



**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**Excise Taxation in Ethiopia: Design, Revenue Performance and Challenges**

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## Declaration

I, Ayele Achalu, declare that this thesis, titled “Excise Taxation in Ethiopia: Design, Revenue Performance and Challenges” is my original work, submitted in partial fulfillment of the degree of Master of Business Administration in Finance with the constructive guidance and support of the research advisor. The thesis, according to the researcher, met the standards and met the requirements of the rules and regulations governing the character of the degree. The thesis’s contents have not been submitted for consideration for any other degree in this and at any other university. The researcher has been supplemented by a referenced source that has been properly acknowledged.

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# CERTIFICATION

This is to certify that Ayele Achalu's thesis, Excise Taxation in Ethiopia: Design, Revenue Performance and Challenges, has been completed. It is submitted in partial fulfillment of the requirements for the Master of Business Administration in Finance degree, and it complies with university regulations and meets accepted quality and originality standards.

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## ***Abstract***

The thesis examines Ethiopia's excise taxation system, focusing on its design, revenue performance, and associated challenges. Despite its potential as a significant revenue source, excise tax currently contributes less than 1% to GDP, prompting this study to investigate further. Using a mixed-method approach, it analyses tax design elements, compares them internationally, and highlights the need for policy reforms. Recommendations include periodic adjustments of specific tax rates to account for inflation, the introduction of excise stamps, expansion of the tax base to encompass emerging sectors like selective financial services, lottery operations, and betting services, as well as enhancements to centralized control mechanisms. The study aims to inform policymakers and stakeholders to enhance Ethiopia's excise tax system for economic and social benefits.

***Key words:*** *Excise tax, design, revenue, performance, challenge, Ethiopia*

## Table of Contents

### Contents

|                                                             |            |
|-------------------------------------------------------------|------------|
| <b>Declaration.....</b>                                     | <b>ii</b>  |
| <b>CERTIFICATION.....</b>                                   | <b>iii</b> |
| <b>Acknowledgment.....</b>                                  | <b>iv</b>  |
| <b>Abstract.....</b>                                        | <b>v</b>   |
| List of abbreviations and Acronyms .....                    | ix         |
| <b>Chapter 1. Introduction.....</b>                         | <b>1</b>   |
| 1.1 Statement of the Problem .....                          | 2          |
| 1.2 Broad research objective .....                          | 3          |
| 1.3 Specific Research questions.....                        | 3          |
| 1.4 Significance of the Study .....                         | 3          |
| 1.5 Scope and Limitation .....                              | 3          |
| 1.6 Structure of the Study .....                            | 4          |
| <b>Chapter 2. Literature Review .....</b>                   | <b>5</b>   |
| 2.1. Theoretical literature review .....                    | 5          |
| 2.1.1. Purposes of excise taxes .....                       | 5          |
| 2.1.2. Excise tax types, rate structure and level.....      | 10         |
| 2.2 Empirical literature review.....                        | 16         |
| <b>Chapter 3. Research Approaches and Methodology .....</b> | <b>22</b>  |
| 3.1 Research Objective and Research Questions .....         | 22         |
| 3.2 Research Approaches .....                               | 23         |
| 3.3 Research Methodology Adopted .....                      | 24         |
| 3.3.1. Qualitative component of the study.....              | 25         |
| 3.3.2. Quantitative aspect of the study .....               | 26         |

|                                                                                                                     |           |
|---------------------------------------------------------------------------------------------------------------------|-----------|
| <b>3.3.3. Data Analysis Methods Used.....</b>                                                                       | <b>27</b> |
| 4.1 Results .....                                                                                                   | 28        |
| 4.1.1 Existing Excisable Items .....                                                                                | 28        |
| 4.1.2 Excise tax base measurement methods .....                                                                     | 29        |
| 4.1.3 Excise tax rate structure and level.....                                                                      | 30        |
| 4.1.4 Challenges in Administering Excise Taxes .....                                                                | 31        |
| 4.1.5 Review of Revenue Performance .....                                                                           | 32        |
| 4.2 Discussion .....                                                                                                | 37        |
| 4.2.1 Excisable items in Ethiopia.....                                                                              | 37        |
| 4.2.2 Excise tax base measurement.....                                                                              | 38        |
| 4.2.3 Excise rate structure and level of rates.....                                                                 | 39        |
| 4.2.4 Excise tax revenue performance .....                                                                          | 42        |
| 4.2.5 Challenges in excise Taxation.....                                                                            | 44        |
| <b>CHAPTER 5- CONCLUSIONS AND RECOMMENDATIONS.....</b>                                                              | <b>48</b> |
| 5.1. Conclusion .....                                                                                               | 48        |
| 5.2. Recommendations .....                                                                                          | 50        |
| <b>References .....</b>                                                                                             | <b>52</b> |
| <b>Appendix 1- IN-DEPTH INTERVIEW QUESTIONS WITH ALL SECTORS.....</b>                                               | <b>56</b> |
| <b>Appendix 2- List of participants involved in in-depth interviews for selected sectors. ....</b>                  | <b>60</b> |
| <b>Appendix 3- Applicable current excise tax rates for excisable goods and service in Ethiopia.</b><br><b>.....</b> | <b>61</b> |

|                                                                                                                       |           |
|-----------------------------------------------------------------------------------------------------------------------|-----------|
| <b>List of tables and figures</b>                                                                                     | <b>vi</b> |
| <b>Figure 4.1: Excise tax collection and composition</b>                                                              | <b>32</b> |
| <b>Table 4.1: Excise tax to GDP ratio in selected countries in Africa</b>                                             | <b>32</b> |
| <b>Table 4.2: Excise taxes by excisable items (%age share in total excise tax revenues)</b>                           | <b>33</b> |
| <b>Table 4.3: Excise taxes on imports by excisable items (%age share in total excise taxes on imports)</b>            | <b>34</b> |
| <b>Table 4.4.: Excise taxes on domestic excisable items (%age share in total excise taxes on domestic production)</b> | <b>35</b> |
| <b>Figure 4.2: Contribution of excisable items</b>                                                                    | <b>36</b> |

## **List of abbreviations and Acronyms**

|       |                                                        |
|-------|--------------------------------------------------------|
| CIF   | Cost, Insurance, and Freight                           |
| ECC   | Ethiopian Customs Commission                           |
| EGMS  | Excisable Goods Management Systems                     |
| EPSE  | Ethiopian Petroleum Supply Enterprise                  |
| ESLSE | Ethiopian Shipping and Logistics Services Enterprise   |
| ETB   | Ethiopian Birr                                         |
| GDP   | Gross Domestic Product                                 |
| Gov't | Government                                             |
| HO    | Head Office                                            |
| LTO   | Large Taxpayers Branch Office                          |
| MoF   | Ministry of Finance                                    |
| MoPD  | Ministry of Planning and Development                   |
| MoR   | Ministry of Revenue                                    |
| OECD  | Organization for Economic Co-operation and Development |
| PLC   | Private Limited Company                                |
| SSA   | Sub-Saharan African                                    |
| VAT   | Value Added Tax                                        |

## Chapter 1. Introduction

Excise taxes, also termed "sin taxes" (Ochieng and Agwaya, 2020), are an indirect tax that is levied on specific products to raise revenue for the government and deter bad habits.

According to International Monetary Fund (IMF)(1974, p. 166), excise taxes are defined as taxes “levied on particular products, or on a limited range of products . . . (that) may be imposed at any stage of production or distribution and may be assessed by reference either to the weight, strength, or quantity of the product, or by reference to the value. ”

As per Cnossen (2005) Excise taxation serves several goals: raising revenue for general purposes (as per the Ramsey rule), reflecting external costs (following the Pigou prescription), discouraging consumption, and charging road users for government-provided services. McCarten and Stotsky (1995, p. 100) assert that “the most compelling reason for the use of excise taxes is their potential to generate significant revenue with minimal distorting effects.”

In Ethiopia, excise taxes are governed by Proclamation No.1186/2020 (as amended by 1287/2023). Major excisable items include tobacco and tobacco products, automobiles, petroleum and petroleum products, alcoholic beverages, and sugar-sweetened beverages, among others. Despite the existence of this taxation system, revenue performance remains below 1% of GDP, contrasting with expectations of it being a significant revenue generator.

Several studies have examined excise taxes in developing countries. For instance, Chesire (2018) investigated the impact of excise taxes on the profitability of cigarette and alcohol manufacturers in Kenya. The study revealed that changes in excise duty affect the profitability, consumption, and pricing strategies of these manufacturers.

Similarly, Izuchukwu and Chude (2015) conducted a study in Nigeria focusing on the level of excise tax regulation and its effect on profitability. They concluded that there is a positive and significant relationship between profitability and excise tax regulation. This suggests that policy measures aimed at enhancing tax revenue through more effective excise tax administration could positively impact the profitability of companies.

Despite these studies, to the knowledge of the researcher, there appears to be a gap in the literature regarding comprehensive examination of all aspects of excise taxation, including design, revenue performance, and challenges, particularly from the perspective of developing countries like Ethiopia. Therefore, this study aims to fill this gap by assessing the design, revenue performance, and challenges of excise taxation in Ethiopia, drawing insights from international experiences.

This chapter introduces the study, organized into six sections. Section 1.1 presents the problem statement, followed by the research objectives in section 1.2 and specific research questions in section 1.3. The significance of the study is discussed in section 1.4. Section 1.5 addresses the scope and limitations of the study, and section 1.6 outlines the structure of the study.

## **1.1 Statement of the Problem**

Ethiopia's tax revenue performance, as measured by its tax to GDP ratio, has exhibited a persistent decline, reaching approximately 9 percent in 2020/21, which is lower than the Sub-Saharan African average of around 15 percent. A significant contributor to this shortfall is the underutilization of key tax instruments, particularly excise taxes, which have consistently contributed less than 1 percent of GDP over the past decade (Harris and Seid, 2021). This underscores a critical issue in Ethiopia's fiscal framework, where the potential of excise taxes to bolster government revenue and support essential public services remains largely untapped.

The thesis aims to address this gap by examining the determinants behind Ethiopia's low excise tax revenue contribution. It will evaluate the effectiveness of current tax policies and administration, offering evidence-based recommendations to enhance excise tax revenue generation and its impact on economic growth. By conducting a thorough analysis, the thesis intends to equip policymakers and stakeholders with insights crucial for optimizing excise tax design, improving revenue performance, and overcoming implementation challenges. Ultimately, this research seeks to strengthen the role of excise taxes within Ethiopia's fiscal landscape, promoting fiscal sustainability, mitigating socio-economic disparities, and fostering sustainable economic development.

## **1.2 Broad research objective**

The broad objective of this research is to examine the excise tax system in Ethiopia, focusing on its design features, revenue performance, and challenges.

## **1.3 Specific Research questions**

Based on broad research objective the following specific research questions (RQ) were developed:

*RQ1. How is the design of excise taxes in Ethiopia in light of international experiences with focus on?*

- *type of excisable items,*
- *base measurement methods, and*
- *level and structure of rates*

*RQ2. How is the revenue performance of excise taxes in Ethiopia in light of international benchmarks?*

*RQ3. What are the challenges that taxpayers and tax authorities face with respect to excise taxes in Ethiopia?*

## **1.4 Significance of the Study**

The findings of this study are expected to be useful for different institution such as to ministry of revenues/bureau, ministry of finance/ bureau at both federal and regional governments' level in improving the excise tax regime and enhancing its revenue performance etc. Additionally, the study has also a significance of supplementing the existing research and knowledge gap in the areas, as there is lack of research in Ethiopia concerning excise tax design, revenue performance and challenges related to the tax.

## **1.5 Scope and Limitation**

While the study addresses the entire excise tax regime of the country, data collection is limited to both taxpayers and revenue administrations at the federal and Addis Ababa city levels. The study is conducted among selected tax collectors such as Ministry of Revenue (at head office, large and medium branch offices) as well as Customs Commissions and taxpayers (such as from

manufacturers and importers) in Addis Ababa, excluding those from regional governments due to time, security, and resource constraints.

## **1.6 Structure of the Study**

This thesis comprises five chapters. The first chapter introduces the study, encompassing the research objective, problem statement, scope, and limitations. Chapter two presents a review of both theoretical and empirical literature. In the third chapter, research approaches and methodologies are discussed. The fourth chapter delves into the results obtained from various study approaches. Lastly, the fifth chapter provides conclusions and offers insightful recommendations.

## **Chapter 2. Literature Review**

In the following chapter both theoretical and empirical studies related to excise taxes are reviewed.

### **2.1. Theoretical literature review**

The term "excise" has a historic connotation Terra (1996). Excises on tea, wine, fish, and reeds used for fuel and thatching were levied as early as the Han dynasty (207 B.C.–A.D. 220), according to Terra (1996). According to Cnossen (1977) the word excise comes from the Middle Dutch "exijs", which could be a derivative of the old French "assise," meaning session, settlement, or assessment. On the other hand, Terra (1996) claimed that the word excise could also be derived from the Latin "excisere": to carve, to cut out, referring to the carvings on a stick used to measure beer or liquor quantities.

Excise taxes, also termed "sin taxes" (Ochieng and Agwaya, 2020), are an indirect tax that is levied on specific products to raise revenue for the government and deter bad habits. As per McCarten and Stotsky (1995), goods selected for excise coverage typically have one or more of the following characteristics: first, their production and sales are closely supervised by the government, indicating that they are sumptuary goods or services; second, they have price-inelastic demand schedules; third, they have an income elasticity of demand greater than unity, indicating that they are luxury goods or services; or fourth, their consumption is regarded as causing negative externalities by the government.

#### **2.1.1. Purposes of excise taxes**

##### **Correcting negative externalities**

As per Nellor (1995) the use of a good or service causes negative externalities, the standard prescription is to charge a Pigovian (corrective) tax, which forces the provider to consider the costs of the negative side effects. According to (Viscusi 1995, Warner 1990) it's believed that alcohol use leads to road related accidents, stresses on the family, and hospital costs and tobacco use is unpleasant for nonsmokers and also causes passive smokers health problems, and these increases the demand for publicly supported health care, particularly for treating lung cancer The use of fossil fuels produces pollution and congestion. The presence of these negative externalities provides a case, in principle at least, for corrective taxes on these traditional excisable items. The practical

problem is that the costs of the side effects have yet to be measured in the African context, so the size of taxes justified on corrective grounds remains unclear.

