning and dividend and with holding tax in import.

3.6 Trend of Government Finance in Ethiopia

A major consequence of the fast growth of the public sector economy is the introduction of persistent structural deficits in the economic system. The management of government expenditures became increasingly difficult because of declining government revenues and increasing expenditures. Both revenues and expenditures were subject to wild fluctuations. The large and growing deficits were likely results of independent developments in revenue and expenditure sources and indicate a vulnerable budgeting system operating with erratic fiscal behaviors in the country.

Budgetary deficits were increasing over the longer term in Ethiopia. During the period 1950-1955 budgetary surpluses were recorded. During the following decade balanced budgets were maintained, more or less, and during the period 1965-1974, the practice of “fiscal conservatism” kept the deficits small. It was during the period 1975-1991 that large budgetary deficits were sustained (Teshome, 1993). It also rose dramatically during the period of 1992-2005.

The deficit also indicates the country’s dependence on external source in bridging its resource gap. This is more obvious in the financing of government capital expenditure than anything else. In financing capital expenditure, the external sector accounts for approximately 20 percent in terms of loan and around 10 percent in terms of assistance. An interesting development for the period review was the sharp rise in the treasury financing of capital expenditure that grew from around 50 percent at the beginning of the 1990s to about 70 percent at the end of the decade (Alemayehu and Abebe, 2005).

A major factor behind the trend of increasing government deficits has been the relatively higher growth of expenditures than revenues. The ratio of total domestic revenue to total government expenditure averaged 108.88 percent per annum during the period 1950-1955, 82.63 percent per annum during 1956-1964, 73.08 percent during 1965-1974 and 66.59 percent per annum during the period 1975-1991 (Teshome, 1993).

It was 52.3 percent per annum during 1992-2005. Thus, the trend of government deficits is indicated by the continuing decline in the ratio of total domestic revenue to the total government expenditure. This shows the increase in recurrent and capital expenditures, contributing to the dramatic rise in the level of total government expenditures.

The main component of government expenditure was recurrent expenditure. Within the recurrent expenditure the largest share was national defense expenditure. The average share of defense in the 1960s, 1970s, 1980s and 1990s were 25, 30, 44 and 29 percent of total recurrent expenditure respectively. The inability to match increased expenditure needs with government revenue resulted in poor saving performance by the government and the widening of budget deficit. As the result, the level and share of external loans have been increasing. It was about 7 percent of the total yearly finance (on the average) during the pre-1974 period but accounted for an average of 10 percent share per year of total finance during the period 1974-1991 Teshome (1993); however, it reached 42.3 percent during the period 1992-2005.

	Total Tax Revenue	Recurrent Expenditure	Total Expenditure

	Growth rate	As % of GDP	As % of Recurrent expenditure	As % of Total expenditure	Growth rate	As % of GDP	As % of Total expenditure	Growth rate	As % of GDP
1961-1970		6.97	77.3	61.2		19.7	79.1		24.9
1971-1980	4.9	10.21	76.7	59.7	5.8	17.6	77.9	7.5	22.6
1981-1990	5.5	14.11	75.0	54.6	7.8	18.0	72.8	15.3	24.7
1991-2000	8.5	11.62	61.3	41.2	32.7	21.6	67.1	44.0	32.2
2001-2005	11.1	18.36	77.4	54.6	-12.0	20.4	70.6	-16.3	28.8
1961-1974	7.52	7.34	63.6	43.9	17.9	20.2	69.0	20.7	29.4
1975-1991	11.8	13.10	72.4	46.2	-1.7	19.1	63.8	6.2	29.9
1992-2005	11.5	14.79	79.9	52.3	1.1	18.2	65.4	-1.5	27.8
1961-2005	10.8		67.8	48.1	30.5	22.8	70.9	20.4	32.2

Table 3.2 Comparisons of Tax Revenue and Expenditure (1961-2005)

Source: Computed from annex I.

Table 3.2 shows the growth rates and the ratio of total tax revenue and recurrent expenditure to GDP. Over the period under review, on the average, the tax revenue covers 68 percent of recurrent expenditure and 48 percent of total expenditure. This clearly shows that nearly 52 percent of the total expenditure during 1961-2005 was mainly covered by aid from external source and domestic loan.

3.7 Tax Financing of Government Expenditure

Although over the longer term tax yields had a high growth rate, there has been a marked decline in the rate of growth of tax revenues. The recent declines in the tax collections resulted mainly from an erosion of tax base and marked deterioration in tax administration.

Real tax revenues had an average annual growth rate of about 7 percent during the period 1950-1960. The rate of growth of tax revenue is always less than the rate of growth of government expenditure. Tax revenues per annum were about 6 percent of GDP during the period 1950-1960, 9 percent during the period 1961-1974, and 17 percent per annum during 1975-1991 (Teshome, 1993). It was 15 percent during the period 1992-2005. On the other hand, the tax revenue to total expenditure ratio shows a declining trend, indicating a widening gap between government expenditure and tax revenues. Likewise, the ratio of tax revenue to domestic revenues declined, indicating a faster growth of non-tax revenues.

Direct and indirect taxes revenues, accounted for about 50 percent of the tax revenue, and foreign trade taxes for the remaining 50 percent during the period 1950-1960. During the period 1961-1974 the average annual share of direct taxes and foreign trade taxes decreased slightly and that of indirect taxes increased.

During 1960-1990 the average annual share of direct taxes in the total tax revenue increased, while that of indirect taxes remained constant and the share of foreign trade tax revenue declined. During this period, foreign trade performance was poor and this is reflected in the relatively low tax returns from that source. The tax revenue has grown rapidly between 1960 and 1990, rising from about 7 percent of GDP in 1960-1970 to 14 percent in 1980-1990. This revenue comes from taxes on goods and services in general and taxes on foreign trade in particular. Foreign trade tax revenue constitutes an average of 58 percent of total indirect tax revenue in the 1960s and 47 percent in the 1980s. This is followed by taxes on domestic goods and service, which was about 34 and 52 percent of total indirect tax revenue respectively in the two periods mentioned. In general, the year 1960 to 1990 can be characterized as a period of rapid growth in tax revenue and very heavy dependence on taxes from international trade, which accounts 57 percent of total indirect tax revenue. A main factor behind the rising trend of tax revenues has been the discretionary change introduced around 1964 and 1974.

The tax reform made during the mid 1970s includes the Rural Land use Fee and Agricultural Activities Income Tax Proclamation 77/1976 and its amendment proclamation 15/1978. The introduction of these reforms not only replaced the archaic and complicated system of agricultural taxation of previous year, but also increased the agricultural tax yield considerably. Agricultural tax reforms are estimated to have raised the average yearly level of agricultural tax revenues during the post-1976 period twice the level of the pre-1976 period. Other tax reforms introduced around mid-1970s and causing a significant increase in tax yields include the Customs Tariffs Regulation, Legal Notice 42/1976 and the Income Tax Proclamation 155/1978. The over all effect of these tax reforms had been to raise the taxation rate, broaden the tax base and thus, increase the tax yield (Teshome 1993). However, there has been continues tax reforms post 1991/92; which resulted in insignificant increase in tax yield as compared to government expenditure.

CHAPTER IV

DATA AND METHODOLOGY

4.1 Methodology

In measuring the productivity of tax system, two indicative variables are normally considered. These are (income) elasticity and the buoyancy of tax revenue. The former measures the change in tax revenue attributable to changes in income. Buoyancy measures the total response of tax revenues to changes not only in income but also other discretionary change in tax policy. Total responses take into account both increases in income and discretionary changes (tax rates and bases) made by tax authorities in the system. Therefore, the responsiveness of tax revenues to discretionary changes in the tax rate and in tax base in relation to the GDP is termed the buoyancy of the tax system i.e. buoyancy is a measure of both the soundness of the tax bases and the effectiveness of tax changes in term of revenue collection (Osoro, 1989 and Mansfield, 1972).

As Osoro (1989) indicated, the elasticity of the tax to the base, and the elasticity of the base to income can be measured by the following equations.

Elasticity of total tax revenue to income

$$ET_{t,y} = \frac{\Delta T_t}{\Delta Y} \cdot \frac{Y}{T_t}$$

Elasticity of k^{th} individual tax to income

$$ET_{ky} = \frac{\Delta T_k}{\Delta Y} \cdot \frac{Y}{T_k}$$

Elasticity of k^{th} individual tax to base

$$ET_kB_k = \frac{\Delta T_k}{\Delta B_k} \cdot \frac{B_k}{T_k}$$

Elasticity of k^{th} individual base to income

$$EB_ky = \frac{\Delta B_k}{\Delta Y} \cdot \frac{Y}{B_k}$$

Where, T_t = Total tax revenue.

T_k =Tax revenue from the k^{th} tax.

Y =Income measured by Gross Domestic product (GDP).

B_k = The base of k^{th} tax.

Δ= The discrete change in the variable associated with it.

Given these definitions of elasticity, it follows that in a system of n taxes

$$E_{TY} = T_1/T_t\ (\Delta T_1/\Delta T\ .\ Y/T_1) + \ldots T_k T_t\ (\Delta T_k/\Delta Y\ .\ Y/T_k)$$
$$+ \ldots T_n/T_t\ (\Delta T_n/\Delta Y\ .\ Y/T_n) \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots\ (1)$$

Equation (1) states that the elasticity of total tax revenue to income is equal to the weighted sum of the individual tax elasticities (where the weights are the fractional distribution to total tax by each individual tax). In addition, as stated in equation (2) the elasticity of any tax can be decomposed into the product of the elasticity of the tax to its base, and the elasticity of the base to income.

$$E_{TkY} = (\Delta T_k/\Delta B_k\ .\ B_k/T_k)\ (\Delta B_k/\Delta Y\ .\ Y/B_k) \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots\ (2)$$

Using (1) and (2), elasticity of total tax revenue to income in a system of n taxes depends on the product of the elasticity for each separate tax weighted by the importance of that tax in the total system.

$$E_{TtY} = T_1/T_t\ (\Delta T_1/\Delta B_1\ .\ B_1/T_1)\ (\Delta B_1/\Delta Y_1\ .\ Y/B_1)$$
$$+ \ldots T_k/T_t\ (\Delta T_k/\Delta B_k\ .\ B_k/T_k)\ (\Delta B_k/\Delta Y\ .\ Y/B_k)$$
$$+ \ldots T_n/T_t\ (\Delta T_n/\Delta B_k\ .\ B_n/T_n)\ (\Delta B_n/\Delta Y\ .\ Y/B_n) \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots\ (3)$$

This analysis of the income elasticity of the tax system has two advantages. First, it permits identification of the sources of fast revenue growth and, conversely, the sources of lagging revenue growth. Second, it allows identification of that part of growth that policy makers can control (Mansfield, 1972).

Techniques for Estimating Tax Elasticity

Tax buoyancy can be measured by the following equations which measurers the responsiveness of total tax revenue due to change in income (GDP) and the effect of discretionary change in tax policy

$$TR= \alpha Y^{\beta} \varepsilon_k \quad \text{.......} \quad (4)$$

TR- is total revenue.

Where, Y is gross domestic product (GDP) at current price and ε the error term.

A log transform of equation (4) enables us to derive the elasticity coefficient.

$$\log TR= \log\alpha + \beta \log Y+ \varepsilon_k \quad \text{.......} \quad (5)$$

Where, β provides an estimate of tax buoyancy. However, in estimating tax elasticity, it is necessary to isolate the effect of discretionary changes in tax policy on tax revenue. To this end, in order to estimate income elasticity, historical tax revenue series ought to be adjusted to eliminate the effects on tax revenue of all factors other than GDP. One technique for cleaning the revenue series of discretionary effects is that of proportional adjustment. This method for computing tax elasticities involves a three-step process. In the first stage, a preliminary series of adjusted tax yields is obtained by subtracting from the actual yield the budgetary estimates of the effects of discretionary tax changes. In the second step, this preliminary series is further adjusted to exclude the continuing impact of each discretionary change on all future years' tax yields by multiplying by the ratio of the previous year's adjusted figure to the actual tax receipt. It can be shown that this procedure involves a factor sequence, each element of which represents the effect of the automatic component of tax changes in the earlier years. In the third step, the resulting series of 'cleaned' tax yields is then regressed on some measure of the tax base to obtain the necessary elasticity values (Pronab Sen). Once the data have been cleansed by this technique, model (5) is estimated on the adjusted data.

$$\log TR_k= \log \alpha_o+\alpha_1 \log y + \varepsilon_k \quad \text{.......} (6)$$

In equation 6 above α_1 provides an estimate of the elasticity of the k^{th} tax.

A second technique for estimating tax elasticity is the dummy variable technique developed by Singer (1968). This technique involves introducing a dummy variable into model (5) for each exogenous tax policy change.
The revised model takes the following form.

$$\text{Log } TR = \log\beta_o + \beta_1 \log y_i + \sum\beta_{2i} D_i + \varepsilon_k \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (7)$$

Where D_i is the Dummy variable takes the value 0 before the discretionary changes and 1 after the change. The coefficient β_1 estimates the elasticity. The summation accounts for the possibility of multiple changes during the period.

The analysis in this study will begin with the evaluation of the over all productivity of tax system in Ethiopia during the period under review and then proceed to evaluate the major tax components in the same way.

The model employed basically a log-linear form of (Osoro, 1992) and (Mansfield, 1972) of tax as a function of income. This study will utilize varieties of this log-linear form equation to determine the buoyancy and elasticity of the Ethiopian major tax components: namely personal income tax, business income tax, agricultural income tax, domestic indirect tax, and import and export taxes. The dummy variable method will be used in determining elasticity of discretionary tax measures.

4.2 Model Specification

The total tax revenue is classified in to six major categories. These are personal income tax, business income tax, agricultural income tax (this includes agricultural income tax and rural land use fee), import tax, export taxes and domestic indirect tax. Because of the unavailability of data on legal base for each individual tax, proxy bases will be employed. The choice of this proxy bases used here is similar to that applied to other SSA (Sub-Saharan African) countries (Ehdaie, 1990 and Osoro, 1992). The proxy bases to be used are: labor compensation or wage bill for personal income tax, the share of industry in GDP for business income tax, and the share of agriculture in GDP for agriculture income tax, private consumption for domestic indirect taxes, total import for import tax and total exports for export tax.

Individual Tax Revenue Equations

Each tax revenue component is taken to be a function of its base including dummies to control DTMs (Discretionary Tax Measures) i.e. the equation for each component will be:

$$\ln T_i = \alpha_{i0} + \alpha_{i1} \ln (x_i)_t + \sum_{n=1}^{n} a_{i3} D_i + \varepsilon_t \qquad \ldots\ldots 8$$

Where in Xi

i= p, refers to personal income tax

= b, refers to business income tax

= a, refers to agricultural income tax

= m, refers to import tax

=x, refers to export tax

= d, refers to domestic indirect tax

X_{it}= tax base of the i^{th} tax

Di= dummy for the i^{th} tax discretionary tax measures.

