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# **Exploring the Potential Taxation of Facebook Advertisements in Ethiopia: Challenges and Opportunities**

**A Thesis Submitted to Addis Ababa University School of Business and  
Economics in Partial Fulfillment for the Award of Degree in Master of  
Business Administration**

By: Edilawit Solomon Assefa

Advisor: Dr. Mesfin Fikre

**November, 2024**

**Addis Ababa, Ethiopia**

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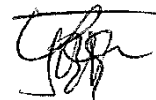
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### **Declaration**

I, Edilawit Solomon Assefa, hereby declare that the thesis entitled “Exploring the Potential Taxation of Facebook Advertisements in Ethiopia: Challenges and Opportunities” is my original work and has not been presented in any other university for fulfillment of a degree, and all resources used as a reference for the study have been properly acknowledged.

Name: Edilawit Solomon

Advisor Name: Mesfin Fikre (PhD)

Signature:

Signature:

## **Acknowledgment**

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# Table of content

## Contents

Acknowledgment .....	i
List of Tables .....	v
List of Figures .....	vi
List of Abbreviation/Acronyms .....	vii
ABSTRACT.....	viii
CHAPTER ONE .....	1
1. INTRODUCTION.....	1
1.1. Background of the study .....	1
1.2. Statement of the problem .....	3
1.3. Objective of the study.....	6
1.3.1. General objective .....	6
1.3.2. Specific objective .....	6
1.4. Research Questions .....	6
1.5. Significance of the study .....	7
1.6. Scope of the study .....	7
1.7. Limitations of the Study .....	7
1.8. Organization of the study .....	8
CHAPTER TWO .....	9
LITERATURE REVIEW .....	9
2.1. INTRODUCTION.....	9
2.2. The Rise of Digital Advertising .....	9
2.3. Social Media Advertising Landscape.....	10
2.3.1. Defining social media .....	10
2.3.2. Social media Advertisement .....	10
2.4. Facebook Advertising.....	11
2.4.1. Evolution of Facebook Advertising .....	11
2.4.2. Facebook Advertising Costs Principle .....	13
2.5. Taxation in the Digital Age .....	13

2.5.1. Tax theories and principles applied to taxing the digital economy .....	13
2.6. Taxation of FB Advertisement and the International context .....	18
2.7. Challenges Taxing FB Advertisement .....	23
2.7.1. Policy challenges .....	24
2.7.2. Administrative challenges .....	24
2.7.3. Profit Shifting .....	24
2.7. Opportunities Taxing FB Advertisement.....	25
2.10. Gaps in Knowledge and Need for Further Research.....	27
CHAPTER THREE .....	28
RESEARCH METHODOLOGY .....	28
3. Introduction .....	28
3.1. Research Design .....	28
3.2. Research Approach .....	28
3.3. Data source .....	29
3.4. Population .....	30
3.4.1. Target population.....	30
3.4.2. Sample Technique.....	31
3.4.3. Participants .....	31
3.5. Methods of Data Collection .....	32
3.5.1. Interview .....	32
3.5.2. Focus Group Discussion .....	32
3.5.3. Open Ended Surveys .....	32
3.6. Data Analysis Method .....	33
3.6.1. Thematic Analysis .....	33
3.7. Credibility and Conformity.....	35
3.8. Ethical consideration.....	36
CHAPTER FOUR .....	37
DATA ANALYSIS, DISCUSSION AND INTERPRETATIONS .....	37
4.1. Introduction .....	37
4.2. Background Information .....	37
4.3. Facebook Advertisement Taxation Challenges.....	40
4.3.1 Legal and Regulatory Framework .....	48
4.3.2. Policy Issue.....	49