As per (McLure and Thirsk 1978; Due 1994, p. 27) Probably the communal criticism of excise taxes is that they are unfair. Whether this depends in part on what one means by fairness. Some argue that it is fair that those who benefit from a good or service such as a road should pay for it. Thus “to the extent that excise taxes serve as user charges, they should not be included in incidence analysis” (Shah and Whalley 1990, p. 538). Shoup (1983, p. 262) seems to claim that it is fair to levy corrective taxes, arguing that “being poor should not entitle one to an unlimited license to create negative externalities” (, Cook and Moore 1994). Thus, not everyone agrees that a tax falling on the poor is in fact unfair.

Smith (2005) proposes regarding alcohol that what he calls the ‘economic’ approach may provide a clearer guide to policy. The economic approach differs from the public health approach in two major ways. First, it takes a narrower view of the social costs of alcohol and tobacco and focuses on the externalities imposed on society in general rather than on total social costs, including those imposed on direct users. As a result, as Cnossen and Smart (2005) demonstrate, economic approach tends to suggest that relatively lower taxes are socially optimal than does the public health approach. On the other hand, the economic approach is broader than the public health approach in several aspects.

There is a large literature about “rational addiction,” the interplay of psychological, physiological, and economic factors that lead to addiction and its consequences, that is not discussed here (Gruber 2010)

According to Brezis and Marans (2010) Most people seem to accept alcohol and tobacco consumption creates real social costs which justify relatively heavy taxation on these products. Indeed, in recent years the social acceptance of smoking in particular has declined so much that even smokers often accept that they should pay a fiscal penalty for indulging. Taxes on alcohol and tobacco may thus be presented as not only increasing revenues but doing so by taxing ‘bad products’, correcting socially inappropriate consumption decisions, and compensating society for some of the costs arising from the unwise consumption of these products.

As per McCarten and Stotsky (1995, p. 100) “The most compelling reason for the use of excise taxes” write “is that they can potentially raise a great deal of revenue with little distorting effect.” For a tax system to continue to raise adequate revenue, it helps if taxes are income-elastic.

Excise taxes can nevertheless serve the function of controlling externalities, a consideration omitted from the Atkinson-Stiglitz framework.

As per cited by Hines (2007) Pigou (1920)” proposed the imposition of corrective excise taxes at rates equal to marginal external damages, noting that doing so restores economic efficiency, and Sandmo (1975) illustrates the optimal application of Pigouvian excise taxes when the government relies on excise taxes to raise revenue”.

In practice, governments impose heavy taxes on energy products, motor vehicles and other transportation, waste management, ozone-depleting substances, and other products and activities that arguably create externalities in degrading the environment.

As per Bird (2015) cited “Haavio and Kotakopi (2011) argue, the result is that the rate set is generally lower than the socially optimal level, and also Cnossen and Smart (2005) note, this may not always be the outcome. “Excise tax structures in most countries are generally different from any of the conceptually ideal taxes postulated in the literature, in part for reasons often rooted in national social and political factors. constituencies than by the answers suggested by economic analysis or the importance attached to objectives such as improving public health or maximizing social welfare.

The externalities associated with alcohol consumption that underlie such concerns have long been known and studied (Cutler, 2002). In both developed and developing countries a wide range of research in economics, sociology, psychology, and medicine documents the adverse impact of excessive alcohol consumption on health status, vehicle accidents, work effort, and family well-being. years ago, WHO (2004) produced a detailed report of alcohol consumption and alcohol-related problems as part of a series on the “Global Burden of Disease.” This report includes research from some African countries such as South Africa, Nigeria, and Zimbabwe and estimates the impact of alcohol consumption on labor productivity, family interactions, alcohol-related accidents and deaths, and alcohol-related diseases. Of 10 risk factors analyzed in the WHO Global Status

Report on Alcohol (2001), for instance, alcohol ranks as fourth worst in terms of reducing quality of life due to the incidence of disabilities.

As per Haughton (1998) A further implication is that close substitutes should be taxed alike, because when there is a satisfactory alternative to buying a good, its demand will be highly elastic

With respect to setting the level rates, the Ramsey rule implies that commodity taxes should be finely differentiated. In the real world the constraints imposed by information uncertainty, politics, and weaknesses in tax administration dictate that nearly uniform indirect taxation tax neutrality be the rule and excise taxes the exception. But one use of the theoretical results is that they help one to identify good candidates for exceptional taxation, essentially goods facing price-inelastic demand.

Naturally, consumption alternatives that do not create negative externalities should not be included in the tax base. Coal-generated electricity emits carbon dioxide, making it an appropriate target for a carbon tax, whereas wind-generated electricity produces no carbon emissions and should be excluded from a carbon tax. There is a clear distinction between a tax on *carbon* and a tax on *electricity*. Identifying the proper tax base is essential if excise taxes are to be efficient and improve upon non-tax market outcomes.

Including substitute goods in the tax base can discourage desirable substitutions from more harmful goods to less harmful ones. Two examples, discussed in more detail later, are taxes on vapor products and on other cigarette alternatives. Despite their significantly lower harm profile, these products are too often taxed as tobacco products. To encourage harm-reducing behavior, tax burdens should reflect differences in harm.

Directly targeting the externality also helps promote tax neutrality. For example, France used to apply one excise tax rate on grain-based alcohol products like gin and whiskey and another lower rate on grape-based alcohol products like cognac. This practice, which favored domestically produced products over imports, was stopped by the European Court of Justice. The simpler, neutral approach would have been to levy a tax on alcohol content by volume, making the rates similar on cognac and gin.

#### **Excise taxes as revenue instrument**

As per Bird (1992, p. ix). “The tax system constitutes one of the most important instruments of development policy in any country” in developing countries like Ethiopia revenue should be adequate to finance basic services such as infrastructures and others, to permit the government to help finance public investment, and to obviate the need for inflationary financing. government should also be financed in an efficient way, using a well-designed tax system not overly reliant on taxes on trade and debt.

Burgess and Stern (1993),” The central purpose of taxation is to raise revenue in a reasonably non-distorting, equitable, and sustainable manner” In short, a tax system needs to yield adequate revenue, and be efficient and fair. The consensus is that indirect taxes should rest on a broadly based consumption tax, complemented with excises.

Excise taxes are important revenue instruments. Their distinguishing features are selectivity in coverage, discrimination in intent, and often some form of quantitative measurement in determining the tax liability. The main objectives of excise taxation are to raise revenue for general purposes (Ramsey rule), to reflect external cost (Pigou prescription), to discourage consumption, and to charge road users for government-provided services.

As per Bolnick and Haughton (1998) Good taxes are efficient, there are several dimensions to efficiency. An efficient tax has low administrative costs—rarely more than 2 percent of total revenue. Most excises, and particularly the traditional ones, are relatively cheap to apply.

In general, taxes will have to be modified frequently to maintain revenues, and “the accumulation of piecemeal changes is likely to create an unwieldy and inefficient system” (Haughton 1996, p. 7; Morrissey 1995). The spate of tax reforms in the late 1980s was driven by the need to reorganize tax systems that had gradually become chaotic (Gillis 1989, chap. 14).

### **Excise taxes as equity instrument**

Cnossen (1990,) considers that even “regressive excises are acceptable (in terms of fairness) if revenues cannot be raised by other means and if they finance badly needed public services for the poor.” And the survey of fiscal policy in a leading textbook on development economics as Gillis and others (1996), concludes that redistribution is best accomplished on the expenditure side of the

budget, through programs like public education, primary health care, and market supporting public infrastructure investments.

Cnossen (1990, p. 355) considers that even regressive excises are acceptable if revenues cannot be raised fairly between rich and poor as well as for the intended purpose in the country and the survey of fiscal policy in a leading textbook on development economics (Gillis and others 1996, chap. 13) concludes that redistribution is best accomplished on the expenditure side of the budget, through programs like public education, primary health care, and market supporting public infrastructure investments.

## **2.1.2. Excise tax types, rate structure and level**

### **2.1.2.1. Excisable items**

Maksi (2023) "describes excisable goods excisable items are certain categories of products that are subject to excise tax. This includes trade within countries, as well as imported products". An excise tax is paid by an entrepreneur or an organization that sells or produces excisable goods. The objective of taxation includes goods that are harmful to humans and the environment (exhaust emissions, waste, etc.). This considers: Alcohol and alcoholic beverages, tobacco products, mineral Oil (motor or heating fuel).

According to Cnossen, (1977) "broadly speaking, the distinguishing features of excise taxation are selectivity in coverage, discrimination in intent, and some form of quantitative measurement in determining the tax liability. "Excise taxes are a type of consumption tax used around the globe. Across the Organization for Economic Co-operation and Development (OECD), consumption taxes are the largest source of government revenue. As per Cnossen (2005), Excise duties are imposed on a select few goods (domestic and imports) in order to raise revenue and to deter their consumption for health, environmental and other reasons. The selected goods taxed under this tax head may either have externalities or are of a luxurious nature. Examples of such goods include among others: alcohol; fuel; tobacco; automobiles and cosmetics. Excise duties are distinguished from broad-based consumption taxes by being selective in nature, hence they have a narrow tax base, and their revenue yield tends to be unstable.

As per African Tax Outlook (2022), the category of excisable items dubbed “other goods” includes among others: electrical energy; airtime; cosmetics; and plastic bags.

#### **2.1.2.2. Excise tax rates: structure and level**

Ramsey (1927)” initiated the modern theory of optimal taxation with his analysis of excise taxation in a model with identical consumers, finding that, far from being uniform, optimal excise tax rates vary inversely with elasticities of demand for taxed goods. Ramsey’s setup restricts the government to raising a given amount of revenue exclusively with excise taxes, and the resulting optimal tax pattern reflects that the excess burden of a tax increases with its behavioral impact. on the other hand- Diamond (1975) generalized the Ramsey rule to settings with heterogeneous individuals, showing that the resulting modified optimal excise taxes reflect both efficiency (lower tax rates on elastically demanded goods) and distributional (higher tax rates on goods purchased by wealthy individuals) considerations. As noted by Corlett and Hague (1953-54), the government’s inability to tax leisure is what prevents uniform excise taxes from being optimal in the Ramsey model; as a second-best correction, the optimal Ramsey tax configuration entails imposing heavier excise taxes on goods and services that are complementary with untaxed leisure.

Specific excise taxes are a set tax or fee added to a certain product on a per-unit basis. Some examples are, specific excise taxes a include small cigarettes (\$1.01 per pack of 20), pipe tobacco (\$2.83 per pound), beer (\$3.50 for the first 60,000 barrels), cruise ship passengers (\$3 per passenger), and gasoline (\$0.183 per gallon).The problem with specific rates is that such taxes have generally proved to be “sticky” difficult to change in the face of inflation, with the result that real revenues tend to decline over time, therefore, the advantage of Specific tax is Easy to predict government revenue, determine tax amount, and administer Independent from industry’s price strategy. According to OECD countries revenue statistics specific taxation is often simpler because the tax can be calculated based on weight, volume, or amount instead of an estimated value. This is especially true as products often flow between different layers of a vertically integrated company (for instance a beer brewer that also operates as a wholesaler) and as such does not have a clear market value to tax. If a tax is levied on value, the taxpayer or taxing entity must compute an artificial value to tax if the tax is not levied at the retail level (which few federal excise taxes are due to the number of taxpayers this would involve). Although rules exist for making this

computation, it can create problems or perverse incentives—some of which are known as transfer pricing. Also, it is consistent with both revenue and public health objectives. But the disadvantage is that big inflation erodes its value.

As per Cnossen (2005) Uniform specific rates reduce relative price differences between low-priced and high-priced products, specific taxes might differentiate against relatively cheaper products since the tax as a proportion of final price will make up a larger proportion of the final price the lower that price happens to be and this may be considered uninvited.

As per Keen (1998) narrated, since specific taxation is based on some physical characteristic of the product, the tax may not tax the value of the alcohol to the consumer. For instance, the packaging of availability would not be considered in a typical specific tax on alcohol. Besides, specific taxes are also subject to an upgrading effect in the sense that when a specific tax rate is increased, consumers may increase their demand for the untaxed features of the beverage such as better packaging.

The Latin phrase *ad valorem* means "according to value." All *ad valorem* taxes are levied based on the determined value of the item being taxed.

An *ad valorem* excise tax is levied as a percentage of the value of the products. The value used for the excise tax base will be at a designated point in the supply chain, such as the factory selling price, wholesale price and in some cases the retail price.

As per Cnossen (2005) There is the question of whether specific rates (fixed amounts per quantity) or *ad valorem* rates (fixed percentages of trade price), or some combination of these rates, should be used. Uniform specific rates reduce relative price differences between low-priced and high-priced brands, whereas uniform *ad valorem* rates increase absolute price differences. In imperfect markets, the choice between these two rates depends on whether the primary aim of tax policy is to discourage consumption or to raise revenue, and on whether improvements in product quality are deemed desirable or not. Since the damage caused by smoking, drinking, or polluting is independent.

One benefit of ad valorem excise taxes is that they maintain their value in real terms, as adjustments to the tax base value recognize inflation increases to raw materials and other costs. In sports betting, for example, the potential harm of betting is best expressed by the size of the bet. In other cases, the harm-causing agent can be difficult to quantify.

However, ad valorem taxes do not create certainty for governments who are often subject to fluctuations in revenue collection so, the advantage of Ad Valorem excise tax is Automatic adjustment for inflation and Progressive rate. On the other hand, its revenue stream is less predictable, difficult to determine value of products to be used as tax base and requires significant administrative resources. This can also be affected by industry's price strategy; this might lead to downtrading and higher consumption of low-price brands.

Compound tax is arguably the most complex, as it imposes a dual excise tax structure, including both specific and ad valorem tax rate, on producers and importers. Whilst a compound tax system includes some of the benefits attributed to a specific tax system, the existence of an additional ad valorem component can result in lower transparency and uncertainty on more revenues for government and industry (APTF 2013). The fluctuation in revenue stream is less this makes it keep up with inflation with this respect it does not favor high- or low-priced products this leads to less affected by industry's price or product strategy is also consistent with public health objective. On the other hand, Complex system requires significant administrative resources.

The crucial element of tax design is selecting the suitable tax rate. The excise tax rate should be determined by several factors, first and foremost is the negative externalities or costs the tax is serving to internalize or recover. OECD (2020), other considerations that should go into establishing excise tax rates are market conditions, available economic substitutes, and the general tax burden. Market conditions play a particularly important role for products that compete with the illicit market. For example, both sports betting services and tobacco retailers are not only competing with each other, but also with illegal operators.

As per Terra (1996) for supporting ad valorem rates is that they are fairer for the less prosperous, whose economy brands under a specific rate would bear the same tax as the luxury brands of the affluent. This argument is most relevant for excises that are imposed on luxury goods for the

purpose of introducing progressivity to the system. For goods such as alcoholic beverages, specific rates, for example, based on the unit of alcoholic content (or a combination of specific and ad valorem rates) make more sense given the purpose of the tax. The most compelling reason for recommending specific rates is based on the difficulties of determining the taxable value related to the stage of production or distribution where excise should be levied. The problem can be dealt with under a system of ad valorem rates by providing a presumptive minimum valuation for certain products.