Individual Tax Base Equations

It has been stated that tax elasticity is the product of tax to its base elasticity and base-to-income elasticity. Thus, there will be a need to have equations that relate the base of an individual tax-to-income (GDP).

a. Personal Income Tax Base Function (PT)

Here is the wage bill is taken as the proxy base of personal income tax. The tax collected from the non-public sector was not taken in to account due to the unavailability of organized data. Therefore, the base is taken to be a function of GDP and the effect of DTMs to be captured by a dummy i.e.

$\ln X_{tp} = a_{op} + a_{1p} \ln GDP + a_{2P} D + \varepsilon_{pt}$ 9

Where, a_{1p} = elasticity of the wage bile with respect to GDP

a_{2p}= coefficient of the DTMs dummy.

ε_p= the error term assumed to be normal.

X_{tp}=the proxy base of personal income tax.

b. Business Income Tax Base Function (BT)

$\ln X_{bt} = a_{ob} + a_{1b} \ln GDP + a_{2b} D + \varepsilon_{bt}$.. 10

Where, a_{1b}= the elasticity of business income represented as the share of industry with respect to GDP.

a_{2b}= coefficient of DTMs dummy.

ε_{bt}= error term assumed to be normal.

X_{bt} =the proxy base of business income tax.

C. Agricultural Income Tax Base Function (AT)

$\mathrm{Ln} X_{At} = a_{oA} + a_{1A} \ln GDP + a_{2A} D + \varepsilon_{At}$.. 11

Where, a_{1A}= elasticity of the share of agriculture with respect to GDP

a_{2A}= coefficient of the DTM dummy.

ε_{At}= error term assumed to be normal.

X_{At}= the proxy base of agricultural income tax.

d. Domestic Indirect Tax Base Function (DT)

Its proxy base is private consumption.

$LnX_{dt}= lna_{od} +a_{1d}\ lnGDP + a_{2d}\ D+ \varepsilon_{dt}$ ……………………………………………12

Where a_{1d}= elasticity of domestic private function with respect to GDP

a_{2d}= the dummy of DTMs coefficient.

$\varepsilon_{dt=}$ error term assumed be normal.

X_{dt}= the proxy base of domestic indirect tax.

e. Import Tax Base Function (MT)

$1nX_{mt}= a_{om}+ a_{1m}\ ln\ GDP+ a_{2m}\ D + \varepsilon_{mt}$……………………………………………13

Where; a_{1m} = elasticity of total imports with respect to GDP.

a_{2m}= coefficient of dummy for DTMs.

ε_{mt}= error term assumed to be normal.

X_{mt}= the proxy base of import tax.

f. Export Tax Base Function (XT)

$lnX_{Xt} =a_{oX} + a_{1X}\ lnGDP +a_{2X}D + \varepsilon_{Xt}$……………………………………………14

Where; a_{1X} = the elasticity of export tax with respect to GDP.

a_{2X}= the coefficient of dummy for DTMs.

ε_{Xt} = error term assumed to be normal.

Xxt= the proxy base of export tax.

Estimated results by using OLS method for each of the above tax-to-baste and base-to-income functions are presented in table 5.3 and 5.4.

4.3 The Data

This study uses a time series data covering the period from 19661-2005, where the data is primarily from secondary sources, used to evaluate the productivity of tax system in Ethiopia. The reason to rely on secondary data is that most of the information needed to make such analysis is found in different government documents, proclamations, Published statistical abstracts and regulations as well as government revenue and expenditure records.

The data required for the application of the model is historical time series data on component and over all tax revenues, data on tax bases (proxy bases) and GDP. Due to lack of data on their legal bases, proxy bases are used to represent each legal base. The data relating to government revenue and expenditure, particularly tax revenue, changes in tax rates and coverage, GDP, its components and tax bases are collected from Ministry of Finance and Economic Development (MoFED) and NBE (National Bank of Ethiopia).

Stationary Testing

The econometric testing of the time series will be incorporate stationarity testing to avoid the spurious regression associated with trended time i.e. to test whether the time series are stationary or not. Concerning the test of non-stationarity the most widely used tests are the Dickey Fuller (DF) test and the Augmented Dickey Fuller (ADF) test. These tests are used to test the null hypothesis that the time series contains a unit root i.e. non-stationary against the alternative hypothesis of stationary.

Most of the empirical work based on time series data assumes the under ling time series are stationary, if its mean values and its variance don't vary systematically over time. Nevertheless, most macro variables are non-stationary.

Most economic theory is stated as a long-term relationship between variables in the level form and not first difference form. However, using differenced series to draw a stationary series is ruled out as this method compromised its relationship among the levels of the variables. This is rarely the usual method. Rather econometrians attempt to test whether the variables are cointegrated. They do often use the Engel-Granger method based on the following steeps (Harris, 1995).

First in order to look for whether each variable is integrated of the same order, the Dickey-Fuller type unit root is tested. Hence, if all the variables are integrated of order one stationarity is inferred from the test. Second, the valuable contribution of the concepts of unit root, cointegration, etc, is to force us to find out if the regression residuals are stationary. As a result, unit root test on the estimated residuals retained from the original equations would be tested for stationary. The result of this cointegrated test indicates the non-existence or existence of spurious relationship between the variables of levels.

CHAPTER V

EMPIRICAL RESULTS AND ANALYSIS

Estimation of the parameters of the models in this thesis employed time series data for the period 1961-2005. In measuring the revenue productivity of Ethiopian tax system, which involves estimating buoyancy and elasticity coefficients and decomposition of latter in to tax-to-base and base-to-income elasticity requires the equations stated above in 4.1. These equations provide the buoyancy of over all and individual taxes, individual tax-to-base and base-to-income elasticities. The parameter estimates in each equation were found running ordinary least squares (OLS) using the PcGive program.

The over all significance of the model and the goodness of fit of the values are made using the F-statistic and coefficient of determination. In every equation the F-statistics indicate that there is a good fit at 1 percent level of significance and the R bar squared of the equation shows that the regressors explain nearly more than 90 percent of variations in the dependent variables.

The formula test of the time series data used in each model was made using ADF test with a constant. The results of this test for unit roots are summarized in table 5.1. This corrects that a problem of serial correlation as evidenced by low DW (d) statistics.

Table 5.1 Test for unit roots (ADF test)

Variable in				Variable in			

levels	K	ADF	Inference	difference	K	ADF	Inference
lnPT	0	0.10863	Not Stationary	DlnPT	0	-7.2621**	Stationary
lnBT	0	-1.8026	,,	DlnBT	0	-6.1858**	,,
lnAT	0	-1.9572	,,	DlnAT	0	-9.3641**	,,
lnMT	0	0.49694	,,	DlnMT	0	-7.2201**	,,
lnXT	0	-0.88747	,,	DlnXT	0	-6.1978**	,,
lnDT	0	-0.90237	,,	DlnDT	0	-7.0408**	,,
lnTt	0	-0.13280	,,	DlnTt	0	-6.7321**	,,
lnGDP	0	1.1966	,,	DlnGDP	0	-6.3904**	,,
lnproxyPT	0	-1.9533	,,	DlnproxyPT	0	-6.3213**	,,
lnproxyBT	0	-2.2592	,,	DlnproxyBT	0	-6.4386**	,,
lnproxyAT	0	-0.59404	,,	DlnproxyAT	0	-6.4261**	,,
lnproxyMT	0	0.37737	,,	DlnproxyMT	0	-8.8892**	,,
lnproxyXT	0	0.60661	,,	DlnproxyXT	0	-5.6561**	,,
lnproxyDT	0	0.81553	,,	DlnproxyDT	0	-6.6338**	,,

** Shows 1% level of significance

5.1 EMPIRICAL RESULTS

The regression is carried out first for the whole period under review shows both the elasticity and buoyancy of individual taxes. The results are reported on tables 5.2.

Table 5.2 The Regression Result of Estimated Tax Buoyancy and Elasticities for the period 1961-2005

Tax category	Buoyancy	Elasticities	Difference
Total tax	1.25	0.885	0.365
Personal Income Tax	1.03	0.58	0.45
Business Income Tax	1.36	1.41	-0.05
Agricultural income Tax	0.96	0.60	0.36
Import Tax	1.31	1.26	0.05
Export Tax	0.20	0.57	-0.37
Domestic indirect tax	0.71	0.89	-0.18

The product of tax-to-base and base-to-income elasticities yields the built in elasticity (elasticity). As shown in table 5.2 most of the individual taxes are inelastic except that of business income tax and import tax. As the result the elasticity of the over all tax system are less than one (0.885). The overall elasticities of 0.855 suggest that the discretionary change undertaken during 1961-2005 fails to raise the ratio of tax to GDP.

Table 5.3 Tax-to-Base Elasticities including dummy (1961-2005)

Tax Category	Coefficient	D_1	D_2	D_3	D_4	R_2	D.W
Personal income Tax	0.355 (3.56)	0.64 (4.64)	0 -	0.58 (-1.78)	0.97 (2.88)	0.92	0.620
Business Income Tax	2.71 (8.01)	0.33 (-1.98)	1.17 (4.13)	0.86 (4.14)	- -	0.95	0.971
Agricultural income Tax	3.35 (4.10)	0.06 (0.27)	-	-	-	0.45	0.945
Import Tax	0.89 (18.79)	(0.23) (2.15)	- -	- -	- -	0.97 -	1.48
Export Tax	0.49 (5.37)	-3.70 (-1.56)	-	- -	- -	0.40	0.924
Domestic Indirect Tax	0.94 (11.69)	0.18 (16.64)	-0.59 (-3.8)	-	-	0.90	0.773

The value in the bracket indicates t-value.

The elasticities of all individual tax revenues with respect to their respective bases are significantly different from zero. The elasticities of personal income tax, business income tax, agricultural income tax, import tax, export taxes and domestic indirect taxes with respect to their bases are 0.36, 2.71, 3.35, 0.89, 0.49 and 0.94. This means that a 1 percent increase in the base will lead to increase tax revenues by the percent of the magnitude of respective elasticities.

Regarding this tax-to-base elasticities, personal income tax, import tax, export tax and domestic indirect tax to their respective bases of elasticities were less than unity for the period under review. This reflects that ineffective tax collection arising from inefficient tax administration. However, business profit tax and agricultural income tax to their respective base elasticities greater than unity.

Table 5.4 Base-to-income Elasticities including dummy (1961-2005)

Tax Category	Coefficient	D_1	D_2	D_3	D_4	R_2	D.W
Personal	1.64	- 0.32	0	1.167	0.50	0.92	0.782
income tax	(4.38)	(-1.74)	-		-		
Business	0.52	0.067	-0.34	0.0005	-	0.91	0.698
Income tax	(6.10)	(1.69)	(2.72)	(0.08)			
Agricultural	0.18	0.10	-	-	-	0.82	1.28
income tax	(12.85)	(1.10)			-		
Import Tax	1.42	0.27	-	-		0.97	1.35
	(32.11)	(4.56)	-	-	-		
Export tax	1.17	0.33			-	0.95	0.571
	(22.42)	(2.99)		-	-		
Domestic Tax	0.95	0.029	0.11	-	-	0.99	1.27
	(42.34)	(1.049)	(2.99)	-			

The value in the bracket indicates t-value.

Where;

D_1= Proclamation No 286/2002 for PT and BT, 77/1976 for AT, 69/1993 MT and XT, and 149/1999 for DT.

D_2= Proclamation No 30/1992 for PT, 107/1994 for BT and 68/1993 DT.

D_3= Proclamation No 155/1978 for PT and BT.

D_4= Proclamation No 173/1961 for PT

The elasticities of all individual tax bases to GDP are also significant at 90 percent probability level, the elasticities being 1.64, 0.52, 0.18, 1.42, 1.17 and 0.95 for personal income, business income, agricultural income, import tax, export tax and domestic indirect taxes respectively for the period under review. The implication of this is that a 1 percent increase in GDP will result in 1.64, 0.52, 0.18, 1.42, 1.17 and 0.95 percent increase in personal income, business income, agricultural income, import tax, export tax and domestic indirect tax bases respectively. It can be seen that personal income, import and export taxes are greater than unity while that of business income tax agricultural income tax and domestic indirect tax are less than unity.

Considering base-to-income elasticity of the tax, personal income tax, import tax and export tax had elasticity greater than unity. While that of business profit tax, agricultural income tax and domestic indirect tax had elasticity less than unity. This implies that analysis of the components of the overall elasticities emphasize the greater high value of base-to-income relative to tax-to-base elasticities. The enhancement of the base- to-income elasticity that is the growth of tax base lays out side the control of authorities (apart from the influence the tax policy itself). This indicates that the growth in tax base is mainly determined by the way the structure of the economy changes with economic growth.

5.2 Decomposition Analysis

We have demonstrated that the tax elasticity of a given tax system is the product of the tax-to-base and base-to-income elasticities. In assessing the performance of individual taxes it should be noted that low tax-to-base elasticities could arise: poor administration, high tax avoidance and evasion, existence of numerous allowances and exemptions, and the use of specific instead of advalorem rates. These factors explain the degree to which the government can influence the tax-to-base elasticity. On the other hand, base-to-income elasticity is greatly influenced by the change in the structure of the economy as stated above.

The elasticity related to the base (tax-to-base) demonstrates the relationship between actual collected tax and its base which is virtually tax administration; and the elasticity of the base-to-income captures the structure of the economy how changes with economic growth. Such decomposition of elasticity of tax provides an important analytical insight in to the productivity of a tax in relation to the efficiency of tax administration and potential taxable capacity of the economy. The estimated tax-to- base and base-to-income elasticities of the total tax and individual taxes are summarized in table 5.3 and 5.4.

Personal Income Tax

The share of this tax category from the total tax revenue is found out to be 7.31 percent. It has 0.58 overall elasticity. This elasticity coefficient makes personal income taxes in Ethiopia inelastic over the period under review. But when we decompose this overall elasticity we find out that the tax-to-base elasticity of this tax is not commendable for it is well below unity i.e. 0.35. However, the remarkable base-to-income elasticity of this tax is above unity. This implies that the base for this tax is growing at a rate, which is far above the proportional growth in GDP (wage bill rose much greater in proportion to income with a base-to-income elasticity of 1.64 which reflects high growth in wage bill in relation to GDP). This low over all elasticity is may be due to the reduction of rates of this tax in recent years and the highest number of workers leaving their job and join NGOs and other private sector.