4.3.3. Awareness Issue.....	49
4.3.4. Administrative Capacity .....	50
4.3.5. Administrative Negligence .....	50
4.3.6. International Cooperation .....	50
4.3.7. Local stakeholders' collaboration issue .....	51
4.3.8. Transparency and Accountability.....	52
4.3.9. Technological Challenges.....	52
4.3.10. Non-Technological Infrastructure Issue.....	53
4.4 Facebook Advertisement Taxation Potential Opportunities .....	54
CHAPTER FIVE .....	61
CONCLUSION AND RECOMMENDATIONS.....	61
5.1. Introduction .....	61
5.2. Conclusion.....	61
5.3. Recommendation.....	62
5.4. Limitations and Suggestions for Further Research .....	64
Reference .....	65
Appendix .....	75

## **List of Tables**

Table 1: Characteristics of Implemented DSTs .....	22
Table 2: Taxes on Meta Ads Placement in African Countries.....	23
Table 3: Demographic Information of Respondents.....	38
Table 4: Data Structure for Challenges.....	42
Table 5: Data structure for Opportunities.....	56

## **List of Figures**

Figure 1: Interaction of Tax Principles as Applied to Digital Business Models .....	17
Figure 2: Digital Service Taxes in Europe as of February 21, 2024.....	21
Figure 3: Result of Challenges.....	41
Figure 4: Challenges map .....	54
Figure 5: Result of opportunity.....	55
Figure 6: potential opportunity map .....	60

## **List of Abbreviation/Acronyms**

<b>Ad</b>	Advertisement
<b>ATAF</b>	Africa Tax Administration Forum
<b>CPA</b>	cost-per-action
<b>CPC</b>	cost-per-click
<b>CPE</b>	cost-per-engagement
<b>CPM</b>	cost-per-mille
<b>DST</b>	Digital Services Tax
<b>FB</b>	Facebook
<b>INSA</b>	Information Network Security Agency
<b>MINT</b>	Ministry of Innovation and Technology
<b>MoST</b>	Ministry of Science and Technology
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>VAT</b>	Value-Added Tax

## ABSTRACT

*In recent years, social media platforms have emerged as powerful tools for advertising goods and services, completely changing the landscape of global marketing. In Ethiopia, Facebook is the most widely used platform, Advertisers pay to target Ethiopian consumers with their adverts. However, Ethiopia does not tax FB for the revenue generated by Facebook advertisements targeted at its population. The study aims to investigate and analyze the challenges and opportunities of the potential implementation of tax on Meta, Facebook's parent company, for advertising revenue derived from Ethiopian businesses and individual utilizing its advertising services. Employing an exploratory research design, the study utilizes qualitative methods to gain in-depth insights into the challenges and opportunities associated with such taxation. Data were collected through interviews, online surveys, and focus group discussions with representative from Ethiopia ministry of revenue, ministry of innovation and technology and INSA. Thematic analysis of the data revealed several challenges, including Legal and Regulatory Framework, policy issues, Awareness issues, Administrative Capacity, Administrative Negligence, International Cooperation, local stakeholders' collaboration issues, Transparency and Accountability, Technological Challenges, and Non-Technological Infrastructure Issues. On the other hand, the study identifies opportunities such as revenue generation, foreign currency gains, tax fairness, employment creation, and the potential to combat tax evasion. These findings contribute to the understanding of the complexities involved in taxing digital advertisements and offer valuable insights for policymakers in Ethiopia. The study emphasizes the need for a well-structured approach to harness the potential benefits while addressing the identified challenges.*

*Keywords: Facebook ad taxation, challenges, opportunities, digital advertising tax.*

# CHAPTER ONE

## 1. INTRODUCTION

The first chapter of this research provides an overview of the study, including the background of the study, the statement of the problem, the addressed research questions, and the accomplished objectives. Additionally, the chapter discussed the scope of the research as well as the significance of the study. The chapter closes with the limitations of the study, after which the study's organization is discussed.