The trend, therefore, has been toward using ad valorem taxes, and this is now the standard IMF recommendation (Stotsky 1995, Nashashibi and others 1992). Ad valorem taxes require that tax administrations be more skilled, with a solid knowledge of accounting. Such skills are relatively scarce in developing countries, and weak tax administration “makes it difficult to raise large amounts of revenue from relatively complex taxes” (Aguirre and others 1981). The costs of collecting excises appear to fall into the range of 1-3 percent of total revenue (World Bank 1988, p. 85).

For practical implementation of excise taxes, a clear, well-defined tax base is essential. Poorly written tax base definitions can lead to the disproportionate treatment of similar products.

SSB taxes are generally implemented to decrease soda consumption and overall caloric consumption and as a tool to raise revenue for prioritized spending programs. As both a revenue-raising tool and a health-improvement measure, SSB taxes have flaws.

First, the tax base is exceedingly narrow. A narrow tax base is likely to result in a volatile revenue source. It is also non-neutral and easily allows for substitution to other products, which have the combined effect of decreasing the original well-being of the customer, avoiding taxation, and skirting attempts to decrease overall caloric consumption.

The tax is also highly regressive. Low-income consumers pay a disproportionate share of their disposable income on soda and thus pay a disproportionate amount of excise taxes on SSBs.

More than 40 countries apply some form of sugary drink tax. The tax design includes both specific excise taxes and *ad valorem*. Many are national-level taxes, though in Spain the tax is applied in Catalonia, and in the United States the tax is applied in a few cities. OECD (2020)).

Ramsey (1927) hypothesizes that optimal excise tax rates vary inversely with elasticities of demand for taxed goods. In other words, uniform commodity taxes – taxing all goods and services at the same rate – are rarely optimal, and therefore, taxes should be low on goods with high price elasticity and high on goods with low price elasticity. In their contribution to the theory of the efficient design of multiproduct excise tax, Corlett and Hague (1953) show that optimal commodity tax rates depend crucially on the cross-price elasticity with leisure. Optimal tax requires imposing heavier excise taxes on goods that are more complementary to the untaxed leisure and lowering taxes on goods that are more substitutable for leisure.

## 2.2 Empirical literature review

Chesire (2018) examined the effect of excise taxes on the profitability of cigarette and alcohol manufacturers in Kenya. The study adopted descriptive research design and multiple regression and correlation analysis was used to analyze the collected data. The study found out that there was a weak but positive correlation between increase in excise duty for cigarettes and the profitability of listed cigarette manufacturers with a positive price elasticity of demand below 1. The study concluded that changes in excise duty affect profitability, consumption and pricing of cigarette and alcohol manufacturers in Kenya. The study suggested that the government's policy of increasing prices of alcohol and cigars is not effective, since manufacturers are able to shift the burden to consumers thus maintaining their profitability. The weakness of this study is that it does not explore how effective warnings on cigarettes are to discourage cigarette consumption. There were also variations of the excise tax model under the review.

Osoro et.al (2001) found that in Tanzania the long-run buoyancy of excise taxes in general was on the order of as GDP increases by one percent, excise tax revenue has on the average also increased by one percent.

In 2000, OECD countries raised an average of 5.5 percent of their total tax revenues from these environmental taxes, with European Union members averaging 6.8 percent, and the United States the lowest in the OECD at 3.4 percent (Hines, 2007). Filby et.al (2024) conducted a survey on cigarette excise tax structure and cigarette prices in nine sub-Saharan African countries, drawing evidence from the Global Adult Tobacco Survey. Data from the Global Adult Tobacco Survey, conducted in eight African countries from 2012 to 2018, along with data from the 2017 Gambia Tobacco Survey, were utilized to construct survey-derived cigarette prices.

The study compared the coefficients of variation and skewness of the price distribution within the context of each country's cigarette excise tax structure. It was found that the least price variability is observed in countries with a uniform specific tax or a mixed system with a minimum specific floor. Conversely, countries with uniform ad valorem tax structures exhibited the largest cigarette price variability

Many factors affect the final price of excisable goods, the most important one is policy related determinants of pricing models are excise taxes on specific goods from manufacturing firms (Cheung, 2016). Excisable goods provide significant revenue to governments with relatively low administrative costs making such excisable goods appealing, especially during periods of budget shortfalls. A study conducted by Chaloupka et.al (2010), aimed to determine how the pricing models on excisable products such as cigarettes affected financial performance. The study composed cross-sectional time-series data for 21 EU countries from 1998 to 2007 from various data resources. The study findings indicated that the price gap between premium and low-priced brands is larger in countries with a greater share of ad valorem tax. A 10-percent raise in the share of ad valorem tax in total excise tax leads to about a 4 to 5 percent increase in the price gap, with a smaller impact in more concentrated markets. This significantly had an impact on the financial performance of manufacturing firms. A study conducted by Izuchukwu and Chude (2015) aimed at establishing the impact of income excise tax regulation planning on the financial performance of Breweries Firms in Nigeria. The study used secondary sources of data and a time series econometric technique with an error correction model tested the variables most likely to impact on profitability of companies in Nigeria. The study revealed that the level of excise tax regulation has significant effect on the profitability and concluded that the positive and significant relation between the profitability and the excise tax regulation indicates that policy measures to expand tax revenue through more effective excise tax administration will impact positively on growing the company's profitability. The study recommended that governments should expand the excise tax yield through improved tax system regulation and administration.

McLure and Thirsk (1978) report own-price elasticities of demand for cigarettes in developed countries to be between -0.35 and -0.71; these low numbers may partly reflect the addictive qualities of cigarettes Chapman and Richardson (1990), in what they claim is the first study of cigarette and tobacco demand in a developing country, report excise elasticities for Papua New Guinea of -0.71 for cigarettes and -0.50 for tobacco; the own-price elasticities are probably twice these levels (or -1.4 and -1).

Using data from the Family Budget Survey (EPF), Asensio et al. (2003) estimated a model for gasoline spending in Spain, as well as the consumption elasticities and the redistributive effects of

a gasoline tax, finding that for low-income groups the tax is progressive and after a certain level of income and for certain localities the tax is regressive, meaning that the application of the consumption tax would tend not to be homogeneous throughout the country.

As per Sarabia and Trillo (2014), for developing countries gasoline taxes tend to be progressive since most people with lower incomes have a low association to owning a car and their gasoline consumption is much lower, so their income is proportional to the demand for gasoline.

As per Child Met.al (2017) study was to determine if raising tobacco taxes in the Latin America and Caribbean (LAC) region will generate extra tax revenue, even at outer edges of the sensitivity analysis, with relatively high price elasticities of demand for cigarettes. Model of the cigarette market in 31 LAC countries was developed using cigarette tax, price, and retail sales data for 2014. It was then assumed that all countries increased the excise tax by 50% per pack. The model incorporated 12 studies from the LAC region that estimate the price elasticity of demand for cigarettes to quantify the expected impact of this tax increase on sales and tax revenues which results the tax increase would raise cigarette prices by an average of 28% across the region. The volume of cigarette sales would decrease by 7% (confidence interval (CI): 3–11). Cigarette tax revenue would increase by 32% (CI: 27–37), representing an extra US\$ 7 050 million (CI: 5 984–8 086) in revenue. Almost all countries showed increases in tax revenue, even at outer edges of the sensitivity analysis.

Lyon and Schwab (1995) use data from the US Panel Survey of Income Dynamics (PSID) to measure directly the effect of using different time periods to analyze distributional incidence. They find that alcohol taxes look somewhat less regressive when analyzed using data on income and consumption for a five year period than when using a single year's data.

Evans and Ringel (1999) examined the impact of changes in state-level cigarette taxes on the health of new-born children, using data from a census of all births in the USA during the 1989–92 period. Smoking increases the likelihood that children are of low birth weight, which is an important indicator of post-natal health problems. Through its effects on smoking behavior (the authors calculated a price elasticity of smoking participation for pregnant women of  $-0.5$ ), the cigarette tax variable, however, is estimated to have a significant positive impact on the probability that children

are of normal birth weight. This study is a useful corroboration of clinical studies of the impact of maternal smoking, where it is difficult to control for the effect of other characteristics and behaviors of the mother that may be correlated with the decision to smoke. In the same vein, Moore (1996) examines the impact of state cigarette taxes on smoking-related mortality during the 1954–88 period. On the basis of the evidence, he argues that a 10 per cent increase in cigarette taxes would prevent 5,200 deaths annually.

Several recent studies of rapid economic growth in East and Southeast Asia have highlighted the role played by consistent, prudent public finance policy (Lindauer and Roemer 1994, World Bank 1993, Page 1994).

According to Convery et al. (2007) the performance of the 15-euro cent levy on plastic bags issued at supermarkets from mid-2002 in Ireland. According to the Litter Monitoring Body (2004, 2005) plastic-bag litter made up 5 percent of national litter composition during the pre-levy period in Ireland. This fell to 0.32% in 2002, 0.25% in 2003 and 0.22% in 2004. In order to understand the success of the charge, a sample of households and retailers was surveyed. An overwhelming majority of the household respondents indicated that the levy had a positive effect on the environment, producing a noticeable reduction in plastic-bag litter. The success of the charge was partly attributable to its popularity following an advertising awareness campaign and the public recognition of its success. The drop in bag consumption in Ireland was due to the levy being set sufficiently high.

As per Xingcun, et.al (2023) using the panel data from 30 provincial capitals in China from 2005 to 2019, the level of green development in China's provincial capitals was measured using the entropy value method, and their spatial distribution was analyzed using ArcGIS software. The impact of excise tax and technological innovation on the green development of China's provincial capitals was examined by constructing a dynamic spatial Durbin model. The study shows that, □there exists an apparent positive correlation between the administration of excise taxes and green development, and excise tax promotes green development in cities by facilitating technological innovation.

## 2.3 Conclusion and Knowledge Gap

There have been studies examining excise taxes in developing countries in general. For instance, a study conducted in Kenya by Chesire (2018) suggested that the government's policy of increasing prices on alcohol and cigars is not effective. It indicates that manufacturers can shift the burden to consumers, thereby maintaining their profitability. This study primarily focuses on manufacturing companies within the country. However, it is worth noting that the study did not encompass other excisable items.

Izuchukwu and Chude (2015) demonstrated that reliable excise tax administration has a more effective impact on income or revenue generation in countries like Nigeria. However, this study lacks a design perspective.

Asensio et al. (2003) suggested a relationship between gasoline consumption and redistribution effects in Spain. Nevertheless, this study is limited to a single country (Spain).

The study conducted by Child Met.al (2017) aimed to determine whether raising tobacco taxes in the Latin America and Caribbean (LAC) region would have a positive impact on both decreasing consumption and increasing revenue. However, it did not consider other excisable items.

Studies by Evans and Ringel (1999) and Moore (1996) have highlighted the beneficial health impact of tobacco excise taxation. However, these studies lack examination regarding the design and revenue aspects, and they only cover certain states in the US.

Regarding the relationship between excise tax and environmental protection, Convery et al. (2007) explored the impact of plastic bag excise tax in Ireland, while Xingcun et.al (2023) examined green developments in China. Both studies suggest a positive correlation between excise tax and environmental protection, but they are limited in scope.

There is a notable absence of combined studies focusing on the design, revenue performance, and challenges of excise taxation specifically in Ethiopia. To address this gap, it is imperative to explore valuable alternatives. Excise taxation stands out as one of the most effective revenue maximization strategies in low- and middle-income countries, yet its potential remains underutilized.

This study aims to investigate the design, revenue performance, and challenges of excise taxes in Ethiopia, offering insights to fill this critical gap and provide valuable alternatives for revenue generation and policy formulation.

## Chapter 3. Research Approaches and Methodology

Research methodology is specific technique for collecting and analyzing data whereas research approach is the procedure selected by the researcher to collect, analyze and interpret the data. (Waltz, 2023)

This chapter discusses the methodology of the research. Section 3.1 presents the research objectives and research questions, while Section 3.2 addresses research approaches, and Section 3.3 outlines the research methodology adopted.

### 3.1 Research Objective and Research Questions

As discussed earlier, the broad objective of this research thesis is to assess the excise tax in Ethiopia. Subsequently, the following research questions are formulated:

*RQ1. How is the design of excise taxes in Ethiopia in light of international experiences with focus on?*

- *type of excisable items,*
- *base measurement methods, and*
- *level and structure of rates*

*RQ2. How is the revenue performance of excise taxes in Ethiopia in light of international benchmarks?*

*RQ3. What are the challenges that taxpayers and tax authorities face with respect of excise taxes in Ethiopia?*

## 3.2 Research Approaches

A research approach encompasses the overarching plans and procedural steps from foundational assumptions to the detailed methods employed in data collection, analysis, and interpretation. It is the convergence point of philosophical assumptions, research designs, and specific methodologies.

Three primary research approaches are advanced within scholarly inquiry: (a) qualitative, (b) quantitative, and (c) mixed methods. These approaches are distinct in their philosophical underpinnings as well as the techniques utilized in data collection, analysis, and interpretation.

Below, we delve into each approach, delineating their philosophical assumptions and the methodologies employed across the research process.

**Qualitative research approach:** It delves into attitudes, behaviors, and experiences through techniques such as in-depth interviews and/or focus group discussions (Dawson, 2002). As noted by Cooper (2006), qualitative research is employed when the focus is on understanding and interpreting phenomena rather than simply describing, explaining, or predicting variables. It is adept at exploring issues that resist quantification and can lead to the generation of new theories.

It allows participants to articulate their thoughts, emotions, and experiences, providing insights into the how, why, or what of a particular situation or event.

However, qualitative research has faced criticism for perceived shortcomings such as a lack of scientific rigor, reliance on small sample sizes, subjectivity, non-replicability, and the potential for high researcher interference in the research process. Despite these critiques, one of its notable strengths is its ability to narrate a story, often from the perspectives of those directly involved.

**Quantitative research approach:** Serves as a method for testing objective theories by examining the relationships among variables. As noted by Creswell (2009), quantitative research employs investigative strategies such as experiments and surveys, utilizing predetermined instruments to collect numeric data that can be subjected to statistical analysis. This approach enables researchers

to identify patterns, establish averages, make predictions, test causal relationships, and generalize findings to broader populations.

However, quantitative research is limited in its ability to address issues that defy quantification. While it minimizes bias stemming from researcher influence and often employs large sample sizes, it may overlook contextual factors such as historical and cultural influences, potentially impacting data collection and the interpretation of results

**Mixed research approach:** This methodology integrates philosophical frameworks of both post-positivism and interpretivism (Fetters, 2016), enabling researchers to collect and analyze data from multiple sources within a single study.