Business Income Tax

Business profit tax is the most important component of direct tax. This tax category is found out to have a share of about 13.34 percent in total tax revenue. The overall elasticity of this tax category is found out to be 1.41, which is greater than unity and makes this tax category elastic. This indicates that an increase in the GDP by 1 percent will lead to 1.41 percent increase in the revenue from business tax. The decomposition of this coefficient of elasticity shows that the tax to base elasticity is surprisingly high (about 2.71) while the base to income elasticity found to be low (0.52). The low base to income elasticity is may be growth in the industrial sector, which is used as a proxy base for this tax, has not been satisfactory.

Agricultural Income Tax

The elasticity of agricultural income tax is 0.60. This is due to a very low base-to-income elasticity, which is the reflection of poor performance of agricultural sector. Even though Ethiopia is an agrarian country, i.e. more than 85 percent of the total population engaged in this sector, the elasticity of this sector below unity. The tax revenue generated from this sector is relatively small, contributing only 2.67 percent under review on the average. This weak performance could be explained by the inadequacy of tax law, inefficiency in administration and collection.

Domestic Indirect Tax

This includes all taxes related to domestic transactions, mainly those levied on locally produced manufacture goods and service. This category of tax represents about 17.94 percent of total tax revenue over the period under review. Its elasticity coefficient is 0.89, which implies a 1 percent increase in income as economy grows will lead to 0.89 percent increase in revenue from this source. Its tax-to-base elasticity coefficient is 0.94, which shows that as the base grows by 1 percent the tax grows by 0.94 and its base-to-income elasticity coefficient is 0.95. Its product of tax-to-base and base-to-income elasticities produces an inelastic domestic indirect tax structure. Particularly, tax-to-base suggests that there is a weak administration of domestic indirect taxation even if the government tries to reestablish different institution such as Federal Inland Revenue Authority, Customs Authority, VAT department and other institutions which accepted to be generate high tax revenue from the same source.

Import Tax

This tax category contributes 27.62 percent of the total tax revenue. This shows that import tax category is the most important source of the total tax revenue. In principle import tax should be levied on all imports. However, in practice exemptions generally granted to imports of some capital goods, raw materials and even consumer goods. For example, according to proclamation No 69/1993 organizations and persons wholly engaged in supplying their products to foreign market goods are exempted from tax.

The elasticity of import taxes for the period under review was 1.26, which are quit elastics. However, its tax-to-base elasticity was less than unity. This low elasticity is due to the rate structure of import tariffs, the exemptions of some importable products from paying tax and the policy of import substitution. The low tax-to-base elasticity means that as the base grows, the tax from this source grows by less than the growth in the base. The base-to-income elasticity on the other hand is 1.42 suggesting that the tax base of import grows more proportionally with that of GDP. The elasticity of this tax support the view that heavy dependence on the international trade taxes.

Export Tax

This tax category contributes 2.62 percent of the total tax revenue. The overall elasticity of this tax category found to be 0.57, which is inelastic.
Export taxes shows an interesting pattern in that the base exports rose more or less proportionally to GDP (i.e. 1.17 base-to-income elasticity), but

the tax-to-base elasticity was very low (0.49).

Generally, the above discussions show that many tax categories have an inelastic tax-to-base coefficient except business profit and agricultural income tax. This result is quite different from the assertion of previous studies Fassil (2000) and Yoseph (1998). On the other hand, base-to-income elasticities are found to be greater than unity except that of business profit taxes, agricultural income tax and domestic indirect taxes. This will affect the productivity of overall tax system and it is true for the reason that enhancing the productive tax system these base-to-income elasticity found to be inelastic depending on the factor that are beyond government control. This mean the ailing part of the tax system (the base-to-income elasticity) is mainly linked to the structure of the economy rather than the administrative and policy issues.

The buoyancy coefficients for business profit tax, domestic indirect tax and export tax is less than the elasticity coefficients, which indicate that the contribution of discretionary tax measures on tax return form these sources have not been significant.

To sum up, the analysis of the elasticity suggests that the Ethiopian tax system as a whole is inelastic due to mainly relatively low tax-to-base elasticities as the result of inefficient tax administration and low taxing capacity.

Estimated tax buoyancies and elasticities during three regime

The estimated coefficient elasticity and buoyancy for the three regimes as follows.

Table 5. 5 Estimated Tax Buoyancy and Elasticity

Tax category	1961-1974		1975-1991		1991-2005	
	Buoyancy	Elasticity	Buoyancy	Elasticity	Buoyancy	Elasticity
Personal Income	1.22	0.64	1.50	1.34	1.25	1.36
Business profit	-	-	2.34	1.88	1.24	1.18
Agricultural income	0.68	0.21	1.40	0.12	2.01	0.78
Import	1.07	1.41	0.79	0.55	1.89	1.77
Export	0.91	0.56	-0.52	-0.11	-1.92	-3.18
Dom. Ind.	1.24	1.64	0.35	0.27	1.11	1.09

Personal Income tax

The estimated personal income tax buoyancy was 1.22, 1.50 and 1.25 and its elasticity was 0.64, 1.34 and 1.37 for the period 1461-1974, 1975-1491 and 1992-2005 respectively. When we compare the estimated coefficients of the personal income tax buoyancy for the period under review it increased by 18.7 percent during 1974-1991. However, it decreased by 16.7 percent during 1992-2005. This poor performance of revenue from personal income is may be the reflection of subsequent transfer and displacement of civil servants leaving there job and join to NGOs and private sector; or the reduction in number of income brackets from 16 to 6 and significant reduction of marginal tax rate from 85- 35 percent during 1992-2005. Though which was easy and manageable for tax administrators, lack of understanding and absence of appropriate implementation of this tax law was perhaps the main factor for its low performance.

Business Income Tax

The coefficient of estimated business income tax buoyancy and elasticities were 2.34 and 1.88 for the period 1974-1991 and 1.24 and 1.18 for the period 1992-2005. This shows that a deterioration in the productivity of business income tax revenue. During 1992-2005 tax reform period, buoyancy and elasticity of business income tax declined by 47 and 37.4 percent respectively. This is may be due to in the reduction of income bracket of business profit tax from 13 to 6 and the reduction of highest marginal tax rate from 89 percent to 35 percent.

Agricultural Income Tax

The estimated agricultural income tax buoyancy for the period 1961-1974, 1975-1991 and 1992-2005 were 0.68, 1.40 and 2.01 and its elasticity was 0.21, 0.12 and 0.78 respectively. This shows agricultural income tax has elasticity below unity during the whole period even though the discretionary changes introduced in 1976 have doubled the agricultural tax receipts for the post-1976 period over their prie-1976 levels (Teshome, 1992). But it had high buoyancy (2.01) during the period of 1992-205. This low elasticity is due to poor performance of this sector. This indicates that the agricultural sector in which more than 85 percent of the total population was engaged contributes very low revenue as compared to other source.

Import Tax

The coefficients of estimated import tax buoyancy are 1.07, 0.79 and 1.89 and its elasticities are 1.41, 0.55 and 1.77 for the period 1961-1974, 1975-1991 and 1992-2005 respectively. Import tax buoyancy and elasticity estimate during the period 1975-1991 is below unity. The poor performance of this period could be justified by the nationalization of private enterprise and its effect.

Export Tax

The estimated export tax buoyancy and elasticity are below unity during the whole period indicating that poor performance of this sector.

Domestic Indirect Tax

The estimated domestic indirect tax buoyancy and elasticity are below unity during 1975-1991. However, it was above unity during 1961-1974 and 1992-2005 periods and which is less buoyant and elastic during 1992-2005. This is because of poor performance of the sector.

In general, the analysis of the components of over all tax elasticities emphasizes low value of elasticities relative to buoyancy. For example, during the period 1961-1974 all except import tax and domestic indirect tax had elasticity less than unity. During the second tax reform period (1975-1992) the tax buoyancy decreased by 3.3 percent than the earlier period but during 1992-205-tax reform period it was increased by 18.4 percent.

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.1. Conclusions

For many years the tax revenue failed to meet government expenditure demand. This resulted in fiscal imbalance and instability in the economy. For instance, tax revenue to GDP ratio during the period under review was 13.31 percent. At the same time the total expenditure of the government (recurrent plus capital expenditure) was at higher side of GDP. In other words, the gaps between domestic revenue and government expenditure have continued to worsen over the years. The main strategy to address this budget deficit is arguably enhancing the capacity of the economy to generate more revenue through increasing in tax efforts.

The foregoing study has tried to analyze the productivity of tax system in Ethiopia by means of estimating tax elasticities and buoyancies. With this frame of out look the study has come up with the following major conclusions.

The review of the tax policy of the country suggests that the tax system and tax structure of Ethiopia has been under going constant changes and amendments. During the Dergue regime many upward revisions of tax rates were made and the income tax base was broadened. Particularly, a comprehensive change in land taxation was introduced in the early period of the Dergue regime. After the Dergue regime income tax rates were revised downward and there were some further broadening of tax bases.

The indirect tax policy like excise taxes were first levied on tobacco and alcoholic products during Emperor Period. In the later years and decades the coverage of excise taxes expanded and other components of indirect tax were gradually introduced and also recently indirect taxes like VAT which replaced the sales tax was introduced.

The Ethiopian tax structure was dominated by indirect taxation. The share of indirect tax in total tax revenue over the period under review was 61 percent out of which 37 percent and 63 percent were derived from domestic indirect and foreign trade revenues respectively. Within foreign trade, import taxation accounts around 91 percent.

The structure of direct tax is dominated by business profit tax, which contributes 43.35 percent of the total direct tax revenue. The share of this tax category in total tax revenue has been increasing during 1961-1991 and declining after 1990s. The ratio of tax revenue to GDP increased over time, which was 7.34, 13.10 and 14.79 during 1961-1974, 1975-1991 and 1992-2005 respectively.

The overall tax system is found to be inelastic. This indicates that an increase in national income or GDP has not been translated to an increase in the tax revenue (in other words, tax revenue doesn't respond both to change in tax measures and to growth in GDP). The major tax components are also found to be inelastic. For example, personal income tax, agricultural income tax, domestic indirect tax and export tax have elasticity less than unity while the elasticities of business income and import tax found to be greater than unity (elastic) i.e. business income tax and import taxes were more elastic as compared to the other category of taxes. Thus, elasticity coefficients of major tax categories have not been satisfactory. This low tax elasticity of the individual tax categories is attributed mainly to relatively low tax to-base elasticities.

The buoyancy and elasticity of the total tax system was 1.25 and 0.885

respectively. This can be interpreted as one percent growth in GDP has brought 1.25 percent growth in tax revenue while DTMs made to tax structures, tax revenue will grow by 0.885 percent. This shows that the Ethiopia tax system as a whole is income inelastic. High elasticity of the tax may reflect the greater scope for improvement in terms of raising revenue and collecting existing tax where as weak administration may also have been a factor in the low elasticity coefficients for existing taxes.

Overall tax buoyancy is found to be buoyant with coefficient of 1.25. All individual taxes have buoyancies exceeding unity except buoyancy of business income tax, export tax and domestic indirect taxes. The major contributions to the buoyancy of tax system are business income tax, import tax and personal income tax, which accounts about 66.5 percent.

In general, there is a down ward tendency in revenue performance attributed primarily to poor tax administration and the productivity of the Ethiopian tax system is found out to be unproductive due to the over all coefficient of elasticity is reported to be inelastic.

6.2. Policy Recommendations

Based on the findings of the study the following policy recommendations are suggested.

- The overall tax elasticity for the period under review was found to be inelastic due to low tax to base elasticity relative to base to income elasticity. As pointed earlier, low tax-to-base elasticity has been due to poor tax administration leading to low compliance and evasion. Therefore, the authority should direct in improving tax administration to minimize evasion and improve compliance.
- Personal income tax is found out to have an inelastic coefficient for

tax-to-base but elastic for base-to-income coefficient. Thus, attempts to improve the productivity of this tax system should aim at improving tax to base elasticity. Improving tax administration could attain this.

- Business income tax has shown a commendable tax-to-base elasticity while its base-to-income elasticity is found to be inelastic. This may show the change in income from this sector is not accounted for when national income is changing. Thus, attempts should focus at enhancing the capacity to incorporate business activities that are not accounted for tax purposes into the tax net for this tax category.

- Agricultural income tax is characterized by tax elasticity of less than unity as the result of very low base-to-income elasticity. This inelastic base-to-income is due to the fact that the base of this tax grew at a rate, which is less than national income. Therefore, the improvement of the income elasticity of agricultural tax can be achieved by solving the deficiencies in land use tax and agricultural income tax. So, agricultural income tax should reflect the fertility, size and use of land with careful examination. Since agricultural tax is generally argued that heavily taxing agriculture is not desirable in LDCs, where the sector is less developed, the majority of the peasant lives at subsistence levels and small or no surplus is generated from the sector.
- Import taxes have shown quite an encouraging overall elasticity. It is the result of high base to income and low tax-to-base elasticity. Therefore, this low-tax-to-base tax administration related to import should be improved by encouraging foreign exchange.

- Export tax is found to have lowest elasticity coefficient particularly with regard to tax to base elasticity. The regulation undertaken during 1993 i.e. proclamation No, 69/1993 was not resulted in its significant change. Therefore, it needs imperative reconsideration.

- Domestic indirect taxes have shown that the overall productivity is less than unity. There fore, improvement efforts should aim at both tax-to-base and base-to-income elasticities. Greater focus should be on improving tax-to-base elasticity, as it is simpler to implement.

To sum up, the recommendation focus requiring capable and dedicated officials, a well-defined and appropriate strategy, relevant training for staff, additional resource for tax administrations as well as changes in incentives for both tax payers and tax administrators. Therefore these could help to bring about an effective and efficient tax system.