### 1.1. Background of the study

As per the research conducted in 2023 by Haoqian Zhang, the rapid growth of the digital economy has revolutionized the digital advertising industry globally which has resulted in substantial changes to how businesses reach their target consumers, with social media platforms playing an essential role in this transformation. Social media giants such as Facebook have become major actors in the advertising industry by providing businesses with unmatched reach and targeting marketing capabilities (Sharma & Ashfaq, 2023). In 2023, the revenue generated by Meta Platforms (formerly known as Facebook Inc.) amounted to roughly 134 billion US dollars, up from around 116 billion U.S. dollars in the previous fiscal year. In 2022, Meta's revenue stood at 117.9 billion USD (Statista, 2024). The social platform is responsible for roughly 19 percent of the global ad revenue.

Digitalization allowed multinational companies such as Facebook to grow globally without a physical presence, allowing them to choose the best resident state with low taxation (Gashi, 2021). The existing international taxation regulations are not suitable for "digital" businesses, which lack a recognizable physical presence in the states in which they carry out economic operations. Instead, they are intended to apply to businesses that are physically present in the nation (Tarasevich, 2024). The inability of OECD countries to reach agreements on digital economic taxation has also led nations to take unilateral measures to protect their respective interests (Galih Ardin, 2021). Several European countries and the European Commission have enacted or proposed "digital services

taxes" (DSTs) in reaction to the expansion of the digital economy. These taxes target particular revenue streams produced by multinational corporations (MNCs) operating in the digital sector (Lowry, 2019).

A wide variety of companies and individuals use Facebook as Ethiopia's major social media platform to attract and interact with customers and advertise their goods and services. In Ethiopia, As of May 2023 Facebook is the predominant social media platform with 6.6 million Users, attracting numerous advertisers who pay to reach Ethiopian consumers through targeted advertisements (DataReportal 2023).

Even though social media advertising is widely used, Ethiopia faces challenges in adapting its tax policies to encompass this ever-changing industry effectively. The traditional nature of the Ethiopian taxation system, primarily designed for physical goods and services, often fails to capture this dynamic digital transaction (Endalkachew Abera, 2020). This has resulted in a gap where digital advertising, particularly FB, operates largely untaxed, leading to potential revenue losses for the government, and unfair taxation for the traditional business (Abamecha, 2020). However, despite the global trend, Ethiopia has yet to establish a formal taxation framework for social media advertisements.

While some studies have explored the legal framework of Ethiopia's tax structure concerning digital advertising, there remains a significant gap in research specifically addressing the challenges and opportunities of imposing such a tax in Ethiopia. Existing literature often emphasizes regulatory and legal aspects without adequately considering the practical challenges and potential benefits of implementing a tax on digital advertisements. Although insights from other countries provide a foundation, Ethiopia's unique economic and technological context requires a tailored approach. Addressing this issue is crucial, as it not only has the potential to generate significant revenue for Ethiopia but also to promote a fair and competitive business environment. By focusing on the specific challenges and opportunities that Ethiopia faces in taxing digital advertisements, particularly on global platforms like Facebook, this study addresses a critical gap in the current literature, making it a timely and necessary exploration.

## 1.2. Statement of the problem

The global digital economy is expanding rapidly, and Africa is no exception, with digital giants such as Facebook establishing a significant presence on the continent (Mpofu, 2022). The accessibility, speed, and ease of online social networking have rapidly transformed public discourse, shaped trends and influencing discussions on diverse range (Asur & Huberman, 2010). Over the last two decades, marketing has undergone a paradigm shift from the traditional to the digital approach. Social media has become an international phenomenon, with Facebook dominating as the most popular social networking service (Wiese et al., 2019). Almost one in every 13 people in the world is an active Facebook user, indicating the possibility of finding an existing customer base for any product or service (Curran et al., 2011).