Mixed methods research offers several advantages, including the ability to generate findings with both depth and breadth Enosh et.al, Tzafrir, & Stolovy, (2014), as well as facilitating the generalization of findings to wider populations. Data collection in mixed methods characterized by its time intensive nature while gathering both numeric and textual information (Creswell, 2009).

Most researchers recognize that mixed methods research compensates for the limitations of both qualitative and quantitative methods (Cooper, 2006). However, it is important to acknowledge that incorporating mixed methods requires a substantial level of effort from the researcher, particularly in terms of data collection.

### **3.3 Research Methodology Adopted**

In this thesis, a mixed methods approach was employed to address the research questions outlined in section 3.1. While the predominant emphasis lies on qualitative methodology, the study acknowledges the complementary insights offered by quantitative methods.

In the above discussion (3.2) identifies three primary strategies for integrating quantitative and qualitative approaches. Given the research questions and the philosophical underpinnings of each approach, the study opts for a predominantly qualitative methodological stance. However, recognizing the potential for enriched understanding and reduced bias through methodological triangulation, quantitative methods are incorporated to supplement the research findings.

By combining both quantitative and qualitative approaches, this research seeks to leverage the strengths of each while mitigating their respective limitations. This integration allows for a more comprehensive exploration of the research problem, enhancing the validity and robustness of the study's outcomes.

### **3.3.1. Qualitative component of the study**

The qualitative method employed in this study serves to evaluate the design and nature of excise tax, and the challenges faced by both tax collectors and on excise tax to pinpoint specific areas within the Excise Tax legislation and administrative challenges s that influence revenue performance.

To address these research questions, qualitative data was gathered through in-depth interviews and document studies. In-depth interviews offer a platform for eliciting detailed insights into taxpayers' experiences and perspectives, while document studies provide a means to analyze relevant materials such as tax regulations, reports, and administrative documents or procedures.

By utilizing these qualitative methods, this thesis aims to offer a comprehensive understanding of the complexities surrounding excise tax revenue performance, thereby contributing to the existing body of knowledge in this field.

**In-depth interview:** In-depth interviews represent a qualitative research method aimed at delving deeply into a respondent's perspectives, experiences, emotions, and viewpoints. They offer a distinct advantage by providing much richer and more detailed information compared to other data collection methods like document analysis or surveys.

For this study, the researcher conducted in-depth interviews with 22 key personnel from various entities involved in the excise tax system. These included two representatives each from the Ministry of Revenue (at head office, large and medium branch offices), as well as the Customs Commission at Bole Airport and Kality Branch Offices, and the Ministry of Finance (MoF). Additionally, interviews were conducted with ten taxpayers, two key personnel from manufacturers such as beer breweries, soft drinks companies, bottled water manufacturing companies, and one each from the Ethiopian Tobacco Enterprise, as well as motor vehicle importers. Lastly, two key personnel from the Ethiopian Petroleum Oil Supply Enterprise (Appendix 2- List of Institution, Number of participants along with their positions).

The researcher conducted in-depth interviews by engaging with a diverse range of stakeholders, visiting their offices at various locations and times. The aim was to capture a comprehensive understanding of the challenges and dynamics within the excise tax system from both the perspective of tax collectors and taxpayers.

**Document Analysis:** Document analysis is a systematic procedure used to review or evaluate various types of documents, including both printed and electronic materials. These documents typically contain text and images that have been recorded without the researcher's intervention.

As noted by Bowen (2009) and Creswell (2015), document analysis serves as a valuable source of textual data in qualitative studies. It enables researchers to access the language and words used by participants, offering insights into their perspectives and experiences.

Document analysis presents several strengths, including the convenience of accessing data at a researcher's convenience, the ability to capture thoughtful responses from participants, and its cost-effectiveness by eliminating the need for transcription. However, it also comes with limitations, such as potential incompleteness and lack of accuracy, as documents may not always be authenticated. Additionally, not all individuals may express themselves articulately in written form, and some documents may be restricted from private access.

According to Paul (2007), document analysis encompasses a wide variety of forms that span across different disciplines. In this study, documents such as excise tax proclamations, directives, regulations, circulars, reports from the MoR and other relevant documents were analyzed to gain insights into the excise tax structure and related policies, both domestically and internationally.

### **3.3.2. Quantitative aspect of the study**

The quantitative component of this research methodology was employed to assess excise tax revenue performance and its trend in Ethiopia.

The study employed data sourced from the Ministry of Finance and Ministry Planning and Development. In assessing the revenue performance of excise tax, the study employed such data as total excise tax revenue, import and domestic excise tax revenue and overall tax revenue data to GDP share.

These also were supplemented by data that were obtained through in-depth interviewing selected tax collectors and taxpayers who are affected by the excise tax regime. Both cases help the researcher to analyses gathered, valid and reliable data that are relevant to achieve research objectives and questions.

### **3.3.3. Data Analysis Methods Used**

The researcher employed for both the qualitative and quantitative data obtained from different sources as below:

Qualitative data collected through document review and in-depth interviews were analyzed to identify recurring themes or patterns related to excise tax. The approach involved deriving explanations directly from the data itself, allowing themes and concepts to emerge organically from the interviews and documents, particularly concerning excise tax design and challenges.

For quantitative data related to excise tax revenue performance, Excel was utilized to calculate percentages and amounts of each excise tax item relative to total excise tax and total excise tax relative to GDP and in some cases used charts. This process involved identifying trends within the data. The trends in the data were analyzed to understand the relationship between excise tax revenue and total excise tax or GDP.

## **Chapter 4. Results and Discussions**

In the previous chapter, the research methodology was discussed. This chapter presents the results and discussions of the data collected using different methods, organized into two sections. Section 4.1 presents the results, followed by discussions in Section 4.2.

### **4.1 Results**

This section presents the results of data collected from various sources, including in-depth interviews, documentary analysis, and analysis of records related to revenue performance.

In Ethiopia, excise taxes are regulated by Proclamation No. 1186/2020, effective since February 13, 2020. This proclamation was subsequently amended by Proclamation No. 1287/2023, which took effect on April 29, 2023.

The study objectives focus on the design of excise taxes in Ethiopia, drawing on international experiences. Specifically, it examines types of excisable items, methods of measuring the tax base, levels and structures of tax rates, challenges in administering excise taxes, and a review of revenue performance. These aspects are explored through in-depth interviews, document reviews, and revenue analysis as outlined below:

#### **4.1.1 Existing Excisable Items**

In Ethiopia, the Excise Tax Proclamation No. 1186/2020 (as amended by 1287/2023) stipulates that the tax is levied on items considered luxurious, harmful to health, causing societal issues, or having inelastic demand. The excisable goods listed in Part I of the First Schedule of Proclamation No. 1287/2023 encompass more than 19 categories, comprising 94 goods and 1 type of service. Among these are fats and oils, sugar, chewing gum and chocolate, powdered soft drinks, non-alcoholic beverages ready for consumption by the addition of water and sugar and straining, but not include fruit or vegetable juices, unfermented not containing added spirit whether or not containing added sugar or other sweetening matter, non-alcoholic beer having an alcoholic strength by volume not exceeding 0.5% vol., alcoholic beverages and spirits, tobacco and tobacco products, salt, kerosene, benzene and diesel oils, perfumes, toilet waters, cosmetics and beauty products,

fireworks, plastic shopping bags, tires, textiles and garments, carpets and textile floor coverings, artificial flowers, hair, asbestos, ornaments, automobiles, billiards articles and accessories, festive articles, and mobile and wireless telephone telecommunication services.

As per majority of all respondents highlighted concerns about the sufficiency of the current list of excisable items for revenue collection in Ethiopia. They emphasized the need for diversification and expansion of the tax base to include additional revenue-generating avenues such as betting services, financial services, lottery chances etc. These suggestions stem from a strategic perspective aimed at bolstering revenue streams to support national economic growth and sustainability. The recommendations underscore the dynamic nature of taxation policies and the continuous need for adaptation to evolving economic settings.

In discussing potential eliminations within the existing excise tax regime, majority of respondents from both tax collectors and taxpayers identified several candidates for removal excisable items such as textile, garment, and waters, including natural or artificial mineral waters and aerated waters not containing added sugar or other sweetening matter nor flavored.

#### **4.1.2 Excise tax base measurement methods**

In Ethiopia, according to the new excise tax proclamation No. 1186/2020, the excise tax base for locally produced goods is the ex-factory price of the goods, excluding VAT, the cost of excise stamps, and the cost of returnable containers. However, the tax base for imported goods remains the same as before (i.e., CIF value plus customs duty payable).

The ex-factory selling price of excisable goods is defined as the price payable by the purchaser if the goods are sold by the manufacturer other than to a purchaser in an arm's length transaction. In any other cases, it is determined by the open market value of the goods at the time of removal from the manufacturer's factory. This information must be separately indicated in the invoice.

According to most respondents from all sectors, opinions varied regarding the appropriateness of the current base measurement system. The majority favored the use of ex-factory prices for domestic products over production costs. They suggested exclusively using CIF (Cost, Insurance, and Freight) for imports, rather than CIF plus customs duty. Respondents also emphasized the importance of setting ex-factory prices, citing uniform pricing as crucial for efficient regulation of

identical excisable goods. These goods, identifiable by volume, facilitate physical verification through methods such as delivery notes.

#### **4.1.3 Excise tax rate structure and level**

In Ethiopia, the excise tax structure comprises ad valorem, ad valorem, or specific (whichever is higher), specific, and compound (a combination of ad valorem and specific), depending on the nature of the excisable goods. Under Proclamation No. 1186/2020 (as amended) different rate structures are used based on the types of goods and the nature of products, as well as the types of inputs used, whether local or imported raw materials. Alcohol like Wine, Fermented beverages, Spirits, Whiskies, Vodka, Beer. Tobacco, such as unstemmed/unstripped tobacco and tobacco refuse, is taxed using an ad valorem system, whereas cigarettes containing tobacco, homogenized, or reconstituted tobacco are taxed using a compound tax structure. Ad valorem rates are currently in use for all other goods and services, except for some alcoholic and tobacco products, which have different rate structures as mentioned above. Additionally, specific rate structures apply to shopping plastic bags only in Ethiopia currently.

Presently, in Ethiopia, excise tax rates range from 0% to 500% of either the ex-factory price or CIF value plus customs duties. These rates apply to specific goods, including those considered demand-inelastic and luxury items, as well as goods assumed to generate negative externalities, such as fuel, alcohol, and tobacco. Under Appendix 3 below detail excise tax rate structure and level are shown for further in Ethiopia.

Additionally, there were proposals to more reduction in excise taxes rate on certain vehicles to alleviate the burden on consumer while ensuring revenue stability for the government as well as for the nation's wellbeing based on the country's context. However, concerns were raised about the administrative difficulties posed by the differential rate structure, particularly concerning locally produced beer. While differential rates were recognized for their role in incentivizing the use of local inputs and providing relief in saving foreign currency due to its shortage in the country at this time. Despite these complexities, respondents acknowledged the importance of varied tax rates in stimulating domestic production and economic growth.

Certain respondents highlight the necessity of increasing excise tax rate on tobacco, alcohol, and luxury vehicles, especially those imported. They propose varied excise tax rates favoring local

manufacturers to incentivize domestic production and technology transfer for economic growth. Conversely, high excise tax rates are suggested for flowers due to their non-recyclable nature.

#### **4.1.4 Challenges in Administering Excise Taxes**

The administration of excise taxes in Ethiopia faces a variety of challenges, encompassing structural, technological, and capacity-related issues. The majority of respondents from all sectors, including tax collectors and taxpayers, have highlighted obstacles related to the decentralization of tax offices in administering the tax at one center or the lack of information integration between tax collectors' offices, which hinders efficient revenue collection and tax administration. Technological deficiencies, such as the absence of appropriate control mechanisms like the Excise Goods Management System (includes excise stamps, a track and trace system, a production accounting system, and related software and hardware), worsen these challenges. Additionally, capacity limitations in human resources, both in terms of expertise and coverage, present significant hurdles to effective tax administration. Furthermore, challenges related to contraband are emphasized.

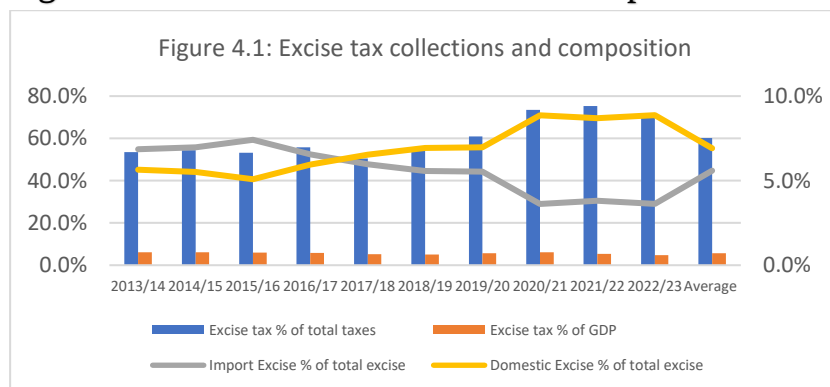
The majority of respondents from the Ethiopian Customs Commission have highlighted instances of rigging weighing scales (Shikeba/contraband) for petroleum and related products, both domestically and in neighboring countries. They emphasize the urgent need for stronger control mechanisms to minimize these illegal activities, as they pose a significant threat to excise tax revenue. Additionally, most respondents in the sector have identified weak control mechanisms in place from the port to the destination of these products within the country.

Respondents in the Petroleum sector have highlighted a significant concern: the discrepancy between government-regulated prices and the actual costs of petroleum products. This discrepancy not only leads to inaccurate tax reflection but also poses a threat to revenue generation, crucial for the country's development endeavors. To tackle this issue, some respondents have proposed a solution: outsourcing the role of the acting declarant responsible for managing these products to private organizations. This outsourcing approach aims to streamline administration and reduce dependence solely on government entities, particularly the Ethiopian Shipping and Logistics Services Enterprise (ESLSE), which currently serves as the declarant/agent for EPSE. Additionally, utilizing transit systems within the sector could enhance efficiency and oversight.

#### 4.1.5 Review of Revenue Performance

Based on revenue data obtained from the Ministry of finance and Ministry of Planning and Development in Ethiopia over the years excise tax raised less than 1% of GDP (Figure 4.1).