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Annex **I** Tax Revenue (in million of Birr)

Year	Total Tax evenue	Direct Tax	Personal Income Tax	Business Income tax	Agri.l Income tax	Other Taxes	Indirect Tax	Domestic Indirect Tax	Foreign Trade Tax	Import Tax	Export Tax	Non tax Tax	GDP at current market price
1960/61	155.4	25.1	25.1	0.0	15.3	0.0	115.0	38.3	76.7	60.4	16.3	36.3	2883.8
1961/62	174.0	45.7	29.9	0.0	15.8	0.0	128.3	41.7	86.6	69.2	17.4	41.8	3003.8
1962/63	183.9	44.7	31.0	0.0	13.7	0.0	139.2	47.3	91.9	55.7	36.2	34.9	3130.1
1963/64	321.8	52.3	36.4	0.0	15.9	0.0	269.5	157.7	111.8	86.7	25.1	40.3	3424.4
1964/65	264.1	59.1	42.9	0.0	16.2	0.0	205.0	70.2	134.8	101.4	33.4	33.6	3716.2
1965/6	287.3	63.2	46.5	0.0	16.7	0.0	224.1	78.3	145.8	121.2	24.6	42.9	4023.5
1966/67	309.7	77.1	60.0	0.0	17.1	0.0	232.6	90.0	142.6	115.7	26.9	60.2	4261.6
1967/68	315.5	77.1	69.0	0.0	7.5	0.6	238.4	104.1	134.3	108.5	25.8	70.3	4530.0
1968/69	332.1	105.3	89.8	0.0	8.0	7.5	226.8	38.3	128.3	104.1	24.2	73.3	4794.2
1969/70	371.8	103.4	47.4	31.7	23.2	1.1	268.4	38.3	152.7	112.6	40.1	57.3	5218.9
1970/71	407.1	122.8	56.0	39.5	26.3	1.0	284.3	127.7	156.6	120.3	36.3	58.9	5529.6
1971/72	433.2	134.4	61.7	43.6	27.9	1.2	298.8	145.8	153.0	121.1	31.9	61.5	5576.4
1972/73	483.8	141.6	67.0	47.4	27.2	0.0	342.2	150.8	191.4	139.9	51.5	72.4	5823.7
1973/74	537.1	151.8	72.8	55.3	23.7	0.0	385.3	168.2	217.1	166.3	50.8	81.0	6414.6
1974/75	589.7	179.3	74.0	74.3	15.5	0.0	412.9	194.0	218.9	176.3	42.6	121.8	6427.8
1975/76	613.4	191.9	70.3	76.5	22.5	0.0	439.0	174.0	265.0	178.8	86.2	167.7	6874.2
1976/77	855.9	244.7	74.6	98.0	36.1	0.0	646.9	181.5	465.4	246.6	218.8	155.4	7872.8
1977/78	938.8	263.2	84.2	104.1	37.5	0.0	713.1	186.9	526.2	244.4	281.7	248.4	8308.3
1978/79	1146.9	411.5	102.3	117.4	95.9	0.0	831.3	268.8	562.5	333.6	229.0	235.2	9286.5
1979/80	1346.5	480.1	119.0	161.5	99.6	0.2	917.9	373.6	544.3	247.2	297.1	256.8	9865.4
1980/81	1412.0	640.0	128.3	210.8	149.8	0.6	872.3	387.4	484.9	296.7	188.2	399.9	10079.0
1981/82	1436.4	667.3	136.7	326.2	100.1	2.1	871.3	396.2	475.1	284.7	190.4	440.3	10635.8
1982/83	1558.1	710.4	153.5	344.7	103.9	2.2	953.8	443.2	510.6	306.8	203.8	616.4	11775.4
1983/84	1731.5	757.9	171.4	384.5	96.7	4.3	1074.5	495.5	579.1	321.2	257.9	562.3	10987.6
1984/85	1677.5	773.4	186.1	416.5	83.3	2.1	989.5	523.7	465.8	293.0	172.8	645.8	13026.5
1985/86	1876.1	860.7	203.4	467.9	90.9	3.8	1110.1	553.8	556.3	293.3	263.0	929.9	13575.2
1986/87	2092.2	1004.0	226.5	582.1	95.8	1.9	1185.9	623.0	562.9	409.2	153.7	833.7	14391.0
1987/88	2317.4	1118.4	244.3	662.1	104.4	1.6	1305.0	720.0	585.0	437.8	147.2	1149.7	14970.5
1988/89	2371.0	1169.8	270.3	683.9	106.7	1.1	1309.0	784.5	524.5	360.2	164.3	1527.9	15742.1
1989/90	2159.2	1014.7	280.9	553.4	88.8	1.4	1234.7	759.4	475.3	418.1	57.2	983.4	16825.7
1990/91	2053.4	921.1	267.7	474.0	88.2	1.5	1222.0	757.8	464.2	443.3	20.9	652.9	19195.3
1991/92	1618.2	671.4	269.1	386.7	7.1	0.7	954.6	534.5	420.1	410.8	9.3	589.7	20792.0
1992/93	2205.7	831.8	277.0	366.5	92.8	1.3	1468.1	746.0	722.1	703.5	18.6	985.5	26671.4
1993/94	3076.5	1049.0	283.7	557.7	99.2	4.6	2131.3	834.1	1297.2	1250.6	46.6	862.4	28328.9
1994/95	3878.6	1464.1	307.7	851.4	126.5	26.0	2567.0	945.5	1621.5	1420.1	201.4	2034.2	33885.0
1995/96	4723.3	1948.0	337.4	1222.3	159.7	34.5	2969.5	1155.6	1813.9	1694.4	119.5	2242.9	37937.6
1996/97	5625.3	2170.3	375.3	1262.1	195.4	71.0	3455.1	1291.5	2163.5	2025.1	138.4	2526.7	41465.1
1997/98	5671.9	2249.1	439.1	1050.7	199.4	108.3	3422.8	1188.7	2234.1	2051.0	183.1	3089.1	44840.3
1998/99	5876.8	2366.2	515.5	1155.0	221.7	126.2	3510.5	1200.9	2309.6	2155.7	154.0	4021.6	48803.3
1999/00	6545.3	3227.8	704.6	1443.7	233.1	185.5	4705.0	1381.1	3324.0	3230.6	93.3	3639.1	53189.8
2000/01	7932.8	3702.7	789.3	1534.6	232.6	306.7	4844.3	1539.4	3304.9	3278.1	26.8	3147.1	54262.5
2001/02	8547.1	3550.0	833.0	1639.0	160.0	456.8	5233.0	1668.0	3565.0	3564.0	1.0	2573.1	51493.2
2002/03	8783.0	4611.0	948.0	1303.0	252.0	379.0	7477.0	2200.0	5277.0	5277.0	0.0	2907.0	55702.1
2003/04	12088	5014.0	1132.0	1714.0	290.0	928.0	8467.0	2721.0	5746.0	5746.0	0.0	3011	68997
2004/05	13481	5693.2	1413.6	1741.4	494.3	794.0	9697.8	3110.8	6587.0	6587.0	0.0	3195	79114.9

Source: Ministry of Finance and Economic Development

Annex II Different Categories of Taxes (in million of Birr)

Year	Personal Income Tax	Business Income Tax	Agricultural Income Tax	Import Tax	Export Tax	Domestic Indirect Tax	Other Taxes	Total Tax	GDP at Current Market price
1961	25.1	0.0	15.3	60.4	16.3	115.0	0.0	155.4	2883.8
1962	29.9	0.0	15.8	69.2	17.4	128.3	0.0	174.0	3003.8
1963	31.0	0.0	13.7	55.7	36.2	139.2	0.0	183.9	3130.1
1964	36.4	0.0	15.9	86.7	25.1	269.5	0.0	321.8	3424.4
1965	42.9	0.0	16.2	101.4	33.4	205.0	0.0	264.1	3716.2
1966	46.5	0.0	16.7	121.2	24.6	224.1	0.0	287.3	4023.5
1967	60.0	0.0	17.1	115.7	26.9	232.6	0.0	309.7	4261.6
1968	69.0	0.0	7.5	108.5	25.8	239.0	0.6	315.5	4530.0
1969	89.8	0.0	8.0	104.1	-104.1	234.3	7.5	332.1	4794.2
1970	47.4	31.7	23.2	112.6	-112.6	269.5	1.1	371.8	5218.9
1971	56.0	39.5	26.3	120.3	36.3	285.3	1.0	407.1	5529.6
1972	61.7	43.6	27.9	121.1	31.9	300.0	1.2	433.2	5576.4
1973	67.0	47.4	27.2	139.9	51.5	342.2	0.0	483.8	5823.7
1974	72.8	55.3	23.7	166.3	50.8	385.3	0.0	537.1	6414.6
1975	74.0	74.3	15.5	176.3	42.6	412.9	0.0	589.7	6427.8
1976	70.3	76.5	22.5	178.8	86.2	439.0	0.0	613.4	6874.2
1977	74.6	98.0	36.1	246.6	218.8	646.9	0.0	855.9	7872.8
1978	84.2	104.1	37.5	244.4	281.7	713.1	0.0	938.8	8308.3
1979	102.3	117.4	95.9	333.6	229.0	831.3	0.0	1146.9	9286.5
1980	119.0	161.5	99.6	247.2	297.1	917.9	0.2	1346.5	9865.4
1981	128.3	210.8	149.8	296.7	188.2	387.4	0.6	1412.0	10079.0
1982	136.7	326.2	100.1	284.7	190.4	396.2	2.1	1436.4	10635.8
1983	153.5	344.7	103.9	306.8	203.8	443.2	2.2	1558.1	11775.4
1984	171.4	384.5	96.7	321.2	257.9	495.5	4.3	1731.5	10987.6
1985	186.1	416.5	83.3	293.0	172.8	523.7	2.1	1677.5	13026.5
1986	203.4	467.9	90.9	293.3	263.0	553.8	3.8	1876.1	13575.2
1987	226.5	582.1	95.8	409.2	153.7	623.0	1.9	2092.2	14391.0
1988	244.3	662.1	104.4	437.8	147.2	720.0	1.6	2317.4	14970.5
1989	270.3	683.9	106.7	360.2	164.3	784.5	1.1	2371.0	15742.1
1990	280.9	553.4	88.8	418.1	57.2	759.4	1.4	2159.2	16825.7
1991	267.7	474.0	88.2	443.3	20.9	757.8	1.5	2053.4	19195.3
1992	269.1	386.7	7.1	410.8	9.3	534.5	0.7	1618.2	20792.0
1993	277.0	366.5	92.8	703.5	18.6	746.0	1.3	2205.7	26671.4
1994	283.7	557.7	99.2	1250.6	46.6	834.1	4.6	3076.5	28328.9
1995	307.7	851.4	126.5	1420.1	201.4	945.5	26.0	3878.6	33885.0
1996	337.4	1222.3	159.7	1694.4	119.5	1155.6	34.5	4723.3	37937.6
1997	375.3	1262.1	195.4	2025.1	138.4	1291.5	71.0	5625.3	41465.1
1998	439.1	1050.7	199.4	2051.0	183.1	1188.7	180.3	5671.9	44840.3

1999	515.5	1155.0	221.7	2155.7	154.0	1200.9	126.2	5876.8	48803.3
2000	584.2	1361.5	229.2	2180.3	147.5	1442.3	185.5	6545.3	53189.8
2001	704.6	1443.7	233.1	3230.6	93.3	1381.1	306.7	7932.8	54210.7
2002	789.3	1534.6	232.6	3278.1	26.8	1539.4	456.8	8547.1	51760.7
2003	833.0	1639.0	160.0	3564.0	1.0	1668.0	379.0	8783.0	56958.0
2004	948.0	1303.0	252.0	5277.0	0.0	2200.0	928.0	12088	56958
2005	1132.0	1714.0	290.0	5746.0	0.0	2721.0	794.0	13481	56958

Source: Ministry of Finance and Economic Development (2005)

Annex III Data on Proxy Bases

Year	Wage bill	Share of Industry	Share of Agriculture	Private Consumption	Value of Import	Value of Export
1961	87.6	357.5	3884.7	2304.3	258.7	215.2
1962	98	392	3953	2395	304.4	238.3
1963	109.2	417.2	4069.4	2456.4	341.3	262.7
1964	125.8	461.2	4164.7	2643.6	365.6	297.1
1965	205.2	508.5	4320.4	2827.7	417.3	353
1966	216.6	573.5	4356.6	3091.9	494.4	341.4
1967	277.4	637.1	4504.5	3246	501.8	370.6
1968	239	671.9	4552	3441.8	482.1	373.3
1969	251.9	710.4	4651.8	3703.5	496.5	373.5
1970	266.3	723.5	4762.9	4076.4	514.1	457.6
1971	280.3	789	4860.4	4379.8	567.4	438.4
1972	295	823.9	4936.9	4310.2	589.5	458.6
1973	310	849.2	5007.9	4399.2	563.1	611
1974	326.4	846.5	5059.1	4915	668.4	773.8
1975	1796	833.2	5083.6	5071	864.4	638.5
1976	1945	781.3	5124.7	5385.2	384.6	710.5
1977	1987	803.9	5144.8	6348.2	1077.5	785
1978	2088.4	778.8	5162.6	6752.1	1296.3	809.1
1979	2234.1	892.1	5208.7	7463	1395.4	881.1
1980	2297.7	978.7	5449.2	7920.4	1784.6	1130.4
1981	2361.8	1011.8	5384.8	7886.5	1675.5	1072.4
1982	2540.4	1097.6	5189.7	8374.9	1833.2	1007.2
1983	2550.2	1162.3	5895.3	9157.8	1855.9	1064.9
1984	2754.3	1231.8	5155.9	8192.3	2125	1164.9
1985	3303.2	1284.8	4079	10661.2	2082.8	1057.1
1986	3654.5	1369.2	4732.6	10261	2326.3	1271.7
1987	3796	1478.6	5620.4	11036.1	2338.4	1186.8
1988	3820.9	1422.5	5465	10396.1	2398.4	1205.4
1989	3295.2	1327.8	5521.3	11281.1	2292.3	1422.8
1990	3164.6	1265.3	5814.4	12258.2	2060.3	1295
1991	3379	1024.1	6114.9	15369.2	2398.2	1062.2
1992	4113	951.3	5947.6	18059	2223.4	937.5
1993	4516	1221.9	6308.3	22358.5	4520.5	2222.5
1994	4726	1307	6078	23747.5	6090.5	3223
1995	5076	1412.5	6284	27346.7	7950	4898.1
1996	5301	1488.9	7206.2	31045.3	8721.5	4969.7
1997	5426.9	1530.6	7453.9	33743.8	10584.7	6730.6
1998	5892	1566.6	6620.6	35122.6	11341.2	7116.9
1999	6337	1700.9	6873.5	38631.6	14101.5	6878
2000	7025	1731.3	7024.7	40041.3	15969.3	8017.6
2001	7124.5	1821.4	7831.1	41946.5	16193.6	7981.5
2002	7174.4	1864	7651	38961.4	17709.5	8027.4
2003	7224.6	1943.4	6687	40825.3	20136.8	9777.9
2004	7275	2080.6	7953.8	53768.2	27333.9	12916.6
2005	7276.1	2228.6	9154.8	62465.1	33728.7	15578.8

Source: MoFED

Annex IV Summary of Growth rates, Level and Structure of Ethiopian Central Government Domestic Revenue and Government Finance