Facebook users actively engage with the platform for professional purposes, sharing updates on their social and business activities, and subsequently facilitating transactions through buying and selling (Arora et al., 2018). Facebook is the second largest advertising platform in terms of revenue, trailing only Google, and has over 2.2 billion monthly active users (Arrate Galan et al., 2019.) In 2024, Meta, the parent company of Facebook, reported a revenue increase of 22% compared to the previous year, reaching \$39.07 billion, with 98% of its income generated from advertising on Facebook and Instagram (Meta, 2024). This growth underscores the economic potential of digital advertising, making platforms like Facebook valuable targets for taxation discussions, particularly in emerging economies.

As the number of internet users and smartphone adoption increases, utilizing social media platforms, particularly Facebook, has emerged as a favored method for businesses in Ethiopia to cultivate client interactions (Assefa,2024). The rapid growth of social media advertisement in Ethiopia particularly Facebook which is one of the dominant social media with 6.6 million Users (DataReportal,2023), targeting the Ethiopian demographic for advertising services and goods gains ad revenue, however, due to several challenges Ethiopia is not benefiting from this transaction (Endalkachew Abera, 2020). Moreover, numerous challenges for digital advertisement taxation in general leads to the loss of substantial revenue that could have been used for public sector development (Mekonnen G/Mariam, 2020).

Facebook's advertising platform stands out for its precise targeting capabilities, powered by its extensive user base and detailed data on user behavior. This data-driven approach allows businesses of all sizes to reach their target audiences effectively and efficiently, offering a level of ad-targeting precision that surpasses that of search or contextual advertising platforms (Curran et al., 2011).

In response to the expansion of the digital economy, several European countries and the European Commission have introduced or proposed "digital services taxes" (DSTs), which target certain revenue streams provided by multinational corporations (MNCs) in the digital sector (Lowry, 2019). However African tax authorities continue to struggle with taxing the digital economy. While global and national initiatives have been implemented, these efforts may not fully address Africa's specific circumstances. (Rukundo, 2020).

Some Africa countries, including Kenya and South Africa have implemented tax reforms involving adjusting VAT and corporate tax policies to capture revenue from digital companies such as Meta. To prevent problems with double taxation and conflicting tax regulations for digital enterprises, the OECD has worked for years working with over 100 nations to provide clear principles for taxing the digital economy (Cebreiro-Gómez et al, 2022). Lessons these countries suggest that participating in multilateral forums like the OECD and ATAF helps African nations address unique challenges and influence global tax policies. Additionally, Ethiopia can benefit from a holistic, collaborative, and well-thought-out approach when considering the taxation of Meta's advertising services, ensuring that the policy is both effective and conducive to long-term economic development (Mpfu, 2022).

The taxation of Facebook advertisements in Ethiopia presents a significant practical problem, compounded by a notable lack of empirical evidence (Mekonnen G/Mariam, 2020). As digital advertising rapidly expands, Ethiopia's tax system, which remains focused on traditional forms of commerce, has not adapted to address this new revenue stream. This study aims to address these real-world challenges by exploring the potential challenges and opportunities of a Facebook advertising tax in Ethiopia, providing new insights.

According to Mrs. Abaynesh A., a consultant for the Revenue Enhancement Project at the Ethiopian Ministry of Revenue, the country's tax system remains predominantly focused on traditional forms of commerce and advertising. This narrow focus has led to a significant oversight in the taxation of digital advertising, particularly on global platforms like Facebook. The absence of a specific tax policy for digital advertising in Ethiopia results in a substantial portion of potential revenue going untaxed. This gap not only deprives the government of critical income but also creates an uneven playing field for local businesses, which are subject to different taxation rules. Furthermore, the lack of clear guidelines and regulations for taxing Facebook advertisements could lead to enforcement challenges and compliance issues, further complicating the situation. Mrs. Abaynesh also emphasized that there is a notable lack of research on digital advertising taxation within Ethiopia, highlighting an urgent need for academic and policy-focused studies to address this gap and inform the development of effective taxation strategies for the digital economy (Personal Communication, 2024).