**Figure 4.1: Excise tax collection and composition**



The average excise tax to GDP ratio in African Outlook (ATO) countries was more than 1 percent (Table 4.1). Excise tax revenue to GDP ratio in selected countries including Kenya, Rwanda and South Africa, in most of the years remained higher than 2 percent.

**Table 4.1: Excise tax to GDP ratio in selected countries in Africa**

|              | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------|------|------|------|------|------|
| Ethiopia     | 0.7% | 0.6% | 0.7% | 0.8% | 0.7% |
| Uganda       | 0.9% | 0.9% | 0.9% | 0.8% | 0.9% |
| Kenya        | 2.7% | 2.5% | 2.4% | 2.2% | NA   |
| Rwanda       | 1.9% | 2.0% | 2.0% | 1.9% | 2.0% |
| South Africa | 3.1% | 3.2% | 3.3% | 3.0% | 3.2% |
| ATO* Average |      |      | 1.73 | 1.45 | 1.3  |

Note: \*ATO average is the average for 33 African Countries

Sources: OECD (2023), African Tax Outlook (ATO) (2022) and own calculations

The data in Table 4.2 shows continuation of major excisable items to total excise tax collections. Over the years considered much of the excise tax collections was raised from automobiles and alcoholic beverages mainly beer.

**Table 4.2: Excise taxes by excisable items (%age share in total excise tax revenues)**

|                                    | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Average |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Petroleum                          | 8.5%    | 9.1%    | 10.7%   | 9.0%    | 6.3%    | 9.4%    | 8.1%    | 2.4%    | 5.3%    | 4.5%    | 7.3%    |
| Automobiles                        | 28.6%   | 28.5%   | 33.2%   | 28.4%   | 24.7%   | 23.3%   | 25.4%   | 17.1%   | 16.6%   | 17.0%   | 24.3%   |
| Textiles                           | 13.1%   | 13.9%   | 12.9%   | 11.7%   | 13.8%   | 8.3%    | 6.6%    | 5.7%    | 5.2%    | 5.1%    | 9.6%    |
| Tobacco &<br>Tobacco<br>Products   | 5.3%    | 6.0%    | 3.8%    | 4.5%    | 4.8%    | 6.1%    | 5.2%    | 3.9%    | 5.2%    | 4.1%    | 4.9%    |
| Alcohol &<br>Alcoholic<br>Products | 4.5%    | 4.8%    | 3.3%    | 3.7%    | 5.1%    | 3.8%    | 3.6%    | 5.2%    | 4.9%    | 8.8%    | 4.8%    |
| Plastic Products                   | 0.1%    | 0.1%    | 0.0%    | 0.0%    | 0.1%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| Sugar                              | 6.3%    | 5.2%    | 3.6%    | 4.1%    | 6.7%    | 4.4%    | 4.1%    | 1.9%    | 0.3%    | 0.3%    | 3.7%    |
| Salt                               | 0.5%    | 0.4%    | 0.4%    | 0.6%    | 1.1%    | 0.7%    | 0.7%    | 0.4%    | 0.5%    | 0.5%    | 0.6%    |
| Soft Drinks                        | 6.5%    | 8.6%    | 7.5%    | 8.7%    | 9.4%    | 9.7%    | 8.0%    | 6.4%    | 8.0%    | 7.2%    | 8.0%    |
| Mineral Water                      | 0.5%    | 0.6%    | 0.7%    | 0.7%    | 1.3%    | 1.3%    | 2.2%    | 0.9%    | 0.8%    | 1.8%    | 1.1%    |
| Beer                               | 11.2%   | 15.3%   | 14.2%   | 18.9%   | 16.1%   | 23.6%   | 21.7%   | 27.3%   | 31.9%   | 25.5%   | 20.6%   |
| Other Goods                        | 14.9%   | 7.3%    | 9.8%    | 9.6%    | 10.6%   | 9.2%    | 14.5%   | 28.7%   | 21.3%   | 25.3%   | 15.1%   |
| Tot. excise tax<br>collections     | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  |

Source: MoF and own computations

Further looking at the composition of excise taxes in terms of import and local production excise also shows that since 2017/18 much of the excise tax revenues were raised from locally produced items (Figure 4.1).

Import excise tax revenues predominantly originate from automobiles, petroleum, textiles, tobacco, alcohol, and various other goods, with automobiles consistently representing the largest share (Figure 4.3).

**Table 4.3: Excise taxes on imports by excisable items (%age share in total excise taxes on imports)**

|                               | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Average |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Petroleum                     | 15.5%   | 16.3%   | 18.0%   | 17.2%   | 13.3%   | 21.0%   | 18.2%   | 8.1%    | 17.1%   | 13.0%   | 15.8%   |
| Automobiles                   | 52.1%   | 51.1%   | 55.9%   | 54.1%   | 51.8%   | 52.3%   | 57.3%   | 58.9%   | 54.6%   | 58.6%   | 54.7%   |
| Textiles                      | 22.7%   | 21.8%   | 19.2%   | 20.5%   | 24.1%   | 17.5%   | 13.9%   | 16.3%   | 13.4%   | 13.3%   | 18.3%   |
| Tobacco & Tobacco Products    | 1.5%    | 1.5%    | 0.6%    | 0.8%    | 0.6%    | 1.1%    | 0.6%    | 0.4%    | 0.3%    | 0.2%    | 0.8%    |
| Alcohol & Alcoholic Beverages | 2.5%    | 2.8%    | 2.2%    | 2.6%    | 2.6%    | 2.5%    | 1.6%    | 3.6%    | 4.0%    | 2.7%    | 2.7%    |
| Plastic Products              | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| Other Goods                   | 5.6%    | 6.4%    | 4.1%    | 4.8%    | 7.7%    | 5.5%    | 8.4%    | 12.7%   | 10.5%   | 12.2%   | 7.8%    |
| Total excise taxes on imports | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  |

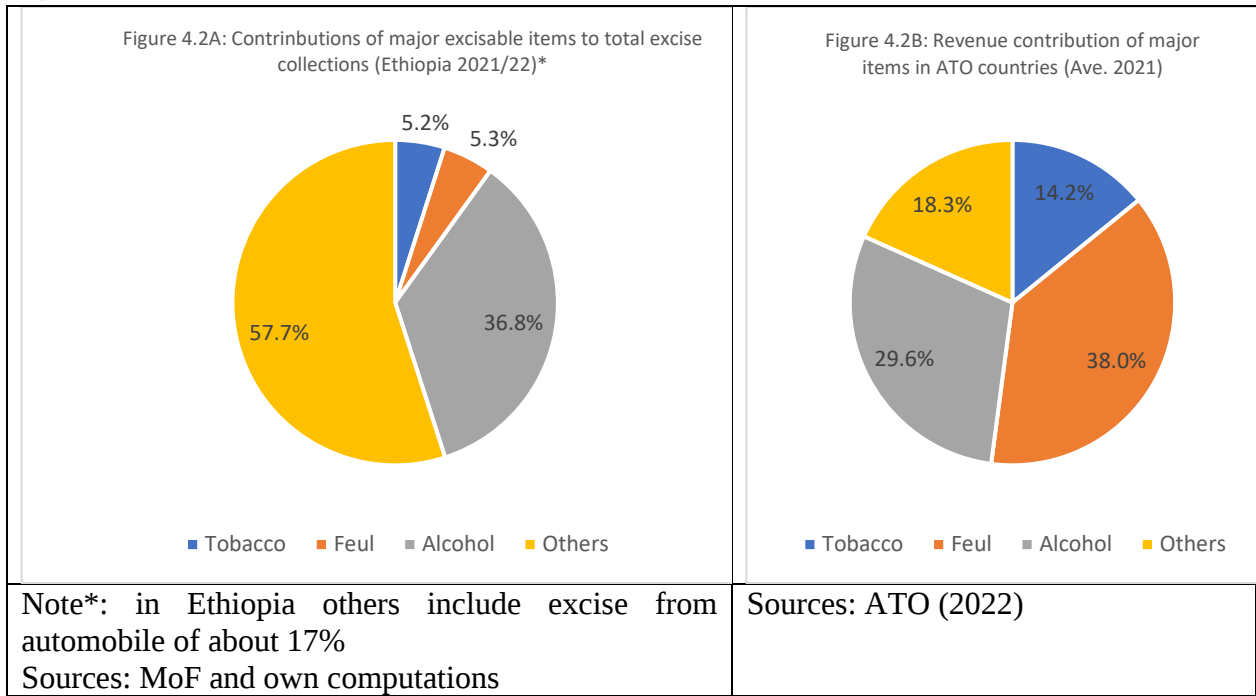
Sources: MoF and own computation

Conversely, domestic production excise revenues arise from goods manufactured within the country, prominently including beer, soft drinks, and tobacco products. Among these, beer consistently emerges as a significant contributor to domestic excise revenues. However, other goods exhibit fluctuations in their contributions over the years (Table 4.4). Overall, the data offers valuable insights into the composition and trends of excise tax revenues across different categories, shedding light on their implications for the national economy.

Table 4.4.: Excise taxes on domestic excisable items (%age share in total excise taxes on domestic production)

|                                     | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Average |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Petroleum                           | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.1%    | 0.1%    | 1.1%    | 0.1%    |
| Sugar                               | 14.0%   | 11.8%   | 8.9%    | 8.6%    | 12.7%   | 8.0%    | 7.4%    | 2.7%    | 0.4%    | 0.4%    | 7.5%    |
| Salt                                | 1.1%    | 0.9%    | 1.0%    | 1.3%    | 2.1%    | 1.3%    | 1.3%    | 0.6%    | 0.7%    | 0.6%    | 1.1%    |
| Soft Drinks                         | 14.4%   | 19.5%   | 18.4%   | 18.3%   | 17.9%   | 17.5%   | 14.3%   | 8.9%    | 11.5%   | 10.1%   | 15.1%   |
| Mineral Water                       | 1.1%    | 1.4%    | 1.8%    | 1.5%    | 2.5%    | 2.4%    | 4.0%    | 1.2%    | 1.2%    | 2.6%    | 2.0%    |
| Alcohol & Alcoholic Products        | 7.0%    | 7.4%    | 4.8%    | 5.0%    | 7.4%    | 4.9%    | 5.2%    | 5.9%    | 5.3%    | 11.3%   | 6.4%    |
| Beer                                | 24.8%   | 34.7%   | 35.0%   | 39.7%   | 30.9%   | 42.6%   | 38.9%   | 38.5%   | 45.9%   | 35.9%   | 36.7%   |
| Tobacco & Tobacco Products          | 10.0%   | 11.7%   | 8.4%    | 8.6%    | 8.7%    | 10.2%   | 8.8%    | 5.3%    | 7.3%    | 5.6%    | 8.5%    |
| Textiles                            | 1.4%    | 3.9%    | 3.7%    | 1.9%    | 4.3%    | 0.9%    | 0.8%    | 1.4%    | 1.7%    | 1.7%    | 2.2%    |
| Leather                             | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| Plastic Products                    | 0.2%    | 0.2%    | 0.1%    | 0.0%    | 0.2%    | 0.1%    | 0.0%    | 0.0%    | 0.0%    | 0.1%    | 0.1%    |
| Gold and Ornaments                  | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%    |
| Other Goods                         | 26.1%   | 8.4%    | 18.0%   | 15.0%   | 13.2%   | 12.1%   | 19.3%   | 35.3%   | 25.9%   | 30.6%   | 20.4%   |
| Total excise on domestic production | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  | 100.0%  |

Figure 4.2: Contribution of excisable items



## **4.2 Discussion**

This section provides a discussion and interpretation of the results, building upon the data collected and presented in Section 4.1. The analysis is contextualized within the existing literature and draws upon experiences from other countries and the realities in Ethiopia.

As mentioned earlier, excise tax is one of the essential types of tax for the country's economic growth. It is a generally accepted fact that the economic growth of the state relates to the development and expansion of the base of different taxes.

### **4.2.1 Excisable items in Ethiopia**

As presented in section 4.1, in Ethiopia currently the excisable items include a wide range of goods, from consumables to commodities and even service. Among them are edible animal or vegetable fats and oils and their derivatives, as well as sugars, excluding those intended for medical use. Chewing gum and chocolates prepared for direct consumption fall within this category, alongside powdered soft drinks. Waters, including natural or artificial mineral and aerated waters, are subject to excise duties, with distinctions made based on their sugar content and flavorings. Non-alcoholic beverages like beer with a low alcohol content or those produced exclusively from locally sourced ingredients are also included. Alcoholic beverages, including fermented beverages like cider and sake, are subject to excise taxes. Undenatured ethyl alcohol, tobacco products, and cigarettes are also on the list, along with salt and various petroleum products like kerosene, benzene, and diesel oils. Perfumes, cosmetics like lip make-up preparations, and even shopping plastic bags are subject to excise duties. Textiles and garments, as well as vehicles, both new and used, are among the excisable items. Handmade articles for festive occasions, telecommunication services, particularly mobile and wireless telephone services, also fall under the purview of excise taxation. The inclusion of the four main excisable items such as petroleum, tobacco, automobile, and alcoholic beverage is consistent with the traditional excise system. The regime however is extended to cover other items including edible animal or vegetable fats and oils, along with their cleavage products. Sugars, excluding those for medical purposes, also fall under this category, chewing gum and chocolate intended for direct consumption and confectioneries. Powdered soft drinks are among the list, along with various types of waters: natural or artificial mineral waters, aerated waters without added sugar, and those containing sweetening matter or flavorings. Non-alcoholic beverages, including

beer with low alcoholic content, are subject to excise duties, as are fermented beverages and mixtures thereof. Additionally, excisable items extend to cosmetics like perfumes, toiletry waters, lip and eye makeup preparations, as well as manicure or pedicure products. Hair care items such as lacquers, sprays, and bleaches are also covered. The list further encompasses goods like fireworks, plastic shopping bags, tires, textiles, carpets, artificial flowers, ornaments, and various recreational items like games, playing cards, and video game consoles. Finally, telecommunications services like mobile and wireless telephone are also part of the excisable category. Taxation of these additional items is aligned the experience in Kenya, Rwanda and South Africa countries.

In Ethiopia, concerns arise regarding the adequacy of the current excisable items for revenue collection. According to the majority of respondents from all sectors, there are concerns about the sufficiency of the current list of excisable items for revenue collection in Ethiopia. They emphasized the need for diversification and expansion of the tax base to include additional revenue-generating avenues such as betting services, selective financial services, and lottery chances. Additionally, some respondents from various sectors suggest further increments on telecommunication services, both mobile and wireless, and further expansion of the excise tax base on the sector, particularly on selective services, to discourage unwise social media usage. These suggestions stem from a strategic perspective aimed at bolstering revenue streams to support national economic growth and sustainability. The recommendations underscore the dynamic nature of taxation policies and the continuous need for adaptation to evolving economic settings.