Fiscal year ending July 7	1961-1970	1971-1980	1981-1990	1991-2000	2001-2005	1961-1974	1975-1991	1992-2005	1961-2005
			(In millions of birr)						
Total Revenue and Grants	1741.6	1947.4	2138.3	2433.8	**2547.5**	**2954.6**	**3240.8**	**3247.9**	**4103.0**
Revenue	1567.5	1757.0	1876.7	2174.5	2293.8	2323.3	2806.0	2925.9	3467.1
Tax revenue	1298.2	1361.9	1436.4	1558.1	1731.5	1677.5	1876.1	2092.2	2317.4
Non-tax revenue	269.3	395.1	440.3	616.4	562.3	645.8	929.9	833.7	1149.7
Grants	174.1	190.4	261.6	259.3	253.7	631.3	434.8	322.0	635.9
Grants in kind/earmarked	174.0	190.4	261.6	257.8	253.7	624.3	434.8	256.2	621.5
Untied cash &/ or CPF grants	0.1			1.5		7.0		65.8	14.4
Expenditure	**2122.0**	**2281.5**	**2629.7**	**3786.1**	**3169.0**	**3823.4**	**4062.2**	**4003.1**	**4820.9**
Current expenditure	**1678.8**	**1776.5**	**1914.7**	**2540.8**	**2236.0**	**2636.4**	**2590.4**	**2620.0**	**3419.5**
defense	695.7	727.1	835.6	1062.3	939.1	926.4	929.4	1011.1	1340.0
Interest & charges	63.5	77.7	83.8	91.3	147.4	165.4	190.2	202.2	244.7
Capital expenditure	**443.3**	**505.0**	**715.0**	**1245.3**	**933.0**	**1187.0**	**1471.8**	**1383.1**	**1401.4**
Central Treasury	264.8	291.9	414.6	847.2	542.2	592.9	771.6	767.5	707.5
External assistance	55.5	69.2	129.6	98.8	153.2	217.2	163.4	121.9	154.7
External loans	123.0	143.9	170.9	299.3	237.6	376.9	536.8	493.7	539.2
Overall balance including grants	**-380.4**	**-334.1**	**-491.5**	**-1352.4**	**-621.5**	**-868.8**	**-821.4**	**-755.2**	**-717.9**
Overall balance excluding grants	**-554.5**	**-524.5**	**-753.0**	**-1611.7**	**-875.2**	**-1500.1**	**-1256.2**	**-1077.2**	**-1353.8**
Financing	**380.4**	**334.1**	**491.5**	**1352.4**	**621.5**	**868.8**	**821.4**	**755.2**	**717.9**
External (net)	**168.2**	**130.5**	**474.9**	**422.5**	**208.5**	**335.7**	**470.4**	**392.6**	**402.0**
Gross borrowing	184.1	145.4	494.8	444.2	237.6	376.9	536.8	493.7	539.2
Project loan	184.1	145.4	494.8	444.2	237.6	376.9	536.8	493.7	539.2
Amortization paid	15.8	14.9	19.9	21.6	29.1	41.2	66.4	101.1	137.2
Domestic(net)	**212.2**	**203.6**	**16.5**	**929.9**	**413.0**	**533.1**	**351.0**	**362.6**	**315.9**
Banking system	**189.4**	**121.7**	**-30.0**	**929.1**	**325.8**	**414.9**	**356.5**	**390.3**	**261.4**
Non-bank sources		84.3	40.0	19.0	26.0	27.0	15.0	25.0	35.0
Other and residual	22.8	-2.4	6.5	-18.3	61.2	91.2	-20.5	-52.7	19.5
GDP at current market price	**8533.9**	**10079.0**	**10635.8**	**11775.4**	**10987.6**	**13026.5**	**13575.2**	**14391.0**	**14970.5**

Source: Ministry of Finance and Economic Development

Annex V Ethiopian Tax Legislation for the period 1942-1963

S. No.	Types of Legislation	Pro/Legal notice No.	Taxes on	Rates and objectives
1	Proclamation	8/1942	Land	The main objective of this tax was to raise the standard of living and the rates were 15, 10 and 5 Birr on fertile, semi-fertile and poor land and also half rate of the 1935 law on lands that has not divided into Gasha.
2	Proclamation	39/1943	Customs and export duty	This tax imposes different rates on different commodities. For instance, 10-50% on animal, agricultural marine, pastoral products and food staffs; Birr 1.5 to 6 on tobacco and manufactures; 15-75% on textiles, apparel, yarns and fibers; 10-20% on metals, metal manufacture, machinery and vehicles; 5-20% on minerals, glass ware and earth ware, 10-20% on oils, waxes, paints and varnishes, 10-30% on chemical drugs and fertilizers; 10-20% on leather and rubber and manufactures thereof; 10-50% on wood and manufactures thereof etc.
3	Proclamation	41/1943	Stamp Duties	The stamp duty tax was based on different schedules. It imposes 15% on lease and 2.5% on mortgage, Birr 30 on company, Birr 0.10-0.50 on bills of exchange, Birr 0.10-3 on bonds, Birr 0.10-1 on contract agreements, Birr 1-2 on conveyance, Birr 1-10 on power of attorney and 10% on tickets of admission.
4	Proclamation	50/1944	To amend the customs and export duties	According to the amendment 10% on rubber per kg and 10% on wars were imposed.
5	Legal notice	42/1944	Custom and export duty	The rates were 1% fee for the issue of license and 20% for its annual renewal. It also imposes 200, 500 and 1000 Shilling on distillery capable of producing up to 2000, 4000 and above 4000 liter of alcohol respectively.
6	Proclamation	60/1944	Personal and Business income	The law changed exported and imported goods based on schedule A, B and C. This proclamation provides an exemption for monthly income less than Birr 30. But it imposes Birr 0.10, 0.20 and 0.30 on monthly income Birr 30-50, 50-75 and 75-100 respectively and also Birr 2-900 on Birr 100-150 to 9000-10,000 per annual.
7	Proclamation	73/1945	To amend custom export duties of Pro. 29/1943	According to the law Birr 3 and 8 was imposed on salt and sugar per 100 kg and 20% and 30% on raw materials for cotton and cloth manufactures respectively.
8	Proclamation	94/1947	Education tax	To financing elementary education in the provenance of tax collected.
9	Legal notice	103/1947	Import and export.	The law resulted in significant change and imposed different rates. Such as 50% on biscuits and European butter, 10% on baby foods and 30% on cereals and also 10-50% on different fruits and vegetables, 1.5-58% on ales, wines, sprites and beverages, Birr 1.50-6 on tobacco, 1-55% on textile, fiber, yarn etc.
10	Legal notice	108/1949	To amend alcohol excise duty pro. 1943	Applied on all alcoholic beverages and all perfumed alcohol containing more than 3% of alcohol.
11	Proclamation	107/1949	Payment of tax by all individual and business	To promote Investment and to develop new industries. The rates were Birr 5-15,000 on annual income 300-500 to 90,000-100,000 for schedule A, different rate ranging 1st-7th class for schedule B and 15% on annual income greater than Birr 100,000 for schedule C.
12	Proclamation	108/1949	To amend the alcohol excise duty pro. 1943	0.75 Birr per liter on denatured alcohol, 3 Birr on liter of alcohol and 75% on exported alcohol.
13	Legal notice	129/1949	To amend alcohol excise	The rates on all alcohols manufactured in Ethiopia were Birr 4 per liter pure alcohol 96 degree

			duty pro. 1943 and 1949	purity at the temperature of 15.56 degree centigrade, 75% tax on all alcohol exported and 1 Birr per liter denatured alcohol.
14	Legal notice	131/1949	Person and business income tax of Proc. 1949.	The law changes exported and imported goods i.e. 4% tax on goods imported and 1% on export.
15	Legal notice	171/1952	Customs and excise duties to amend Pro. 39/1943.	The objective was to revise imported and exported tariff amendment regulation No 4/1952. It resulted 5-10% on metal and manufactures thereof (class V), 25% wood and wood manufactures thereof (class X) and 5% on export (class XIV).
16	Legal notice	178/1953	The Customs import and export duties Pro. 39/1943	The objective was to revise imported and exported tariff amendment regulation No 8/1953 and imposed Birr 20 per 100 kg of coffee and Birr 15 per 100 kg surtax on export (class XIV).
17	Legal notice	180/1954	The Customs import and export duties Pro. 39/1943	The objective was to revise imported and exported tariff amendment regulation No 11/1953 and imposed Birr 0.50-2 on coffee of Article 432 (class XIV)
18	Legal notice	183/1954	The Customs import and export duties Pro. 39/1943	The objective was to revise imported and exported tariffs and the rate was Birr 0.35-6 on bottle containing more than 650 cc alcohol.
19	Legal notice	185/1954	The Customs import and export duties Pro 39/1943	Imposes 4-72 Birr surtax per 100 kg.
20	Proclamation	142/1954	Cattle tax	The main objective of this law was to impose tax on cattle breeders. The rate was Birr 0.5-0.05 on camel and sheep.
21	Proclamation	143/1954	Federal tax	10% on imported goods and 2% on exported goods.
22	Proclamation	188/1954	Market fee rules	1% on exported goods and 2% on imported goods.
23	Proclamation	146/1955	Federal salt tax pro.	Birr 2.5 - 5 on salts containing with over 30%, 30% and 10% foreign element
24	Decree	17/1956	Transaction tax	The rates were 12% on import and 2% on export but imported agricultural and industrial machinery were exempted.
25	Decree	19/1956	Personal and business income	Aimed to change the proclamation No 144/1954. It provides exemption for monthly income less than Birr 30 and imposes specific rate on Birr 30-1500 and 15% on annual income greater than 1500 under schedule A. It also provide an exemption for annual income less than Birr 360, but impose 2-14% tax on annual income of Birr 360-1500 to 16,800-18,000 and 15% tax on annual income above Birr 18,000 for schedule B and similar rates were imposed on schedule C.
26	Legal notice	199/1956	Customs import and export duty proclamation	The objective was to revise amendment import and export tariff of legal notice 153/1953. The rates were Birr 0.10 to 45% on cotton and manufactures thereof, Birr 3 to 60% on flax, hemp, jute and manufactures thereof, 20-40% on motor vehicles, 5-15% on chemical drugs and fertilizer, Birr 0.25 on leather, rubber and manufactures.
27	Legal notice	204/1956	Transaction tax	This law provides an exemption for supply of electricity and water, hulling, grading and cleaning of coffee, grain and seeds.
28	Decree	1/1957	Excise tax on local product	According to the law Birr 0.20 to 10% was imposed on eucalyptus tree, stone, chalk, sand, coal and Birr 5-10 on alcohol and tobacco, 10-65% on textile fiber, yarn and manufactures, 50% on vehicles, 15-20% on soap etc.
29	Legal notice	1/1957	The customs import and export duties	Major changes were occurred on tea, alcohol, tobacco and manufactures.
30	Legal notice	215/1958	Income tax regulation	Under schedule A, benefits in kind to police; employee's medical treatment and allowance were not taxed. Under schedule C, the direct cost of producing the income, general and administrative expenses were not taxed. However, Birr 9-2160 was imposed on small business, which do not

				maintain proper books of account and whose annual taxable income estimated as being less than Birr 15,000.
31	Decree	26/1957	Stamp duties	Different rates were imposed on award, power of attorney, and bill of exchange, bond, and contract agreement, transfer of immovable property or motor vehicle. The rate was Birr 9-2160 on annual income less than Birr 15000 and Birr 360-480 on annual income 14,400-15,000.
32	Decree	33/1959	Federal alcohol consumption tax	The tax rate was Birr 0.15-3 on imported items of 1st schedule; Birr 0.07-3 on locally manufactured goods, Birr 3 on pure alcohol, Birr 0.15-1.50 on containing above 10% alcoholic beverage, Birr 0.15-0.25 on alcohol containing more than 3% but less than 10%.
33	Decree	36/1959	Health tax	Birr 4-15 per year on fertile, semi-fertile and poor land.
34	Decree	37/1959	Tobacco regie amendment	Birr 0.10-10 on imported tobacco leaf, cigarettes and matches.
35	Legal notice	241/1961	Revised import and export tariff amendment	Birr 10-60 percent on imported butter, meat, canned, cloth etc.
36	Proclamation	173/1961	Income tax. Replaced Decree No 19/1956 and income tax amendment decree No 34/1959.	Provide exemption for monthly income less than Birr 30 but the rate was 0.75-67.5 on monthly income 30-40 to 700-750 and 10% on 750-800 and also 21% on monthly income greater than 5000 under schedule A. Annual income less than Birr 360 was exempted but the tax rate was 2-15% on annual income from Birr 360-960 to 14,400-15,000 and 16% on annual income greater than Birr 15,000 under schedule B. Similarly, annual income less than Birr 360 was exempted from tax and the rate were Birr 10-810 on annual income 360-480 to 8400-9000 and 10-15% on annual income 9000-9600 to 13,800-15,000 and 16% on annual income greater than 15000 under schedule C.
37	Proclamation	252/1962	Custom and export duties Pro. 1943	Provide exemption for all imported goods including motor vehicles for diplomatic and consular. According to this proclamation all other diplomatic and consular officers shall be authorized to import motor vehicles free from custom duties every three year.
38	Legal notice	258/1962	Income tax	The rate was Birr 10-432 on annual income from Birr 360-480 to 5,400-6,000. Medical treatment of the employees, transport allowance cost and traveling expenses are excluded under schedule A and direct cost of production and administrative expenses, depreciation costs, premium payable on insurance and commission paid for services are not taxed under schedule C.
39	Legal notice	272/1963	Revised import and export tariff amendment	This law impose Birr 0.10-55 percent in different commodities
40	Proclamation	205/1963	Transaction tax	The main objective was to tax goods imported or exported, manufactured locally, to levy turnover tax and to tax construction works. All goods exported taxed at rate of 2% but imported goods at the rate of 12%. Imported agricultural and industrial machines and goods being re-exported under legal notice 153/1951 were exempted from tax. The rate was 1 percent turnover tax and 2 percent on construction works. The law provides an exemption for construction works of road, bridge, church, mosques, school hospital, water and irrigation building cost value less than Birr 5000. Turnover tax exempted wholesale, sales of goods exported, postage stumps, lottery, flour, bread, milk and supply of electricity.