The rapid growth of digital advertising, particularly through platforms like Facebook, presents a significant opportunity for Ethiopia to broaden its tax base and capture revenue from the digital economy. Ethiopia's legal and regulatory frameworks currently lack a clear provision pertaining to the taxation of digital advertisements, which results in a significant loss of revenue because multinational platforms operate outside of the jurisdiction of conventional tax systems (Endalkachew Abera, 2020). Other nations have successfully imposed taxes on digital advertising, showing benefits including increased revenue, equitable taxation, and the creation of jobs. However, Ethiopia is missing out on these advantages.

This study investigates the challenges and opportunities of taxing Meta, Facebook's parent company, for advertising revenue derived from Ethiopian businesses and individuals utilizing its advertising services. It is a pioneering study in Ethiopia, addressing a significant research gap and providing valuable insights into the implementation of digital advertising taxation. The research aims to enhance understanding of digital ad taxation in Ethiopia and is particularly relevant to key stakeholders such as the Ministry of Revenues and the Ministry of Finance, who are focused on regulating digital platforms to ensure accountability, transparency, and fair competition.

The findings of the study will inform policy decisions, providing valuable insights for policymakers and stakeholders. Additionally, the thesis will propose practical recommendations for implementing this taxation, offering a comprehensive understanding of the issues at play. Ultimately, this research will lay the groundwork for developing actionable strategies to harness Ethiopia's untapped potential in taxing digital services. Therefore, addressing this issue is timely and essential to Ethiopia's future economic development.

### **1.3. Objective of the study**

#### **1.3.1. General objective**

The study's main objective is to investigate and analyze the potential of implementing taxation on Facebook advertisement activity in Ethiopia.

#### **1.3.2. Specific objective**

- Assess the current landscape of digital advertising taxation on the Facebook platform in Ethiopia.
- Identify the challenges of implementing digital advertising taxation on Facebook advertisements in Ethiopia.
- Identify opportunities associated with imposing tax on Facebook advertisements.

### **1.4. Research Questions**

1. What is the current state of digital advertising taxation in Ethiopia, specifically with regard to Facebook advertisements?
2. What are the major challenges faced by Ethiopian tax authorities in imposing tax Facebook advertising activities?
3. What are the opportunities of imposing tax on the advertisement of Facebook in Ethiopia?

## **1.5. Significance of the study**

This study aimed to explore the potential taxation of Facebook advertisements in Ethiopia and investigate the potential challenges, opportunities. The study's findings and recommendations were designed to assist policymakers and tax authorities in considering implementing this taxation. The results of this study cover a significant gap in the literature, providing a foundational understanding of the digital advertising landscape, including trends, key players, and existing taxation frameworks, which is essential for identifying gaps and areas needing further investigation.

## **1.6. Scope of the study**

This study focuses on the potential taxation of Facebook advertisements in Ethiopia. Exploring the current status, possible challenges, opportunities. The study will adopt a qualitative thematic analysis method, which will involve collecting and analyzing data from various sources. The sources are the representatives from Revenue Minister, Ministry of Innovation and Technology, and INSA officers that have relevant expertise and knowledge of the sector, and who are conducting in-depth interviews on the topic.

## **1.7. Limitations of the Study**

The study focuses on the taxation of Facebook advertisements and excludes other social media advertising platforms, which limits the study's generalizability. Despite the researcher's ongoing efforts to contact and collect online surveys from Ethiopian businesses using Facebook advertising, the response rate was relatively low when compared to other data collection methods. Despite the researcher's effort to conduct as many interviews as possible, a small number of interviews were conducted due to a lack of volunteers to carry out the interview. Data from interviews and stakeholders may be biased due to participant's distorted or incomplete memories of past events, or their desire to present themselves positively. The research has a limitation in that there is no prior research on the topic in the context of Ethiopia. Because this is a pioneer study, there is a lack of information. Nonetheless, this study may help Ethiopia's revenue minister recognize the importance of social media advertising taxation, and the challenges and opportunities. These limitations should be taken into account when discussing the study's results and suggest directions for future research.