Interviews conducted with Ministry of Revenue officers suggest reevaluating excise taxes on certain items, such as garments and textiles, due to high administrative costs. Taxpayers often fail to accurately report fair market prices for these essential items, necessitating reconsideration of their inclusion in the excise tax regime.

#### **4.2.2 Excise tax base measurement**

In Ethiopia, as outlined in the new excise tax proclamation No. 1186/2020 (as amended) al, the excise tax base for locally produced goods is defined as the ex-factory price, exclusive of VAT, excise stamps, and the expenses related to returnable containers. However, for imported goods, the tax base remains unchanged from the previous regulation, calculated as the CIF (Cost, Insurance, and Freight) value plus the customs duty payable, as detailed in section 4.1.

Even though, opinions varied regarding the appropriateness of the current base measurement system in Ethiopia. The majority favored the use of ex-factory prices for domestic products over production costs. They suggested exclusively using CIF (Cost, Insurance, and Freight) for imports, rather than CIF plus customs duty. Respondents also emphasized the importance of setting ex-factory prices, citing uniform pricing as crucial for efficient regulation of identical excisable goods. These goods, identifiable by volume, facilitate physical verification through methods such as delivery notes. When examining the practices in countries such as Kenya, Uganda, and other Sub-Saharan African nations (SSA), a consistent trend emerges: the utilization of the same base measurement standards for both domestically manufactured goods and imported products. This uniformity not only streamlines processes but also ensures parity in quality assessment and fair-trade practices across the board.

#### **4.2.3 Excise rate structure and level of rates**

Following an in-depth interview on various excisable items in Ethiopia, it has become apparent that the current excise tax rates, particularly on vehicles which assumed to be non-luxurious based on country's economic context. This indicates a potential need for further rate reductions in future revisions, considering the country's socio-economic context and overall welfare. Moreover, stakeholders from the tobacco sector have expressed apprehension regarding the prevailing excise tax rates. They highlighted a significant and sudden increase under the current excise tax proclamation in 2020, with rates remaining unchanged for an extended period rather than being periodically adjusted. This presents a challenge to the sector's sustainability. Hence, it is advisable to implement moderate excise tax rates to ensure consistent revenue generation per excise tax calendar mentioned in the legislative at least annually, thereby facilitating both short-term and long-term socio-economic development. Additionally, it's imperative to factor in the impact on local industries' viability when revising excise tax rates. By addressing these concerns, Ethiopia can cultivate a more favorable environment for economic growth and stability.

Traditionally, excise duties are determined based on factors such as weight, volume, strength, or quantity of the product, sometimes combined with its value. However, it has been noted that there exists a differential rate structure for beer manufacturing, posing challenges in Ethiopia. To address this issue and enhance efficiency in revenue collection, it is advisable to consider implementing a

simplified rate structure. This could involve averaging ad quantum and ad valorem rates instead of maintaining a differential rate structure. Such a change would not only facilitate increased revenue collection but also alleviate administrative complexities for both taxpayers and tax collectors within the respective sectors.

The structure of excise taxes significantly influences the revenues generated and their social and economic impact. Specific taxes necessitate a precise definition of the tax base's nature and characteristics, while ad valorem taxes are based solely on the price of the excisable goods. Most excisable products inherently possess a variety of characteristics (volume, weight, strength, etc.). Ad quantum taxes remain unaffected by changes in characteristics not defined as relevant for the tax base, whereas ad valorem taxes are influenced by all product characteristics reflected in the price. Depending on the excise structure, its impact on production and consumption varies. For instance, a specific ad quantum excise on beer (per % absolute alcohol in volume) might encourage brewers to introduce various beer varieties, including higher-priced exclusive labels, while remaining subject to the same excise level as cheaper products. Conversely, ad valorem taxes may discourage expensive quality improvements or prompt consumers to switch to lower-cost products, especially in the tobacco industry if contraband is not controlled. A quantum excise may be easier to administer since it requires only determining the physical quantity of the taxed product.

The revenue impact of excise tax changes is influenced by various factors. Excise tax is typically part of the Value-Added Tax (VAT) base, meaning VAT is usually levied on the duty-paid value of excisable products. Therefore, any changes to excise tax will also affect VAT revenue, as well as other taxes like sales taxes. Thus, it is advisable for the government of Ethiopia to design a robust excise tax base to avoid double taxation in the country.

As per, Mario Mansouret.al (2023) noted that Burkina Faso applied an ad valorem excise at a rate of 30 percent of the ex-factory price on beer, wine, and spirits until 2016, regardless of alcohol content. In contrast, neighboring Côte d'Ivoire applied an ad valorem excise on the same base but with differentiated rates: 17 percent for beer, 45 percent for spirits, and 35 percent or 40 percent for wine (depending on characteristics—ordinary, sparkling, and so on). Other alcoholic beverages, which are largely sold in the informal sector, with an alcohol content of less than 35 percent, were taxed at 40 percent in principle, and those with an alcohol content of at least 35 percent were taxed

at 45 percent in Côte d'Ivoire but not taxed in Burkina Faso. Ethyl alcohol, the main input, was not taxed in either country. Both countries had similar consumption statistics (around 8 liters of pure alcohol per capita per year), and both were struggling with unrecorded and other types of alcohol (fortified beverages), which together accounted for around 7 of the 8 liters, either because these products were not taxed (Burkina Faso) or because of administrative issues (Côte d'Ivoire). Regardless, the impact of the rate difference on beer and spirits (both distributed in the formal sector) remained striking: Per capita consumption of spirits was approximately two times higher in Burkina Faso, and beer consumption was 17 percent higher in Côte d'Ivoire. Burkina Faso increased the rates on wine and spirits to 35 percent in 2016. As of January 2023, Burkina Faso adopted a new excise tax system on alcoholic beverages: wines were taxed at a rate of 70 percent, beers at 30 or 40 percent, and other alcoholic beverages at 50 or 70 percent, depending on their alcohol content.

The study by Musa et.al (2018) indicated that in Uganda, excise tax collection efficiency (C-efficiency) as a share of GDP increased from > 1% in 1996/97 to 19% in 2015/2016. This increase was expressed by a single item using tobacco; the compliance gaps for tobacco were low. It is possible that the 2004 tobacco tax reforms, which changed the taxation system from an ad-valorem to a three-tier specific tax, facilitated the stabilization of compliance gaps for cigarettes. Specifically, these reforms-imposed excise taxes based on each cigarette stick rather than per kilogram, as was the case prior to 2004. The tiers were further reduced to two in 2015. As a result of this reform, Uganda's excise duty on cigarettes increased from UGX 35,000 (US\$ 10.4) to UGX 45,000 (US \$13.4).

Furthermore, as per IMF 2023, Italy, France, Spain, and South Africa are among the main wine producers in the world. Although they all apply a specific excise duty system, their treatment of wine differs from that applied in other countries. First, wine is taxed at a zero rate in Italy and Spain or at a low rate relative to beer in France and South Africa. Indeed, among Organization for Economic Co-operation and Development (OECD) countries with non-zero excise duty on wine, France has the lowest rate (OECD 2020), and in South Africa, wine and beer excise taxes are calculated on a tax base that depresses the effective rate on wine. Second, although beer and spirits are taxed according to alcohol content, wine is taxed only on a volume basis. WHO (2023) proposed

that it is more complex to convert the rate per volume to a single rate per alcoholic strength per volume due to the diversity of alcohol strengths in wine, the diversity of producers, and the heterogeneity of wine relative to other alcoholic products— and perhaps other factors.

As per Rehm (2012) and Sornpaisarn and Shield (2015), from 1980 to 2013, Thailand used a “two-chosen-one” system in which the higher of the ad valorem or specific excise duty was used. From 2013 to 2017, it used a “one-plus-the-higher one” system in which the specific tax was calculated as the greater value between the amount of the tax applied to the volume of ethanol and that applied to the volume of the beverage, in addition to the ad valorem tax. In 2017, in view of the complexity of its previous system, Thailand switched to the “one-plus-one” system by considering only the volume of ethanol as the basis for calculating the specific excise duty, but the ad valorem duty remained unchanged. The ad valorem part varies between 0 and 22 percent, and the specific part from 0 Thai baht to 1,500 Thai baht per liter of pure alcohol (equivalent to \$46.14 per liter of pure alcohol), depending on the type of product—classified into nine categories according to the type of alcohol. The design of the tax prevents the initiation of alcohol abuse (due to the ad valorem part) as well as the consumption of high alcohol content drinks, due to the specific part.

In addition, ensuring uniformity in excise tax rates for identical excisable items is essential. This can be achieved through the adoption of a standardized approach, such as using a single type of rate and adjusting specific rates or amounts to address any revenue gaps. Whether employing specific or ad valorem rates, maintaining consistency helps streamline tax administration and fosters fairness across different sectors in Ethiopia.

#### **4.2.4 Excise tax revenue performance**

The analysis of excise tax to GDP ratios provides crucial insights into Ethiopia's fiscal landscape from 2017 to 2019 as indicated Table 4.1 above. Notably, Ethiopia's excise tax to GDP ratio fluctuated during this period. However, these challenges also present opportunities for policy reforms aimed at enhancing revenue collection and promoting fiscal sustainability.

Expanding the analysis to comparative countries offers valuable perspectives on excise tax dynamics in the broader regional context. Contrasting Ethiopia's excise tax performance with countries like South Africa, which maintains consistently higher excise tax to GDP ratios.

Analyzing trends in countries like Kenya, which experienced a downward trend in excise tax to GDP ratios, can reveal shared factors influencing excise tax revenue dynamics and inform evidence-based reforms in Ethiopia.

The results presented in Table 4.2 demonstrate the contribution of major excisable items to total excise tax collections over the years considered in Ethiopia. It is evident that a significant portion of excise tax revenue is generated from automobiles and alcoholic beverages, particularly beer. This finding underscores the importance of these sectors in contributing to government revenue through excise taxes.

Additionally, as per result presented in Figure 4.2 above, comparing the excise tax composition between Ethiopia and the average of the African Tax Outlook (ATO) countries reveals notable differences. In Ethiopia, fuel contributes a minor portion, accounting for only 5.3% of excise tax revenue, while in the ATO countries, fuel plays a significantly larger role, contributing 38.0%. Conversely, alcohol is a major revenue source for excise taxes in Ethiopia, constituting 36.8% of total revenue, compared to 29.6% in the ATO countries. Tobacco's contribution to excise tax revenue is relatively low in both Ethiopia (5.2%) and the ATO countries (14.2%). Notably, Ethiopia places greater emphasis on excise taxes from items other than fuel, alcohol, and tobacco, with this category contributing 40.7% of total revenue, compared to 18.3% in the ATO countries. These differences underscore distinct priorities and revenue sources in excise tax policies between Ethiopia and the ATO countries.

Furthermore, the analysis of excise tax composition in terms of import and local production reveals interesting trends. Since 2017/18, there has been a notable shift towards greater reliance on locally produced items for excise tax revenues, as illustrated in Figure 4.1.

Import excise tax revenues, on the other hand, predominantly stem from automobiles, petroleum, textiles, tobacco, alcohol, and various other goods, with automobiles consistently representing the largest share, as depicted in Figure 4.3. This highlights the significant role of imports, particularly in specific sectors such as automotive and petroleum, in contributing to government revenue through excise taxes.

Excise tax policies in African countries such as South Africa and Botswana serve dual purposes of revenue generation and regulation of products with potential societal harms. South Africa's implementation of excise taxes, as highlighted by the IMF (2018), reflects a significant contribution to the country's GDP and total tax revenue, particularly through levies on alcohol and tobacco.

As per Richard (1992, p ix), “The tax system constitutes one of the most important instruments of development policy in any country”. Revenue should be adequate to finance basic services such as security and primary education, to permit the government to help finance public investment, and to obviate the need for inflationary financing. Government should also be financed in an efficient way, using a well-designed tax system not overly reliant on taxes on trade. Several recent studies of rapid economic growth in East and Southeast Asia have highlighted the role played by consistent, prudent public finance policy Lindauer and Roemer (1994).

In conclusion, by contextualizing Ethiopia's excise tax performance within a broader comparative framework, policymakers can glean valuable lessons and best practices to inform evidence-based reforms aimed at enhancing revenue collection and fostering sustainable economic development. Further research could delve deeper into the underlying factors driving the observed trends and their broader economic impacts.

#### **4.2.5 Challenges in excise Taxation**

According to Excise Tax Proclamation No. 1186/2020, Article 7, Sub-article one outlines the timing of liability for excise tax, stating that licensed manufacturers are liable for excise tax on excisable goods produced in Ethiopia at the point of removal from the manufacturer's factory. However, exceptions should be considered to prevent duplication of control mechanisms or redundancy. For instance, special provisions may be warranted when products are transferred to sister companies before being sold, necessitating proper control mechanisms at the time of removal from the factory, particularly in sectors such as beer and soft drink manufacturing.

The excise system in Ethiopia is characterized by a small number of active taxpayers involved in manufacturing, wholesale distribution, or importation of products. This scenario underscores the significance of good excise tax design, which not only reduces administrative costs but also ensures

efficient and effective implementation. Such measures are crucial for enhancing revenue performance and achieving the objectives of excise tax imposition.

Furthermore, it is essential to prioritize streamlining paperwork in excise tax design to minimize administrative burdens. Simplifying administrative procedures not only facilitates compliance but also contributes to a more efficient and effective excise tax system overall.

Additionally, the absence of registered machines in Ethiopia capable of integrating excise tax into invoices poses administrative challenges for companies dealing with excise tax in the country. Therefore, when designing excise tax policies, such considerations should be taken into account to ensure efficiency and effectiveness in tax collection, as well as from both the perspectives of tax collectors and taxpayers.

As observed in-depth interview conducted with different participants, even though inflation adjustment is mentioned in the proclamation yet not implemented by the concerned body. Hence, it is advisable if actual implementation take place at appropriate time to generate required revenue from the tax. Also, uniformity of excise tax rate for identical excisable items is essential. For example, using one type of rate by increasing some rate or amount to compensate the revenue gap in using one type of rate like either specific or ad valorem specially in beer industry. Moreover, regular evaluations of excise tax policies and laws are necessary to ensure efficient and effective implementation, tailored to the country's specific context. Incorporating appropriate technological inputs such as EGMS can enhance tax administration processes and adapt to evolving economic dynamics. By continuously assessing and refining excise tax policies, authorities can optimize revenue collection while minimizing administrative burdens on both taxpayers and tax collectors.