Annex VI Ethiopian Tax Legislation for the period 1964-1975

S. No.	Types of Legislation	Proc/Legal notice No.	Taxes on	Rates and objectives

1.	Legal notice	282/1964	To amend transaction tax proclamation 1963	The law provides exemption for some imported, exported and locally manufactured goods. Such as salt, sugar, alcohol and cotton. According to the law some goods are free from TOT.
2.	Legal notice	283/1964	The customs tariff amendment	The rate was Birr 0.10-55 percent on different commodities.
3.	Legal notice	299/1964	Customs tariff amendment	Birr 3-40 percent on different commodities.
4.	Proclamation	217/1965	Alcohol excise tax amendment	The rates were based on the 1st, 2nd and 3rd schedule according to the law.
5.	Legal notice	314/1966	customs imported and exported duties amendments	Different rates from 10-80% imposed
6.	Proclamation	254/1967	Transaction tax amendment proclamation 1967	The rates were 5% of gross revenue on goods manufactured locally and 2% turnover tax. However, it provides an exemption for the sale of newspaper, postage, stamp and imported resale goods from turnover tax.
7.	Proclamation	255/1967	Income tax amendment 1967	The law provide exemption for monthly income less than Birr 25 but it imposes Birr 0.75-67.5 on monthly income from Birr 25-40 to 700-750 and a rate of 10-24% on monthly income 750-800 to 4250-5000 and 25% on monthly income greater than Birr 5000 under schedule A. In the case of bodies the rate was 20%, however, in the case of persons it was Birr 3, 9-810, 10-19% and 20% on annual income less than Birr 300, 300-480 to 8400-9000, 9000-9600 to 24,000-27,000 and on annual income greater than 27,000 respectively and 10% of surtax on income above Birr 30,000 under schedule B. Under schedule C, the rate in the case of bodies was 20% but in the case of persons it was Birr 1.50, 6-810, 10-19% and 20% on annual income less than Birr 300, 300-480 to 8400-9000 and 9000-9600 to 24,000-27,000 and on annual income greater than 27,000 respectively. Taxes on agricultural activity was introduced as schedule D and the rate was 20% on bodies and for persons it was Birr 1.5, 6 and 10-19% on annual income less than Birr 300, 300-480 to 8400-9000 and 9000-9600 to 24000-27000 respectively and 20% on annual income exceeding Birr 27000. 10% surtax in excess of Birr 30,000 and additional 10% in excess of Birr 150,000 was imposed under schedule D.
8.	Legal notice	328/1967	Custom imported and exported duties amendments	According to the law different rates were introduced on different commodities.
9.	Legal notice	354/1969	Custom import and export duty pro. 1943	The rate was 60% on biscuit, cakes and pastries, 40% on cereals, 75% on flour and wheat, 40% on fruit and vegetables, 75% on meat extracts and manufactured from meat , 50% on motor vehicle and advalorem rate of Birr 3000 on the durable value and 85% on exceeding etc.
10.	Legal notice	420/1972	Customs imported and exported duties pro. 1943	The rate were 70% on cotton and its product, 75% on clothes, 45% on metal manufactures, 20-60% on carbon, tracing, copy papers, 75% on different clothes and Birr 40 on imported cupper wire.
11.	Legal notice	437/1973	Custom tariff amendment	Different rates were which include 75% on biscuit, cakes or in any other packing, 75% on imported butter, 50% on cereals etc.
12.	Proclamation	23/1975	Transaction tax amendment	The law provides 2% turnover tax in any gross income.

Annex VII Ethiopian Tax Legislation for the period 1976-1991

S. No.	Types of Legislation	Pro/Legal notice No.	Taxes on	Rates and objectives

1.	Proclamation	77/1976	Rural land use fee and agricultural activities income tax	The objective of this proclamation was to improve the farmer's techniques to provide road, and other communication facilities enabling peasants to have access to market to obtain equitable price and to bring rural development. The rate was Birr 3 for a member of agricultural commune and Birr 4 who are not and also it was Birr 2 per hectare for government agricultural organization. For annual income less than Birr 600, 600-900 and 900-1200 the rates were Birr 3, 4.5 and 6 respectively. It also imposes 10-60% tax on annual income of Birr 1200-3000 to 27,000-33,000 and 70% on annual income greater than Birr 33,000. This replaced education tax proclamation 94/1974 and health tax decree 37/1959.
2.	Proclamation	80/1976	Urban land rent and house tax	The rate was based on urban land used for dwelling, business hours and urban house and payment was based on three classes.
3.	Proclamation	152/1978	Rural land use fee and agricultural income tax	According to the law every farmer who is a member of an agricultural producers' cooperative and not a member pay Birr 5 and 10 respectively. But annual income less than Birr 600 pay Birr 10 and annual income ranging Birr 600-1200 to 33,000-36,000 pay 10-82% and annual income greater than 36,000 pay a tax rate of 89%.
4.	Proclamation	153/1978	Excise tax amendment	The law changed the rate on sugar and foot wear like Birr 0.02-0.25 per bottle of soft drink including mineral water, Birr 21 on 100 kg of sugar, Birr 2.82 per kg on yarn, nylon and natural silk.
5.	Proclamation	154/4978	Tobacco regie amendment	Birr 0.4 and 0.6 on match containing sticks of 50 and 50-100 sticks respectively. There were also 25% tax rate on dividend share holder, 10% no chance wining and 40% on royalty and 10% on income derived from service rendered.
6.	Proclamation	155/1978	Income tax amendment	Monthly income less than Birr 50 free from tax, however, 10-79% on income from 50-200 to 3500-3750 and 85% on monthly income greater than 3750 under schedule A. The rate of Birr 10, 18, 24, 40 and 70 on annual income less than Birr 300, 300-500, 500-700, 700-900 and 900-1200 respectively and also 11-82% on annual income 1200-1800 to 33,000-36,000 and 59% tax on annual income greater than 36,000 under schedule B were imposed.
7.	Legal notice	67/1979	Petroleum product and lubricant excise tax amendment	The rates were 50% on cereal groats and cereal meal and 75% on others, 75% on flour of the dried leguminous vegetables, 50% on spermaceti crude, prepared or refined, 80% on sugar in solid form, 100% on roasted chicory and other roasted coffee substitutes, 5-25% on chemical elements, 10-25% on inorganic acids and oxygen compounds of non metals, 25% on halogenic sulphur compound of non metal, 10-25% on inorganic bases and metal oxides, hydroxides and peroxides, 25% on metallic salts, 10-60% on different organic chemicals.
8.	Proclamation	159/1979	Transaction amendment	The rate was 18% on all imported goods, 7% on goods manufactured locally and gross revenue from sales made. Similarly, the rate was 15% on imported and 5% on exported pharmaceutical items or related materials thereof but other additional taxes were exempted according to this proclamation.
9.	Proclamation	160/1979	Alcohol excise tax amendment	According to the law Birr 0.60-3.50 on alcohols per liter was imposed, 75% on locally produced tobacco leaf and cigarette and imported tobacco leaf and cigarette.
10.	Proclamation	165/1979	Transaction tax amendment	This proclamation changed schedule 1 and 2 of the former proclamation.
11.	Proclamation	170/1979	Transaction tax amendment	The rates were 15% on imported pharmaceutical items or related materials, 18% on other goods and 2% on goods exported. According to the law, tax on goods imported or exported charged, levied and collected at the point of entry or exit.
12.	Proclamation	196/1980	Income tax amendment	The proclamation focuses on administration area and has minor change on the rate.

13.	Proclamation	309/1987	Chat Proclamation	2 Birr per kg on all sales of chat irrespective of its destination and 5 Birr per kg on the sales of chat destined for export.
14.	Proclamation	331/1987	Excise tax amendment	Insignificant change on soft drink including mineral water and any beverage made from sugar which not contains more than 3 degree of alcohol.
15.	Proclamation	334/1987	Stamp duty	According to the proclamation, instrument chargeable with stamp duty, mode of valuation, time and manner of payment.
16.	Legal notice	100/1987	Regulation to amend the issuance of travel documents and VISA	The law provides Issuance of Diplomat and Special Passport. For example, the rate on Passport was Birr 40 and 10 on non-student and student respectively. Accordingly Birr 20 and 6 on renewal of passport. The rates were Birr 30 and 10 on emergency traveller document and Birr 16 and 4 refuge traveller document. Visa in the absence of reciprocity fees are Birr 30, 20, 10, 10, 10, 30 and 20 on entry tourist, exit, tourist, extension of tourist, transit extension of re-entry and business Visa respectively.
17.	Legal notice	101/1987	To amend Visa and residence permit fees & port of entry	The law provides residence permit registration of foreigners and issuance of residence Birr 120 and its renewal Birr 80 and 75 Birr for its replacement. The rate of exit and re-entry Visa were 30, 60 and 120 Birr on issuance of single journey, exit and re-entry for 3, 6 months and 1 year.
18.	Council of State special decree	16/1990	Sales tax Council of State special decree	This law provides form 5% - 559% general sales tax on locally produced goods according to schedule A, on imported goods according to schedule B and service tax according to schedule C. This law repealed 204/1963 excise tax, 217/1965 alcohol excise tax and 249/1967 petroleum products, lubricants excise tax and 146/1955 salt tax proclamation.
19.	Council of State special decree	18/1990	Council of State special decree to amend income tax 173/1961	The law provides exemption on income less than Birr 300 and impose tax rate of 3-55% on annual income Birr 300-400 to 2100-24000 and 59% on income exceeding Birr 24000 according to schedule C.

Annex VIII Ethiopian Tax Legislation for the period 1992-2005

S. No.	Types of Legislation	Pro/Legal notice No.	Taxes on	Rates and objectives
1	Proclamation	30/1992	To amend Income tax pro. 173/1961	The law provide exemption for monthly income less than Birr 105 and impose tax rate of 10-45% on monthly income Birr 106-400 to 2201-2500 and 50% on monthly income above Birr 2500 according to schedule A.
2	Proclamation	53/1993	Mining income tax	The rate was 35% on Small scale mining and 45% on large scale mining.
3	Proclamation	62/1993	Income tax amendment	Less than annual income Birr 1200 was exempted but 10-36% rate was levied on annual income Birr 1201-6000 to 33501-50000 and 45% on annual income exceeding Birr 50000 according to schedule B
4	Proclamation	68/1993	Sales excise Tax	The rate was 5% and 12% on goods sold locally and imported under schedule A and B respectively. It also imposes 5% on contractors and whose daily sales income was Birr 25-50 but 10% on others under schedule C. Under schedule D, goods liable to excise tax either produced locally or imported. On vehicle up to 1300 cc, 1300-1800 cc and above 1800 cc the rate was 20%, 50% and 100% respectively. The rate on all types of pure alcohol, soft drink and mineral water were 200%, 80% and 50% respectively. This proclamation provides exemption to public bodies and economic agents on goods either produced locally or imported under schedule B. Which include food (bread, injera), fertilizer, petroleum and its product (aviation fuel,

				oils and lubricants), air craft and parts of thereof, machinery, equipment for railway and tramway transport, equipment requisites for marine transport and national defence and public security.
5	Proclamation	107/1997	Income tax	Provide exemption for monthly income less than Birr 120, however, 10%-30% tax rate on Birr 120-600 to 2000-3000 and 40% on monthly income above Birr 3000 according to schedule A. Free for annual income less than Birr 1200 but 10%-30% on Birr 1200- 6000 to 30000-50000 and 40% on annual income above Birr 50000 according to schedule C.
6	Proclamation	108/1994	Capital gain tax	The objective of this law was to bring economic development and equitability in the tax system by revitalization of the private sector. According to the law, 30% tax levied on gains realized from the increase in the value of capital asset.
7	Proclamation	23/1996	Mining	Its objective was to improve economic development and imposed a rate of 35% on large and small scale mining.
8	Proclamation	36/1996	Income tax amendment	According to the law, any organization shall pay 35% of income tax on its taxable income. However, tax on income from mining by organization is based on mining proclamation.
8	Proclamation	61/1997	Federal Inland Revenue Authority establishment	To collection legally specified federal tax revenues, which originate and are dispersed in all the regions, has to be properly executed; and it is deemed necessary to establish a Federal Inland Revenue Authority as an autonomous public office with the requisite powers and duties as well as an efficient working system.
9	Proclamation	77/1997	Sales and excise tax amendment	The rate of 35% on any type of sugar, 40% on mineral water, 150% on all type pure alcohol, 75% on cigarette tobacco, 30% on salt, 40% on Landover, four wheels were imposed. When the production has increased by 70% or new factories established 40% on all products of soft drink and 50% on all type of beer and stout will be imposed.
10	Proclamation	99/1998	On coffee Export	The rate was 6.5% of the FOB price.
11	Proclamation	110/1998	Stamp duty	This proclamation is aimed to amend the stamp duty levied on documents in a manner which would contribute to the development of art, the activities of financial institutions and the transfer of capital assets. It imposes tax on memorandum and articles of association of any business organization, cooperative or any other form of association, award, bonds, warehouse bond, contract and agreements and memoranda thereof, security deeds; collective agreement, contract of employment, lease, including sub-lease and transfer of similar rights, notarial acts, power of attorney, documents of title to property and the rate was Birr 5-300 and 0.5-2% within any organization or business organization.
12	Proclamation	149/1999	Sales and excise tax amendment	This law imposes 5% on contractor and 12% on others services rendered locally. It also imposes 80% on all type of soft drink imported and 40% on mineral water, 150% on imported alcoholic drinks, 75% on tobacco and its products, 100% on perfume and 20-110% on different vehicles etc.
13	Proclamation	227/2001	Income tax	According to the proclamation, payment of business income tax has to be collected at the time of import of goods for commercial use, and the collected amount be treated as tax withheld that is creditable against the taxpayer's income tax liability for the year and 5% imposed on the sum of cost, insurance, and freight (CIF value).
14	Proclamation	228/2001	Sale and Excise Tax amendment	The rate was 5% on goods sold locally and goods imported mentioned under schedule A. It also imposes 15% on goods sold locally and goods imported and services rendered locally. 5% on contractors and financial services and 15% on others.
15	Proclamation	285/2002	VAT	To collect tax on the value added wherever a sales transaction is conducted, and the value added tax minimizes the damage that may be caused by attempts to avoid and evade the tax and helps to ascertain the profit obtained by the taxpayers. The tax enhances saving and investment as it is a consumption tax and

				does not tax capital. Replacement of the current sales tax by value added tax enhances economic growth and improves the ratio relationship between Gross Domestic Product and Government Revenue. It imposed 15% rate whose capital exceeding Birr 500,000.
16	Proclamation	286/2002	Income tax	Exempted monthly income less than Birr 150, however, 10-30% rate on 151-650 to 3551-5000 and 35% on monthly income above 5000 according to schedule A. Free for annual income less than Birr 1800, but 10-30% on 1801-7800 to 42601-60000 and 35% on exceeding Birr 60000 according to schedule B and similar rate was imposed to schedule C. According to schedule D, 5% on royalties, 10% on rendering of technical support, 15% on chance winning, 15% on income from rental of property, 5% on interest from deposit, 15% on gain on transfer on certain investment property and 30 on shares of company was imposed.
17	Proclamation	307/2002	Excise Tax	To improve government revenue by imposing excise tax on selected goods and on luxury goods and basic goods which are demand inelastic and on goods that are hazardous to health and which reduce can social problems. The rates were 33% on any type of sugar (in solid form) excluding molasses, 30-40% on all types of soft drinks, 50-100% on alcoholic drinks, 75% on all types of pure alcohol, 20%-70% on tobacco and tobacco products, 30% on salt , 30% on fuel-super benzene, regular benzene, petrol, gasoline and other motor spirits, 100% on perfumes and toilet waters and 10% on textile and textile products, 20% on personal adornment made of gold, silver or other materials, 80% on disk washing machines of a kind for domestic use, 30% on washing machines of a kind for domestic purposes, 40% on video decks, 40% on television and video cameras, 10% on television broadcast receivers whether or not combined with gramophone, radio, or sound receivers and reproducers. 30% on carpets, 20% on asbestos and asbestos products, 20% on clocks and watches and 20% on dolls and toys was imposed as well as 30%, 60% and 100% up to 1300 cc, from 1301 cc up to 1800 cc and above 1800 cc on different vehicle types respectively.
18	Proclamation	308/2002	Turnover Tax	To enhance saving and investment, minimize the damage that may be caused by attempts to avoid or evade taxes, stimulate economic growth, and improve the relationship between Gross Domestic Product and government revenue. Administrative feasibility considerations limit the registration of persons under the value-added tax to those with annual taxable transactions the total value of which exceeds 500,000 Birr and an equalization turnover tax imposed on persons not registered for value-added tax allows them to fulfill their obligations and also enhances fairness in commercial relations and makes complete the coverage of the tax system. The rate was 2% on goods sold locally and 2% on contractors, grain mills, tractors and combine-harvesters and 10% on others (for services rendered locally).