## **1.8. Organization of the study**

The thesis is organized into 5 chapters. Chapter One introduces the research topic, objectives, questions, and significance of the study. Chapter Two reviews the relevant literature to inform the study. Chapter Three describes the research methodology, including the research design, data collection methods, data analysis methods, and ethical considerations. Chapter Four presents the data analysis, results, and discussion of the findings. Chapter Five summarizes the main conclusions and recommendations of the study. The last part consists of appendices that provide additional information and evidence to support the study.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1. INTRODUCTION**

This literature review aims to explore Facebook advertisements and taxation in Ethiopia, emphasizing the need for effective taxation policies to ensure sustainable growth and fund government operations.

### **2.2. The Rise of Digital Advertising**

While many individuals view advertising as synonymous with marketing, it's essential to understand that marketing has a broader scope, and advertising is just one element of the promotional mix. According to the American Marketing Association, advertising is defined as "any paid form of nonpersonal presentation of ideas, goods, and services by an identified sponsor." Traditionally, this includes newspapers, magazines, radio, television, outdoor advertising, transit advertising, and specialty advertising. These constitute conventional advertising channels. As per Kotler and Armstrong (2008), advertising serves the functions of conveying information about products, brands, and new product awareness, reminding audiences through repeated exposure and non-distinctive forms, and persuading by creating positive impressions and driving sales. Aaker and Maayers (1975) categorized types of advertising into informing, persuading, and reminding consumers. Kotler (1994) emphasizes the significance of advertising as a crucial tool for companies to influence buyers and the public.

The newspaper industry has experienced a decline in print advertising revenues, with the growth of online advertising unable to compensate for the loss (Sridhar & Sriram, 2015). Gurevitch, Coleman, and Blumber (2009) noted a decline in the use of traditional media, with more consumers turning to web-based social networks. This shift is attributed to advancements in electronic communication devices and the internet. Lee and Cho (2019) discussed the present and prospects of digital advertising and highlighted the increasing trend of digital advertising globally.

The digital advertising landscape in Ethiopia has witnessed significant growth, with platforms like Facebook playing a crucial role in marketing strategies. Businesses utilize Facebook advertisements to reach a broad audience and target specific demographics. The issue of taxation in regulating digital economies, including Facebook advertising, has become increasingly important in Ethiopia. With 6.40 million social media users in January 2023, accounting for 5.1% of the total population, Ethiopia is witnessing a notable presence on digital platforms DataReportal (2023). Intellectual property laws in Ethiopia are also evolving to regulate technological advancements, including copyright laws for computer programs and online service provision (Yilma & Halefom Hailu Abraha, 2015).

## **2.3. Social Media Advertising Landscape**

### **2.3.1. Defining social media**

In the 21st century, technologies are increasingly important in everyday life, enabling faster information and data transfer. Social media platforms like LinkedIn, Twitter, Instagram, and Facebook have become essential in our lives, with users sharing thoughts, spreading facts, liking posts, and creating virtual user accounts (Stueber & Wurth, 2017). Kaplan and Haenlein defined social media as “a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and allow the creation and exchange of user-generated content”.

### **2.3.2. Social media Advertisement**

Social media is changing the traditional way of marketing and advertising, with a significant increase in its usage (Hrithik Chauhan, 2023). The use of social media advertising allows advertisers to tap into the digital labor of social media users, who help sell and spread messages through their influence on others and word-of-mouth messaging (Timke, 2017).