In Ethiopia, there is a notable deficiency in human resource capacity and skilled personnel within the relevant sectors. Therefore, it is imperative for the Ethiopian government to prioritize the enhancement of human resources in terms of both experience and capacity across all regions under its revenue collection offices. Addressing these challenges through increased training and skill development for tax collectors can significantly contribute to improving revenue collection from excise taxes.

Conversely, Botswana, according to World Bank data (2018), relies heavily on custom and excise taxes, with specific rates set for tobacco and alcohol products, resulting in higher prices compared to neighboring South Africa. Despite the potential for smuggling due to these price differentials, Botswana maintains efficient customs and border control measures, effectively limiting illicit activities and ensuring regulated prices within the country.

In the words of an IMF expert on taxation, “tax administration is tax policy” Casanegra (1990). One of the strengths of many traditional excise taxes is that they are relatively straightforward to administer (Cnossen (1977), This is because they are levied at specific rates on domestic production, so simple physical controls at the factories are sufficient to ensure the collection of most of the revenue.

Additionally, illicit trade also affecting excisable products in Ethiopia. Hence, it is essential for Ethiopia to address issues related to contraband before considering excise tax rate increments on various excisable items, thereby mitigating the risks associated with illicit trade within the country. In-depth interviews reveal that sectors such as tobacco and textiles are particularly affected by illicit products, leading to distortions in the country's market dynamics, especially in regions like Somalia, Southern, and certain areas of Oromia.

Respondents critically evaluated the current Ethiopian excise tax design and revenue performance, emphasizing the imperative of centralized administrative structures, and timely adjustments to account for economic fluctuations. Suggestions were made to consider long-term economic benefits, and implement protective measures against illicit trade, for example, as per EMPTY PACK SURVEY – ETHIOPIA (WAAS International 2024), the illicit market control is around 49.6% for tobacco products in the country which is almost 50% equal to market share of Legal brands in Ethiopia. Moreover, there were calls for policy reforms to optimize revenue generation and align with regional benchmarks for sustainable socio-economic development. The findings underscore the importance of evidence-based policymaking and stakeholder engagement in shaping tax policies that foster equitable growth and fiscal sustainability in Ethiopia.

Respondents suggested minimizing further excise tax rates on local production to encourage more use of local inputs and stimulate the country's development. Taxpayers additionally suggest

exploring the feasibility of applying excise tax rates across different items to support various industries. High excise tax rates may encourage contraband and hinder industry continuity. The integration of excise tax into register machines is recommended to enhance taxpayer efficiency.

During the review of the excise tax legislative framework, it was noted that Article 10, Sub-Articles 1 and 2 of Proclamation No. 1186/2020 provide for the adjustment of specific excise rates by the Ministry of Finance through directive issuance. However, up to the time of the researcher's in-depth interview, no such directive had been issued to account for inflation since the proclamation's enactment. This lack of adjustment has led to revenue loss attributable to high inflation since the legislation's implementation.

Similarly, Article 29, Sub-Articles 1 to 5, of Proclamation No. 1186/2020 (As amended by 1287/2023) addresses Excise Stamps and other Markings for the management of excisable stamps and goods. Regrettably, this system has not been implemented from the proclamation's enactment up to the date of the researcher's in-depth interview. Consequently, this failure to implement the system has led to market distortions within the country.

All these factors underscore the importance of aligning government policies with specific objectives, whether they aim to reduce consumption of harmful products, protect certain sectors or small producers, increase revenue, or pursue a combination of these goals. Therefore, when designing excise tax policies, careful attention must be paid to these issues, considering the objectives of the excisable items before imposing taxes on the respective products or services. This approach ensures that excise tax measures effectively contribute to achieving desired policy outcomes while minimizing unintended consequences.

In conclusion, excise tax policies should align with national objectives, balancing revenue generation with socio-economic considerations. Addressing administrative challenges, optimizing tax structures, and combating illicit trade are critical for maximizing the benefits of excise taxation.

## **CHAPTER 5- CONCLUSIONS AND RECOMMENDATIONS**

The previous chapter presented the results and discussion of the study. This chapter provides the conclusion and recommendations in line with the findings of the study. The chapter is structured in two sections. The first section deals with conclusions whereas the second section presents some recommendations suggested as a solution to problems that have been identified in the study.

### **5.1. Conclusion**

Taxation is the main source of revenue for the gov't of Ethiopia especially for the country's socio-economic development. A well-designed excise tax in terms of its base measurement, excisable items, rate, excise tax type etc. is essentials to achieve revenue generation in ensuring the fiscal stability of the country and sustainability of the tax system by providing effective and efficient tax administration in addition to meet desired objectives of excisable items in the context of the country.

The thesis focuses on three main area of excise tax in Ethiopia: Design of excise taxes in Ethiopia in light of international experiences with focus on ( type of excisable items, base measurement methods, and level and structure of rates), revenue performance of excise taxes in Ethiopia in light of international benchmarks (for major excisable items- tobacco and tobacco products, petroleum and petroleum products, automobile, and alcoholic, sugar and no sugar sweetened beverages, sugar, salt, textile products, etc.) as well as challenges that taxpayers and tax authorities face with respect to excise taxes in Ethiopia.

Firstly, the thesis highlights the extensive scope of goods and one service subject to excise tax in Ethiopia, despite the tax's minimal contribution to GDP. This underscores the necessity for comprehensive reform in excise tax policy. Practical implementation of measures such as inflation adjustments for specific tax rates and the introduction of control mechanisms like Excise Stamps are recommended to boost revenue generation. Additionally, expanding the tax base to include selected items and adjusting excise tax rates on certain services, such as telecommunications, could strengthen revenue collection efforts.

Secondly, challenges related to either decentralization of tax offices or information integration between tax collectors' offices have been observed, hindering efficient revenue collection and

challenging tax administration. Addressing these challenges is crucial for enhancing the effectiveness and efficiency of the excise tax system.

Thirdly, the study underscores the significant threat posed by contraband, particularly in the tobacco and textiles sectors, to the country's revenue and the proliferation of illicit markets. To mitigate this challenge, deploying appropriate technological solutions like Electronic Goods Monitoring Systems (EGMS) and fostering collaboration among stakeholders are imperative.

Lastly, the research emphasizes the importance of stakeholder consultation before the issuance of excise tax proclamations to mitigate conflicts of interest and ensure alignment with the common goal of revenue collection. Engaging various stakeholders, including government organizations, private entities, and professionals, is essential for informed policy formulation and legislative effectiveness in excise taxation.

In conclusion, addressing the identified challenges and implementing the recommended reforms will be crucial in enhancing the effectiveness, fairness, and sustainability of Ethiopia's excise tax system, thereby bolstering revenue generation and supporting the country's socio-economic development objectives.

## 5.2. Recommendations

This section presents recommendations for mitigating issues and enhancing the management of excise tax in Ethiopia, based on insights gathered from in-depth interviews, document reviews, and data analysis:

- ✓ The government should consider expanding the excisable base to include sectors such as betting services, selective financial services, lottery operations, etc., aligning with the country's economic context. Additionally, it is advisable to review telecommunications service rates and further explore adjustments in related services to bolster revenue streams.
- ✓ Significant emphasis should be placed on crafting an effective excise tax framework that aligns with the objectives outlined in the Proclamation. Given the current low excise tax revenue generation, which stands at less than 1% of GDP, there is an urgent need for reforms to triple this revenue within medium term. This will bring Ethiopia's performance more in line with that of other East African countries such as Uganda, South Africa etc.
- ✓ Restructuring the rate structure for beer manufacturing by implementing fewer adjustments, possibly through averaging specific and ad valorem taxes, would improve efficiency and simplify administrative processes for both taxpayers and tax collectors, especially if the rate on local production remains lower than that on imported products.
- ✓ The Ministry of Finance should issue directives to adjust specific excise tax rates for inflation periodically. This measure aims to prevent revenue loss due to high inflation and ensure the excise tax system's effectiveness in achieving its objectives as well as prevent a sudden burden on industries by avoiding the need for significant tax increases all at once.
- ✓ The effective implementation of excise stamps and other marking mechanisms is essential for efficiently controlling excisable items. This measure is instrumental in combatting illicit products in the market by distinguishing between products with paid excise tax and those without, thus enhancing revenue collection for socio-economic development.
- ✓ Regular evaluation of excise tax policies and legislation is crucial for ensuring efficient implementation. The utilization of technologies such as EGMS (Excise Goods Management System) can significantly improve supervision and enforcement, thereby reducing inefficiencies and enhancing revenue collection. Moreover, future policy reforms should address the challenges associated with low excise tax revenue generation. Furthermore,

centralizing or integrating excise tax control mechanisms can enhance efficiency and effectiveness in revenue collection, potentially through consolidating information management systems across revenue collection offices.

- ✓ Engaging stakeholders from various sectors, including government organizations, private entities, and professionals, is vital for formulating inclusive and effective excise tax policies. This collaboration ensures alignment with national goals and minimizes conflicts of interest.
- ✓ It's prudent to gradually implement moderate adjustments to excise tax rates, especially for luxury and hazardous goods, to maintain stable revenue generation. Additionally, there should be consideration for removing taxes on essential items like textiles and garments to encourage more investment and reduce administrative costs for tax collectors.
- ✓ Collaboration between tax authorities, industry stakeholders, and law enforcement agencies is essential to combat illicit trade effectively. Strengthening control measures and coordinating efforts can help minimize the presence of illicit products in the market.
- ✓ Implementing register machines integrated with excise tax systems can enhance efficiency and accuracy in tax reporting for excisable items.
- ✓ To address the issue of lost tax revenue and administrative challenges related to petroleum and its related products, the Ethiopian government should implement a transit system. This system can utilize documents like the Bill of Lading for the movement of goods within its customs territory. Furthermore, efforts should be made to enhance the sector to maximize the minimal revenue generated from it.

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## **Appendix 1- IN-DEPTH INTERVIEW QUESTIONS WITH ALL SECTORS**

### **Consent Note:**

Dear Sir/Madam,

This in-depth interview question has designed to solicit information for purely academic purposes. My name is Ayele Achalu, and I am currently working on a Master of Business Administration specializing in Finance at Addis Ababa University.

The purpose of the study is to assess the design, revenue performance and challenges of excise taxation in Ethiopia in light of international experiences. To achieve this objective the study requires gathering of data related to excise taxation in Ethiopia. The data collected will be used for academic purpose and it will be confidential. I am grateful in advance for your cooperation in completing the questions.

Thank you very much for your cooperation.

N.B:

- i. You don't need to write your name.
- ii. All information given would be treated with utmost confidentiality.

## **General information**

1. Position of respondent? \_\_\_\_\_years of service in MoR/revenue authority or commission\_\_\_\_\_

## **Part A: In-depth interview questions from tax collectors' point of view**

2. How you evaluated the excisable items in current proclamation? Do you think the excisable items are sufficient for country revenue collection? If not, what kind of other excisable items you will suggest and why?
3. Are there items in the existing excise tax regime that should be eliminated? If so, can you please explain why they should be eliminated, and which specific items should be eliminated?
4. Do you think the current system of base measurement (ex-factory price for domestic products and custom duty + CIF value for imports) is appropriate? If not, please explain and provide the system that the government should consider to use?
5. What do you advice other excise tax design consideration to implement best practice for excise tax?
6. Under the current system of excise tax, locally produced beer that uses local inputs are taxable at a reduced rate; is this differential rate structure causing administrative difficulty? Do you think this rate differentiation based on the kind of inputs is helping in encouraging beer manufacturer to use local inputs?
7. What are the challenges in administering excise taxes in Ethiopia?
8. In general, would you evaluate the current Ethiopian Excise tax design and revenue performance? What challenges are encountered so far? What measures could you suggest for good excise tax design and maximizing excise tax revenue?

**Thank for Your Cooperation**

## **Part B: In-depth interview questions from taxpayers' point of view**

### **General information**

1. Could you tell me your business sector/s? What are the main activities of your business/s?
2. Position of respondent in the business? \_\_\_\_\_ years of service in the business? \_\_\_\_\_
3. How long you carry out the current business \_\_\_\_\_?
9. Have you been applied excise tax for the business?
10. How you paid excise tax, at what stage (retail, wholesale, or any other special rate structure) Would you please explain? At what rate you are paying excise tax?
11. Are you aware of about the country's current excise tax rules and regulations? How informed about the new excise tax proclamation, rules and regulations? Are the tax collectors immediately update the taxpayers regarding any change in excise tax rules and regulations?
12. How you evaluated the excisable items in current proclamation? Do you think the excisable items are sufficient for country revenue collection? If not, what kind of other excisable items you will suggest and why?
13. How do you evaluate current excise tax rate in the area of your business?
14. Are there items in the existing excise tax regime that should be eliminated? If so, can you please explain why they should be eliminated and which specific items should be eliminated?
15. Do you think the current system of base measurement (ex-factory price for domestic products and custom duty + CIF value for imports) is appropriate? If not, please explain and provide the system that the government should consider to use?
16. Do you think the rate differentiation based on the nature of inputs is easy to comply with (Beer manufacturer)?
17. Do you think the base measurement for imports and local production is causing any distortion etc. (tobacco manufacturers)?
18. Under the current system of excise tax, locally produced beer that uses local inputs are taxable at a reduced rate; is this differential rate structure causing administrative difficulty? Do you think this rate differentiation based on the kind of inputs is helping in encouraging beer manufacturer to use local inputs?
19. What are the challenges in administering excise taxes in Ethiopia?
20. Is the rate of excisable items being feasible for all items concerning your business? If not what you suggest and why?

21. Is increasing excise tax rate on excisable items encourage additional investment and growth?
22. What do you advice other excise tax design consideration to implement best practice for excise tax?
23. In general, how do you evaluate the current excise tax system of the country? What comments and advice you are going to share for any improvement in excise tax design (excisable items, base, rate point of view), revenue performance? What measures do you think to avoid any complications in paying excise tax? Your recommendations or comment if any?