Annex IX Ethiopian Tax Legislation

S. No.	Types of Legislation	Pro/Legal notice No.	Taxes on	Rates	Remark
1.	Proclamation	8/1942	Land	15,10 and 5 birr on fertile, semi-fertile and poor land and also half rate of the 1935 law on lands that has not divided into Gasha.	The main aim is to raise the standard of living
2.	Legal notice	22/1943	Imported goods		
3.	Legal notice	23/1943	Excise duty on alcohol		

4.	Legal notice	24/1943	Stamp Duties		
5.	Legal notice	25/1943	Public Health		
6.	Legal notice	26/1943	Public Health		
7.	Proclamation	39/1943	Customs and export duty	10-50% on animal, agricultural marine, pastoral products and food staffs; Birr 1.5 to 6 on tobacco and manufactures; 15-75% on textiles, apparel, yarns and fibers; 10-20% on metals, metal manufacture, machinery and vehicles; 5-20% on minerals, glass ware and earth ware, 10-20% on oils, waxes, paints and varnishes; 10-30% on chemical drugs and fertilizers; 10-20% on leather and rubber and manufactures thereof; 10-50% on wood and manufactures thereof; etc	
8.	Proclamation	40/1943	Excise duty on alcohol		
9.	Proclamation	41/1943	Stamp Duties	Based on different schedules. Example 15% on lease and 2.5% on mortgage, Birr 30 on company, 0.10-.50 on bills of exchange, 0.10-3 Birr on bonds, 0.10-1 Birr on contact agreements, 1-2 Birr on conveyance, 1-10 Birr on power of attorney, 10% on tickets of admission	
10.	Legal notice	47/1944	Custom and export duty pro. 1943		
11.	Legal notice	48/1944	Custom and export duty pro. 1943		
12.	Proclamation	50/1944	To amend the customs and export duties	10% on rubber per kg and 10% on wars.	
13.	Proclamation	51/1944	To amend the alcohol excise duty		
14.	Legal notice	42/1944	Custom and export duty	1% fee for the issue of license and 20% for its annual renewal, 200, 500 and 1000 Shilling on distillery capable of producing up to 2000, 4000 and above 4000 liter of alcohol respectively.	
15.	Legal notice	44/1944	To amend alcohol excise duty proclamation 1943		
16.	Legal notice	47/1944	To amend alcohol excise duty proclamation 1943		
17.	Legal notice	48/1944	To amend alcohol excise duty proclamation 1943		
18.	Proclamation	60/1944	Personal and Business income	Based on schedule A, B and C. Exempted for less than Birr 30, Birr 0.10, 0.20 and 0.30 on Birr 30-50, 50-75 and 75-100 and also Birr2-900 on Birr 100-150 to 9000-10,000 per	Changes on exported and imported goods

				annual.	
19.	Legal notice	64/1944	Classification of land		
20.	Legal notice	68/1944	Export and export		
21.	Proclamation	70/1944	Classification of Land tax	Based on fertile, semi-fertile and poor land	
22.	Legal notice	62/1944	To amend custom and export duty pro.1943		Changes on exported and imported goods
23.	Legal notice	73/1945	To amend custom export duties of Pro.29/1943	3 and 8 Birr on salt and sugar per 100kg and 20% and 30% on raw materials for cotton and cloth manufactures respectively.	
24.	Legal notice	74/1945	To amend custom export duties of Pro.29/1943		
25.	Legal notice	92/1946	To amend custom export duties of Pro.29/1943		
26.	Proclamation	84/1947	To amend land tax pro.70/1944	To force any person who refuse or fail to pay land tax.	Insignificant change
27.	Legal notice	103/1947	Import and export	Different Advalorem rate was imposed. Example 50%, on biscuits and European butter, 10% and 30% on baby foods and on cereals 10-50% on different fruits and vegetables 1.5-58% on ales, wines, sprites and beverages, Birr 1.50-6 on tobacco, 1-55% on textile, fiber, yarn etc.	Significant change occurred
28.	Proclamation	94/1947	Education tax	Different rate was imposed	
29.	Legal notice	106/1947	To amend custom and export duties pro.39/1943		Aim to extend the time limit of the date by Ministry of Finance.
30.	Proclamation	98/1948	Road tax		
31.	Legal notice	108/1949	To amend alcohol excise duty pro.1943		To apply all on alcoholic beverages and all perfumed alcohol containing more than 3% of alcohol.
32.	Proclamation	107/1949	Payment of tax by all individual and business	Free for less than Birr 300; but Birr 5-15000 on annual income 300-500 to 90,000-100,000 for schedule A, different rate ranging 1st-7th class for schedule B and 15% on annual income greater than Birr 100,000 for schedule C.	To promote Investment and to develop new industries (changes on imported and exported goods i.e. not exceed 5%)
33.	Proclamation	108/1949	To amend the alcohol excise duty pro.1943	0.75 Birr per liter on denatured alcohol, 3 Birr on liter of alcohol and 75% on exported alcohol.	Insignificant change
34.	Legal notice	129/1949	To amend alcohol excise duty pro.1943	On all alcohols manufactured in Ethiopia: Birr 4/liter pure alcohol 96 degree purity at the temperature of	

			and 1949	15.56 degree centigrade. 75% tax on all alcohol exported and 1 Birr per liter denatured alcohol.	
35.	Legal notice	131/1949	Person and business income tax of Porc. 1949	4% on goods imported and 1% on export.	Changes on exported and imported goods
36.	Legal notice	171/1952	Customs and excise duties to amend Pro. 39/1943	5-10% on metal and manufactures thereof (class V). 25% on wood and wood manufactures thereof (class X). 5% on export, (class XIV)	The revised imported and exported tariff amendment No 4 regulation 1952
37.	Legal notice	178/1953	The Customs import and export duties Pro. 39/1943	20 birr/100kg of coffee and 15 birr/100kg sure tax on export, (class XIV)	The revised imported and exported tariff amendment No 8 regulation 1953
38.	Legal notice	180/1954	The Customs import and export duties Pro. 39/1943	0.50-2 birr on coffee of Article 432, class XIV	The revised imported and exported tariff amendment No 11 regulation 1953
39.	Legal notice	183/1954	The Customs import and export duties Pro. 39/1943	0.35-6 Birr 100% on bottle containing more than 650cc.	The revised imported and exported tariffs
40.	Legal notice	185/1954	The Customs import and export duties Pro. 39/1943	4-72 birr surtax per 100kg	Coffee additional surtax regulation of 1954
41.	Legal notice	140/1954	Personal and business tax amendment Pro. 107/1949	On schedule A not exceeding Birr 300 replaced by 360.	
42.	Proclamation	142/1954	Cattle tax	Birr 0.5-0.05 on camel and sheep	Aim to impose tax on cattle breeders as farmer.
43.	Proclamation	143/1954	To provide for the payment of Federal tax	10% on imported goods and 2% on exported goods.	
44.	Legal notice	187/1954	To amend cattle tax of Proc. 70/54		To set tax assessment member.
45.	Legal notice	188/1954	Market fee rules	1% on exported goods and 2% on imported goods.	
46.	Proclamation	146/1955	Federal salt tax proclamation	Birr 2.5 - Birr 5 on salts with over 30%, 30 and 10% foreign element	
47.	Proclamation	150/1955	Federal tax amendment		
48.	Decree	17/1956	Transaction tax	12% on import and 2% on export	Imported agricultural and industrial machinery exempted
49.	Decree	19/1956	Personal and business income	Free for annual income less than Birr 30 and specific rate on Birr 30-1500 and 15% on annual income greater than Birr 1500 for schedule A. Exempted for annual income less than Birr 360, 2-14% tax on annual income Birr 360-1500 to Birr 16,800-18,000 and 15%	Proc.107/1949 amended by 140/1954 and Proc.144/1954 was changed

				tax on annual income above Birr 18,000 for schedule B and similar rates were imposed on schedule C.	
50.	Legal notice	199/1956	Customs import and export duty proclamation	Birr 0.10 to 45% on cotton and manufactures thereof. Birr 3 to 60% on flax, hemp, jute and manufactures thereof, 20-40% on motor vehicles, 5-15% on chemical drugs and fertilizer; Birr 0.25 on leather, rubber and manufactures.	Revised amendment import and export tariff of legal notice 153/1953.
51.	Legal notice	204/1956	Transaction tax	Supply of electricity and water, hulling, grading and cleaning of coffee, grain and seeds are free from tax.	
52.	Legal notice	205/1956	Excise tax		
53.	Decree	1/1957	Excise tax on local product	Birr 0.20 to 10% tax on eucalyptus tree, stone, chalk, sand, coal, Birr 7 and 14, 5-10 on alcohol and tobacco, 10-65% on textile fiber, yarn and manufactures, 50% on vehicles, 15-20% on soap e. t. c. was imposed.	
54.	Legal notice	1/1957	The customs import and export duties	Major changes were occurred on tea, alcohol, tobacco and manufactures	
55.	Legal notice	21956	Alcohol excise duty amendment		
56.	Legal notice	215/1958	Income tax regulation	Birr 9-2160 on small business, which do not maintain proper books of account and the annual taxable income estimated as being less than Birr 15,000.	Under schedule A, benefits in kind to police; employee's medical treatment and allowance were not taxed. Under schedule C, the direct cost of producing the income, general and administrative expenses were not taxed.
57.	Decree	26/1957	Stamp duties	Birr 9-2160 on annual income less than birr 15000 and Birr 360-480 on annual income 14,400-15,000	Replaced pro.41/1953. Different rates were imposed on award, power of attorney, and bill of exchange, bond, and contract agreement, transfer of immovable property or motor vehicle.
58.	Decree	33/1959	Federal alcohol consumption tax	Birr 0.15-3 on imported items of 1^{st} schedule; Birr 0.07-3 on locally manufactured goods, Birr 3 on pure alcohol, 0.15-1.50 on containing above 10% alcoholic beverage, 0.15-.25 on alcohol containing more than 3% but less than 10%	
59.	Decree	34/1959	Income tax amendment		
60.	Decree	35/1959	Federal transaction tax amendment		
61.	Decree	36/1959	Health tax	Birr 4-15 per year on fertile, semi-fertile and poor land	Based on different provinces.
62.	Decree	37/1959	Tobacco regie amendment	Birr 0.10-10 on imported tobacco leaf, cigarettes and matches.	
63.	Decree	38/1959	Federal salt tax	Birr 8-30 per 100 kg	

			amendment		
64.	Decree	39/1959	Federal excise tax amendment		
65.	Legal notice	221/1959	Stamp duty		
66.	Legal notice	226/1959	Alcohol production tax regulation		
67.	Legal notice	241/1961	Revised import and export tariff amendment	Birr 10-60 percent on imported butter, meat, canned, cloth, etc.	
68.	Proclamation	172/1961	Issuance of government Bond	Interest rate will not exceed 6.5 percent. Ministry of Finance is authorized to issue government bond in amount not exceeding 30 million Birr for ten years	
69.	Order	31/1963	Health tax administration amendment		
70.	Legal notice	272/1963	Revised import and export tariff amendment	Birr 0.10-55 percent in different commodities	
71.	Proclamation	173/1961	Income tax	Free for less than Birr 30 and 0.75-67.5 on annual income 30-40 to 700-750 and 10% on 750-800 and 21% on annual income greater than 5000 under schedule A. Free for annual income less than Birr 360; but 2-15% on 360-960 to 14,400-15,000 and 16% annual income greater than Birr 15,000 under schedule B. Free annual income less than Birr 360 and Birr 10-810 on annual income 360-480 to 8400-9000 and 10-15% on annual income 9000-9600 to 13,800-15,000 and 16% on annual income greater than 15000 under schedule C.	Replaced Decree No 19/1956 and income tax amendment decree No 34/1959.
72.	Legal notice	253/1962	Amendments of customs imported and exported duties pro. 1943	Birr 0.10 to 50% on different commodities.	
73.	Legal notice	272/1963	Revised import and export tariff amendment	Birr 0.10-55 percent in different commodities	
74.	Proclamation	252/1962	Custom and export duties Pro. 1943	All other diplomatic and consular officers shall be authorized to import motor vehicles free from custom duties every three year.	Exempted all imported goods including motor vehicles for diplomatic and consular
75.	Legal notice	258/1962	Income tax	At the rate Birr 10-432 on annual income from Birr 360-480 to 5,400-6,000.	Medical treatment of the employees, transport allowance cost and traveling expenses are excluded under schedule A and direct cost of production and administrative expenses,

					depreciation costs, premium payable on insurance and commission paid for services are not taxed under schedule C.
76.	Proclamation	205/1963	Transaction tax Aim: to tax goods imported or exported, goods manufactured locally, to levy turnover tax and to tax construction works.	All goods exported at rate 2% Imported goods at the rate 12% Imported agricultural and industrial machines and goods being re-exported under legal notice 153/1951 were exempted from tax. 1% turnover tax and 2% on construction works.	This provides an exemption for construction works of road, bridge, church, mosques, school hospital, water and irrigation building work value less than Birr 5000. Turnover tax exempted wholesale, sales of goods exported, postage stumps, lottery, flour, bread, milk and supply of electricity.
77.	Legal notice	280/1964	Amendments of customs imported and exported duties pro. 1943		
78.	Legal notice	282/1964	To amend transaction tax pro.1963	Some imported and exported goods and some goods manufactured locally were exempted from paying tax. For example, Salt, sugar, alcohol, cotton and some goods are free from TOT	
79.	Legal notice	283/1964	Amendments of customs imported and exported duties pro. 1943	Birr 0.10 to 55% on different commodities.	
80.	Legal notice	283/1964	The customs tariff amendment	Birr 0.60-55 percent on different commodities	
81.	Legal notice	299/1964	Customs tariff amendment	Birr 3-40 percent on different commodities	
82.	Proclamation	217/1965	Alcohol excise tax amendment	Based on the 1st, 2nd and 3rd schedule	
83.	Legal notice	309/1965	Amendments of customs imported and exported duties pro. 1943	Different rates were introduced.	
84.	Legal notice	314/1966	Amendments of customs imported and exported duties pro. 1943	Different rates from 10-80% imposed	
85.	Proclamation	254/1967	Transaction tax amendment pro.67	5% of gross revenue on goods manufactured locally and 2% turnover tax	Goods exempted from turnover tax are imported resale, the sale of