**Thank for Your Cooperation**

**Appendix 2- List of participants involved in in-depth interviews for selected sectors.**

| Office/ Bureau                           | No. of Participants                                | Position                                                  |
|------------------------------------------|----------------------------------------------------|-----------------------------------------------------------|
| Head Office (MoR)                        | 2(two)                                             | 1.Excise tax team leader<br>2.Higher expert on the tax    |
| Ethiopian Customs Commission             | 4 (Two Bole airport and two Kaliti branch offices) | 1.Excise tax team leader<br>2.Higher expert on the tax    |
| Large Tax Office                         | 2                                                  | 1.Excise tax team leader<br>2.Higher expert on the tax    |
| Medium Tax Office                        | 2                                                  | 1.Excise tax team leader<br>2.Higher expert on the tax    |
| MoF                                      | 2                                                  | 1. Expert on the tax<br>2. Expert on tax                  |
| Ethiopian Tobacco Enterprise             | 1                                                  | Corporate affairs and communication director              |
| Beer Manufacturers                       | 2                                                  | 1.Tax and compliance manager<br>2.Operation team leader   |
| Import                                   | 1                                                  | 1.Import sector logistic and procurement manager          |
| Ethiopian Petroleum Suppliers Enterprise | 2                                                  | 1.Deputy President<br>2.Bank, Import and insurance expert |
| Soft drinks                              | 2                                                  | 1.Finance manager<br>2.Import team leader                 |
| Bottled water manufacturer               | 2                                                  | 1.Finance manager<br>2.Tax team leader                    |

**Appendix 3- Applicable current excise tax rates for excisable goods and service in Ethiopia.**

| <b>No.</b> | <b>Tariff Number</b>   | <b>Description</b>                                                                                                                                                                                                                 | <b>Excise Rate</b>                            |
|------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| 1          | 15                     | Edible animal or vegetable fats and oils and their cleavage products                                                                                                                                                               | 30%                                           |
| 2          | 17.01                  | Sugar, excluding of a kind used for medical purpose                                                                                                                                                                                | 10%                                           |
| 3          | 1704.1000              | Chewing gum                                                                                                                                                                                                                        | 10%                                           |
| 4          | 1704.90 to 1806.90     | Chocolate prepared for direct consumption and confectioneries                                                                                                                                                                      | 10%                                           |
| 5          | 2106.9040              | Powder soft drinks                                                                                                                                                                                                                 | 25%                                           |
| 6          | 2201.1000<br>2201.9000 | Waters, including natural or artificial mineral waters and aerated waters, not containing added sugar or other sweetening matter nor flavored                                                                                      | 10%                                           |
| 7          | 2202.1000              | Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavored                                                                                                                 | 25%                                           |
| 8          | 2202.9100              | Non-alcoholic beer having an alcoholic strength by volume not exceeding 0.5% vol.                                                                                                                                                  | 25%                                           |
| 9          | 2202.9990              | Non-alcoholic beverages ready for consumption by adding of water and sugar and straining, but include fruit or vegetable juices, unfermented not containing added sprit whether or not containing added or other sweetening matter | 25%                                           |
| 10         | 2203.0000              | Beer made from malt                                                                                                                                                                                                                | 40% or 11 Birr per liter, whichever is higher |
| 11         |                        | Beer produced exclusively from barley grown and malted in Ethiopia                                                                                                                                                                 | 35% or 9 Birr per liter, whichever is higher  |
| 12         |                        | Beer the local raw material content of which excluding water is at least 75% by weight of its constituents                                                                                                                         | 30% or 8 Birr per liter, whichever is higher  |
| 13         | 2204.1000              | Wine the local raw material content of which excluding water is at least 75% by weight of its constituents                                                                                                                         | 30%                                           |
| 14         | 2204.10 to 2205.90     | Wine the local raw material content of which excluding water is at less than 75% by weight of its constituents                                                                                                                     | 40%                                           |
| 15         | 2206.00                | Fermented beverages 9 (for example, cider, perry, mead, sake, opaque beer), and with mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages and stout and of other beer                             | 40% or 11 Birr per liter, whichever is higher |

|    |                     |                                                                                                                                                                                                                                                                                                                                           |                                               |
|----|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
|    |                     | kind, powdered beer, of an alcoholic content not more than 7% vol.                                                                                                                                                                                                                                                                        |                                               |
| 16 |                     | Fermented beverages (for example, cider, perry, mead, sake, opaque beer), and with mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages and stout and of an alcoholic content more than 7% by vol.                                                                                                       | 80%                                           |
| 17 | 2207.10 & 2208.9090 | Undenatured ethyl alcohol                                                                                                                                                                                                                                                                                                                 | 10%                                           |
| 18 | 2208.20 to 2208.70  | Spirits obtained by distilling grape wine or grape marc, Whiskies, Rum and other spirits obtained by distilling fermented sugarcane products, Gin and Geneva, Vodka, and Liqueurs and cordials                                                                                                                                            | 80%                                           |
| 19 | 2208.9010           | Ready to drink mixtures of an alcoholic content not exceeding 7% vol.                                                                                                                                                                                                                                                                     | 40% or 11 Birr per liter, whichever is higher |
| 20 | 2208.9090           | Spirits, liqueurs and other spirituous beverages of an alcoholic strength by volume exceeding 80% vol (other than Spirits obtained by distilling grape wine or grape marc, Whiskies, Rum and other spirits obtained by distilling fermented sugarcane products, Gin and Geneva, Vodka, and Liqueurs and cordials Ready to drink mixtures) | 80%                                           |
| 21 | 2401.1000           | Tobacco, not stemmed/stripped                                                                                                                                                                                                                                                                                                             | 20%                                           |
| 22 | 2401.2000           | Tobacco, partly or wholly stemmed/stripped                                                                                                                                                                                                                                                                                                | 20%                                           |
| 23 | 2401.3000           | Tobacco refuse                                                                                                                                                                                                                                                                                                                            | 20%                                           |
| 24 | 2402.1000           | Cigars, cheroots and cigarillos, containing tobacco                                                                                                                                                                                                                                                                                       | 30% +250 Birr per Kg                          |
| 25 | 2402.2000           | Cigarettes containing tobacco                                                                                                                                                                                                                                                                                                             | 30% + 8 Birr per pack (20 stick)              |
| 26 | 2402.9000           | Cigars, cheroots, cigarillos and cigarettes of tobacco substitutes                                                                                                                                                                                                                                                                        | 30% + 8 birr per pack (20 stick)              |
| 27 | 2403.1900           | Smoking tobacco, whether or not containing tobacco substitutes in any proportion other than tobacco intended for smoking in water pipe and which consists of mixture of tobacco and glycerol, whether or not containing aromatic oils and extracts, molasses or sugar, and whether or not flavored with fruits                            | 30% + 250 Birr per Kg                         |
| 28 | 2403.9100           | Homogenized or reconstituted tobacco                                                                                                                                                                                                                                                                                                      | 30% + 250 birr per kg                         |
| 29 | 2403.9900           | Snuff, tobacco extracts and essences                                                                                                                                                                                                                                                                                                      | 30% + 250 birr per kg                         |
| 30 | 2501.0010           | Salt                                                                                                                                                                                                                                                                                                                                      | 10%                                           |

|    |                        |                                                                                                                                                                                                      |                |
|----|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 31 | 27                     | Kerosene, Benzene and Diesel Oils                                                                                                                                                                    | 15%            |
| 32 | 3303.0000              | Perfumes and Toilets Waters                                                                                                                                                                          | 100%           |
| 33 | 3304.1000              | Lip make-up preparations                                                                                                                                                                             | 100%           |
| 34 | 3304.2000              | Eye make-up preparations                                                                                                                                                                             | 100%           |
| 35 | 3304.3000              | Manicure or pedicure preparations                                                                                                                                                                    | 100%           |
| 36 | 3304.9990              | Grease paints, beauty creams, cold creams, make-up creams, cleansing creams, injectable intracutaneous gels for wrinkle elimination and lip enhancement (including those containing hyaluronic acid) | 100%           |
| 37 | 3305.2000              | Preparations for permanent waving or straightening of hair                                                                                                                                           | 100%           |
| 38 | 3305.3000              | Hair lacquers                                                                                                                                                                                        | 100%           |
| 39 | 3305.9090              | Hair sprays, brilliantines and bleaches                                                                                                                                                              | 100%           |
| 40 | 3604.1000              | Fireworks                                                                                                                                                                                            | 100%           |
| 41 | 3923.2110              | Shopping plastic bags                                                                                                                                                                                | 40 birr per kg |
| 42 | 4011.10 to 4013.90     | Tyres                                                                                                                                                                                                | 5%             |
| 43 | 50 to 63 except 57     | Textile and garments                                                                                                                                                                                 | 5%             |
| 44 | 57                     | Carpets and textile floor coverings                                                                                                                                                                  | 15%            |
| 45 | 6702.1000<br>6702.9000 | Artificial flowers                                                                                                                                                                                   | 10%            |
| 46 | 6703.00 to 6704.90     | Hair                                                                                                                                                                                                 | 40%            |
| 47 | 6811.40-6813.20        | Asbestos                                                                                                                                                                                             | 20%            |
| 48 | 71                     | Ornaments                                                                                                                                                                                            | 20%            |
| 49 | 87.01 to 87.02         | Used vehicles, of age exceeding five years                                                                                                                                                           | 200%           |
| 50 | 8703.10                | Used vehicles, specially designed for travelling on snow; golf cars and similar vehicles                                                                                                             | 200%           |
|    |                        | Vehicles, including three-wheeler, with only spark-ignition internal combustion reciprocating piston engine, diesel or semi-diesel of a cylinder capacity not exceeding 1500 cc                      |                |
| 51 | 8703.21 to 8703.31     | New vehicle                                                                                                                                                                                          | 10%            |
| 52 | 8703.21 to 8703.31     | Used vehicles of age one year or more but not exceeding two years                                                                                                                                    | 60%            |
| 53 |                        | Used vehicles of age exceeding two years but not exceeding five years                                                                                                                                | 110%           |
| 54 |                        | Used vehicles of age exceeding five years                                                                                                                                                            | 410%           |
|    |                        | Vehicles, with only spark-ignition internal combustion reciprocating piston engine, diesel or semi-diesel of cylinder capacity 1501-2500 cc                                                          |                |

|    |                    |                                                                                                                                                                                 |      |
|----|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 55 | 8703.23 to 8703.32 | New vehicle                                                                                                                                                                     | 20%  |
| 56 |                    | Used vehicles of age one year or more but not exceeding two years                                                                                                               | 70%  |
| 57 |                    | Used vehicles of age exceeding two years but not exceeding five years                                                                                                           | 120% |
| 58 |                    | Used vehicles of age exceeding five years                                                                                                                                       | 420% |
|    |                    | Vehicles, with only spark-ignition internal combustion reciprocating piston engine, diesel or semi-diesel of a cylinder capacity 2501-3000                                      |      |
| 59 | 8703.23 to 8703.33 | New vehicle                                                                                                                                                                     | 30%  |
| 60 |                    | Used vehicles of age one year or more but not exceeding two years                                                                                                               | 80%  |
| 61 |                    | Used vehicles of age exceeding two years but not exceeding five years                                                                                                           | 130% |
| 62 |                    | Used of age exceeding five years vehicle                                                                                                                                        | 430% |
|    |                    | Vehicles with only spark-ignition internal combustion reciprocating piston engine, diesel or semi-diesel of cylinder capacity exceeding 3000 cc                                 |      |
| 63 | 8703.24 to 8703.33 | New vehicle                                                                                                                                                                     | 40%  |
| 64 |                    | Used vehicles of age one year or more but exceeding two years                                                                                                                   | 90%  |
| 65 |                    | Used vehicles of age exceeding two years but not exceeding five years                                                                                                           | 140% |
| 66 |                    | Used vehicles of age exceeding five years                                                                                                                                       | 500% |
|    |                    | Vehicles, including three-wheeler, with only spark-ignition internal combustion reciprocating piston engine, diesel or semi-diesel of a cylinder capacity not exceeding 1500 cc |      |
| 67 | 870340 to 8703.70  | New vehicle                                                                                                                                                                     | 5%   |
| 68 |                    | Used vehicles of age one year or more but not exceeding two years                                                                                                               | 60%  |
| 69 |                    | Used vehicles of age exceeding two years but not exceeding five years                                                                                                           | 110% |
| 70 |                    | Used vehicles of age exceeding five years                                                                                                                                       | 410% |
|    |                    | Vehicles, with only spark-ignition internal combustion reciprocating piston engine, diesel or semi-diesel of cylinder capacity 1501-2500 cc                                     |      |
| 71 | 870340 to 8703.70  | New vehicle                                                                                                                                                                     | 10%  |
| 72 |                    | Used vehicles of age one year or more but not exceeding two years                                                                                                               | 70%  |

|    |                    |                                                                                                                                                 |      |
|----|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|------|
| 73 |                    | Used vehicles of age exceeding two years but not exceeding five years                                                                           | 120% |
| 74 |                    | Used vehicles of age exceeding five years                                                                                                       | 420% |
|    |                    | Vehicles, with only spark-ignition internal combustion reciprocating piston engine, diesel or semi-diesel of a cylinder capacity 2501-3000      |      |
| 75 | 870340 to 8703.70  | New vehicle                                                                                                                                     | 20%  |
| 76 |                    | Used vehicles of age one year or more but not exceeding two years                                                                               | 80%  |
| 77 |                    | Used vehicles of age exceeding two years but not exceeding five years                                                                           | 130% |
| 78 |                    | Used of age exceeding five years vehicle                                                                                                        | 430% |
|    |                    | Vehicles with only spark-ignition internal combustion reciprocating piston engine, diesel or semi-diesel of cylinder capacity exceeding 3000 cc |      |
| 79 | 870340 to 8703.70  | New vehicle                                                                                                                                     | 30%  |
| 80 |                    | Used vehicles of age one year or more but exceeding two years                                                                                   | 90%  |
| 81 |                    | Used vehicles of age exceeding two years but not exceeding five years                                                                           | 140% |
| 82 |                    | Used vehicles of age exceeding five years                                                                                                       | 500% |
| 83 | 8704.10 to 8704.90 | Used vehicles of age exceeding five years                                                                                                       | 200% |
| 84 |                    | Used vehicles of age exceeding five years                                                                                                       | 200% |
| 85 | 8711.10 to 8711.90 | New vehicle                                                                                                                                     | 10%  |
| 86 |                    | Used vehicle of age exceeding one year                                                                                                          | 200% |
| 87 | 9504.2000          | Articles and accessories for billiards of all kinds                                                                                             | 20%  |
| 88 | 9504.3000          | Games, operated by coins, banknotes, bank cards, tokens or by any other means of payment                                                        | 20%  |
| 89 | 9504.4000          | Playing cards                                                                                                                                   | 20%  |
| 90 | 9504.5000          | Video game consoles and machines                                                                                                                | 20%  |
| 91 | 9504.9000          | Articles for funfair, table or parlour games, including pintables, special tablets for casino games and automatic bowling alley equipment       | 20%  |
| 92 | 9505.1010          | Handmade articles for Christmas festivities                                                                                                     | 20%  |
| 93 | 9505.1090          | Manufactured articles for Christmas festivities                                                                                                 | 20%  |
| 94 | 9505.9000          | Festive, carnival or other entertainment articles, including conjuring tricks and novelty jokes                                                 | 20%  |
| 1  |                    | Telecommunication service of mobile and wireless telephone                                                                                      | 5%   |

**Source:** Proclamation Number 1287/2023