					newspaper, postage, and stamp.
86.	Proclamation	255/1967	Income tax amendment 1967	Free for annual income less than Birr 25; but Birr 0.75-67.5 on annual income Birr 25-40 to 700-750 and 10-24% on 750-800 to 4250-5000 and 25% on annual income greater than 5000 under schedule A. In the case income of bodies the rate was 20% but in the case of persons it was Birr 3 on annual income less than Birr 300; 9-810 on annual income 300-480 to 8400-9000 and 10-19% on annual income 9000-9600 to 24,000-27,000 and 20% on annual income greater than 27,000 and 10% of surtax for income above Birr 30,000 under schedule B. In the case income of bodies the rate was 20% but in the case of persons it was Birr 1.50 on annual income less than 300; 6-810 on annual income 300-480 to 8400-9000 and 10-19% on annual income 9000-9600 to 24,000-27,000 and 20% on annual income greater than 27,000 under schedule C	Taxes on agricultural activity was introduced as schedule D and the rate was 20% on bodies and for persons Birr 1.5, 6 and 10-19% on annual income less than Birr 300, 300-480 to 8400-9000 and 9000-9600 to 24000-27000 and 20% on annual income exceeding 27000. 10% surtax in excess of Birr 30,000 and additional 10% in excess of Birr 150,000 under schedule D.
87.	Legal notice	328/1967	Amendments of customs imported and exported duties pro. 1943	Different rates were introduced.	
88.	Legal notice	354/1969	Custom import and export duty pro. 1943	60% on biscuit, cakes pastries, 40% on cereals, 75% on flour and wheat, 40% on fruit and vegetables, 75% on meat extracts and manufactured from meat 50% on motor vehicle advalorem on the first Birr 3000 and 85% on exceeding etc.	Significant change occurred.
89.	Proclamation	284/1971	Alcohol excise tax amendment of pro. 1965.		
90.	Proclamation	285/1971	Alcohol excise tax amendment of pro. 1965.		
91.	Legal notice	399/1971	Petroleum products and lubricants excise tax pro.1965		
92.	Proclamation	307/1972	Transaction tax amendment		
93.	Legal notice	420/1972	Custom tariff amendment	75% on different clothes, Birr 40 on imported cupper wire, 45% on other metal manufactures and 20-60% on different papers,	
94.	Legal notice	420/1972	Amendments of customs imported and exported duties pro. 1943	70% on cotton and its product, 75% on clothes, 45% on other manufactures, 20-60% on carbon, tracing, copy papers	

95.	Legal notice	437/1973	Custom tariff amendment	75% on biscuit, cakes or in any other packing, 75% on imported butter, 50% on cereals, etc.	Significant change occurred.
96.	Proclamation	23/1975	Transaction tax amendment	2% turnover tax in any gross	3- years changed to5
97.	Proclamation	65/1975	Income tax amendment		
98.	Proclamation	66/1975	Transaction tax amendment		
99.	Proclamation	77/1976	Rural land use fee and agricultural activities income tax	Pay Birr 3 who is a member of agricultural commune and Birr 4 who are not. Government agricultural organization pays Birr 2/hectar. Annual income less than 600 pay Birr 3, and Birr 4.5 and 6 on annual income 600-900 and 900-1200, and 10-60% on annual income 1200-3000 to 27,000-33,000 and 70% on annual income greater than Birr 33,000. Member of agricultural commune, not member and government agricultural organization pay 3, 4 and 2/hec respectively.	Replaced education tax pro.94/74 and health tax decree 37/59. Aimed to improve the farmer's techniques to provide road, and other communication facilities enabling peasants to have access to market to obtain equitable price and to bring rural development.
100.	Proclamation	80/1976	Urban land rent and urban house tax	Based on rate of rent payable on urban land used for dwelling, business hours and urban house and payment was based on three classes	
101.	Legal notice	36/1976	Addis Ababa land use rent and house tax		
	Proclamation	152/1978	Rural land use fee and agricultural income tax	Every farmer who is a member of an agricultural producers' cooperative and not a member pay birr 5 and 10. Annual income less than 600 pay birr 10 and annual income 600-1200 to 33,000-36,000 pay 10-82% and annual income greater than 36,000 pay 89%.	
102.	Proclamation	153/1978	Excise tax amendment	Birr 0.02-0.25 per bottle of soft drink including mineral water, Birr 21on 100kg of sugar, 2.82 per kg on yarn, nylon and natural silk.	Some changes on sugar, foot wear.
103.	Proclamation	154/4978	Tobacco regie amendment	Birr 0.4 and 0.6 on match containing sticks of 50 and 50-100 sticks respectively. 25% on dividend share holder, 10% no chance wining and 40% on royalty and 10% on income derived from service rendered.	Minor change occurred during this period.
104.	Proclamation	155/1978	Income tax amendment	Annual income less than Birr 50 free from tax, 10-79% on income from 50-200 to 3500-3750 and 85% on annual income greater than 3750 under schedule A. Birr 10, 18, 24, 40 and 70 on annual income less than Birr 300, 300-500, 500-700, 700-900 and 900-1200 respectively and also 11-82% on annual income 1200-1800 to 33,000-36,000 and 59% tax on annual income greater than 36,000 under schedule B.	
105.	Proclamation	159/1979	Transaction amendment	18% on all imported goods, 7% on goods manufactured locally and gross revenue from sales made	15% on imported and 5% on exported pharmaceutical items or related materials thereof but other

					additional taxes were exempted.
106.	Proclamation	160/1979	Alcohol excise tax	Birr 0.60-3.50 on alcohols per liter.	
107.	Proclamation	165/1979	Transaction amendment		Schedule 1 and 2 was changed
108.	Legal notice	67/1979	Petroleum Products and lubricants excise tax amendment		
109.	Legal notes	68/1979	Customs tariff amendment		
110.	Proclamation	170/1979	Transaction tax amendment	15% on imported pharmaceutical items or related materials. 18% on other goods 2% on goods exported	Tax on goods imported or exported charged, levied and collected at the point of entry or exit.
111.	Proclamation	171/1979	Excise tax amendment		
112.	Proclamation	196/1980	Income tax amendment		Minor, which focuses on administration area.
113.	Proclamation	309/1987	Chat Proclamation	2 Birr/kg on all sales of chat irrespective of its destination and 5 Birr/kg on the sales of chat destined for export.	
114.	Proclamation	331/1987	Excise tax amendment	On soft drink including mineral water and any beverage made from sugar which not contains more than 3 degree of alcohol	Minor change
115.	Proclamation	332/1987	Alcohol excise tax amendment	Minor on beer and draft/litter	
116.	Proclamation	333/1987	Salt tax amendment	Minor	Insignificant change
117.	Proclamation	334/1987	Stamp duty	Basic change	Instrument chargeable with stamp duty, mode of valuation, time and manner of payment, exempted items (on the amount which less than birr 10)
118.	Legal notice	100/1987	Regulation to amend the issuance of travel documents and VISA	Issuance of Diplomat and Special Passport. Example Passport Birr 40 and10 on non-student and student. Renewal of passport 20 and 6 respectively. Emergency traveler document birr 30 and Birr 10, Refuge traveler document Birr 16 and 4. Visa in the absence of reciprocity fees are birr 30, 20, 10, 10, 10,30 and 20 entry tourist, exit, tourist, extension of tourist, transit extension of re-entry and business Visa respectively.	
119.	Legal notice	101/1987	To amend Visa and residence permit fees and port of entry	**Residence Permit**: Registration of foreigners and issuance of residence 120 birr, renewal 80 and replacement 75 birr. **Exit and Re-entry Visa**: 30, 60 and 120 Birr on issuance of single journey exit and re-entry for 3, 6 months and 1 year.	
120.	Council of State	16/1990	Sales tax Council of	Form 5% - 559.28% general sales tax on locally produced	Repealed 204/63 Excise tax,

	special decree		State special decree on	goods according to schedule A, on imported goods according to schedule B and service tax according to schedule C.	217/65 Alcohol excise tax and 249/67 petroleum products, lubricants excise tax and 146/55 salt tax
121.	Council of State special decree	18/1990	Council of State special decree to amend income tax 173/1961	Free for income less than 300, 3%-55% on annual income 300-400 to 2100-24000 and 59% on income exceeding 24000 according to schedule C.	
122.	Proclamation	30/1992	To amendment Income tax pro.173/1961	Free for monthly income less than Birr 105, 10-45% on 106-400 to 2201-2500 and 50% on monthly income above Birr 2500 according to schedule A.	Transitional government
123.	Proclamation	53/1993	Mining income tax	35% on Small scale mining 45% on large scale mining	
124.	Proclamation	62/1993	Income tax amendment	Free for annual income less than Birr 1200, 10%-36% on annual income 1201-6000 to 33501-50000 and 45% on annual income exceeding Birr 50000 according to schedule B	
125.	Proclamation	68/1993	Sales excise Tax	5% and 12% on goods sold locally and imported mentioned under A and B respectively. 5% on contractors and tax payers whose daily sales income 25-50 and 10% on others under according to schedule C. Under 'D' goods liable to excise tax either produced locally or imported. Vehicle up to 1300cc, 1300-1800cc and above1800cc pay 20%, 50% and 100% respectively. All types of pure alcohol at 200%. All types of soft drink at 80% and mineral water at 50%	Repealed decree 16/1990. Goods that shall be free of sales tax under schedule B, either produced locally or imported and sales tax exemption provide to public bodies and economic agents. Food (bread, injera), fertilizer, petroleum and its product (aviation fuel, oils and lubricants), air craft and parts of thereof, machinery, equipment for railway and tramway transport, equipment requisites for marine transport and national defense and public security.
126.	Proclamation	69/1994	To establish export trade duty incentive scheme		Article 17 (b) of law regulating to custom 155/1955 and article 110-116. Article 4 (e) and 6 of customs temporary importation regulation 310/1965
127.	Proclamation	107/1997	Income tax	Exempted monthly income less than Birr 120, however, 10%-30% tax rate on 120-600 to 2000-3000 and 40% on monthly income above Birr 3000 according to schedule A. Free for annual income less than Birr 1200, but 10%-30% on 1200-6000 to 30000-50000 and 40% on annual income above Birr 50000 according to schedule C.	

128.	Proclamation	108/1994	Capital gain tax		
129.	Proclamation	23/1996	Mining income tax amendment	35% on large or small scale mining	
130.	Proclamation	36/1996	Income tax amendment	Any organization shall pay 35% of income tax on its taxable income. However, tax on income from mining by organization is based on mining proclamation.	
131.	Proclamation	61/1997	The establishment of Federal Inland Revenue Authority		
132.	Proclamation	77/1997	Sales and excise tax amendment	35% on any type sugar, 40% on mineral water, 150% on all type pure alcohol, 75% on cigarette tobacco, 30% on salt, 40% on Landover, four wheels. When the production has increased by 70% or new factories established, 40% on all products soft drink and 50% on all type of beer and stout will be imposed.	
133.	Proclamation	99/1998	On coffee Export	The rate was the *6.5%* of the FOB price.	
134.	Proclamation	110/1998	Stamp duty	Birr 300-2% within any organization or business organization.	Repealed proclamation 334/1987
135.	Proclamation	118/1998	Mining amendment		Power delegation
136.	Proclamation	149/1999	Sales and excise tax amendment	5% on contractor, 12% others. 80% on all type of soft drink and 40% on mineral water etc.	
137.	Proclamation	227/2001	Income tax amendment	5% on insurance and CIF value.	
138.	Proclamation	228/2001	Sale and Excise Tax amendment	5% on goods sold locally and goods imported mentioned under schedule A. 15% on goods sold locally and goods imported and services rendered locally. 5% on contractors and financial services and 15% on others.	
139.	Proclamation	285/2002	VAT	15% was imposed whose capital exceeding Birr 500,000. Taxes services in addition to production, grants zero-rating to exports, and gives exemptions to fewer basic products	
140.	Proclamation	286/2002	Income tax	Exempted monthly income less than Birr 150, but 10-30% on monthly income 151-650 to 3551-5000 and 35% on above 5000 according to schedule A; Free for annual income less than Birr 1800, but 10-30% on annual income 1801-7800 to 42601-60000 and 35% on exceeding Birr 60000 according to schedule B and similar rate was imposed to schedule C. According to schedule D, on other income different rates were imposed. Such as 5% on royalties, 10% on rendering of technical support, 15% on chance winning, 15% on income from rental of property, 5% on interest from deposit, 15% on gain on transfer on certain investment property and 30 on shares of company was imposed.	
141.	Proclamation	307/2002	Excise Tax	The rates were 33% on any type of sugar (in solid form) excluding molasses, 30-40% on all types of soft drinks, 50-100% on alcoholic drinks, 75% on all types of pure alcohol, 20%-70% on tobacco and tobacco products, 30% on salt , 30% on fuel-super benzene, regular benzene, petrol, gasoline and other motor spirits, 100% on perfumes and toilet waters and 10% on textile and textile products, 20% on personal adornment made of gold, silver or other materials, 80% on disk washing machines	

				of a kind for domestic use, 30% on washing machines of a kind for domestic purposes, 40% on Video decks, 40% on television and video cameras, 10% on television broadcast receivers whether or not combined with gramophone, radio, or sound receivers and reproducers. 30% on carpets, 20% on asbestos and asbestos products, 20% on clocks and watches and 20% on dolls and toys was imposed as well as 30%, 60% and 100% up to 1300 cc, from 1301 cc up to 1800 cc and above 1800 cc on different vehicle types respectively. To improve government revenue by imposing excise tax on selected goods and on luxury goods and basic goods which are demand inelastic and on goods that are hazardous to health and which reduce can social problems
142.	Proclamation	308/2002	Turnover Tax	The rate was 2% on Goods sold locally and 2% on contractors, grain mills, tractors and combine-harvesters and 10% on others (for services rendered locally). To enhance saving and investment, minimize the damage that may be caused by attempts to avoid or evade taxes, stimulate economic growth, and improve the relationship between Gross Domestic Product and Gov.t. Administrative feasibility considerations limit the registration of persons under the value-added tax to those with annual taxable transactions the total value of which exceeds 500,000 Birr and an equalization turnover tax imposed on persons not registered for value-added tax allows them to fulfill their obligations and also enhances fairness in commercial relations and makes complete the coverage of the tax system