For modern businesses around the world, social media advertising has become an essential component of their marketing communication mix. It has evolved from simple Facebook pages and fliers to include artificial intelligence-based advertising tools, social commerce, private social channels, high integration with e-commerce, and innovative ad formats (Emmanuel Elioth

Lulandala, 2022). Different forms of social media advertising include Facebook Offers, Promoted Posts, Sponsored Stories, Page Post Ads, Facebook Object (Like) Ads, External Website (Standard) Ads, Promoted Tweets, Promoted Trends, and Promoted Accounts. (Goyal, 2013).

(Aderemi, 2012) note the growing power and popularity of social media, initially among teenagers and later among individuals aged 25 to 34 and white-collar workers, indicate its widespread integration into daily life subsequently altering the way businesses engage with their customers through social media. Companies utilize social media in their communication strategies to interact with a worldwide client base, initiate direct conversations, encourage users to exchange information, and, ultimately, develop online brand communities that help create and strengthen brand credibility and reputation (Mazzucchelli et al., 2021). Social media advertising is a powerful strategy for achieving long-term marketing goals, including brand awareness, high brand value, positive reputation, word of mouth, growing customer base, high return on ad spend (ROAS) in the short-term, and customer lifetime value (CLV) in the long run (Irakli Abashidze, 2023). It also allows advertisers to reach audiences and leverage consumers' social connections to spread messages more easily and cost-effectively (Goyal, 2013). In recent years, social media advertising (SMA), especially on platforms such as Facebook, has undergone substantial evolution. One emerging trend is the rise of artificial intelligence-based advertising tools, which allow for more targeted and personalized ads (Emmanuel Elioth Lulandala, 2022).

## **2.4. Facebook Advertising**

### **2.4.1. Evolution of Facebook Advertising**

Traditional forms of media like radio, magazines, TV, and reviews are being replaced by social media for searching and comparing information (Hrithik Chauhan, 2023). According to Shruthi Pk & Nagaraj Halliyavar, 2017 social media has emerged as a successful platform for business promotion, allowing brands to showcase their creativity and attract customers through attractive posts. In today's business environment, a company's success or failure is determined by public opinion. Some research indicates that social media sites such as Facebook can be used to confirm a brand's credibility. According to Datareportal Facebook's monthly active users reached 2.989 billion as of April 2023, ranking 1st globally. The company's investor earnings report shows a slight increase in users, with the total monthly usage increasing by 0.9% in the past three months.

with its massive user base, Facebook creates wide platforms for viral online recommendations (Smock, Ellison, Lampe, & Wohn, 2011).

Al Kurdi, B. H. & Alshurideh, M. T. (2022) defines Facebook Advertising as the utilization of Facebook for advertising and promoting products or services, marking it as an essential component of the global business marketing communication mix (Harrie Lutfie & Marcelino, 2020). These ads can be visually appealing and repetitive to capture user attention. Facebook offers a variety of advertising instruments, such as Facebook Ads, allowing users to create personalized advertisements tailored to their target audience and objectives (Rama, Mejova, Tizzoni, Kyriaki Kalimeri, & Weber, 2020). Facebook Advertising has grown significantly in the last few years. According to Shu and Liu (2023), the COVID-19 pandemic has contributed to the growth of digital advertising, particularly Facebook advertising. It has evolved from being associated with just Facebook pages and fliers to becoming an integral part of the marketing communication mix for modern businesses globally (Emmanuel Elioth Lulandala, 2022) and has attracted millions of advertising partners, with small and medium-sized advertisers being its main source of revenue (A Rezma, Elsa, & A Zahrotun, 2022).

Facebook offers firms the opportunity to market products and services to international consumers and providers, establish durable relationships, and improve competitiveness (Mazzucchelli et al., 2021). This encourages advertisers whose organizations are willing to spend a reasonable portion of their budgets on analyzing procedures to determine potential customers and target them with advertisements on Facebook (Falls, 2009).

Facebook was found to be effective in describing and promoting new products and creating or enhancing brand images across cultures and markets. The research conducted by Hartini Azman, Chiang Xue, and Mariam Abdullah in 2018 concludes that Generation Y, with their high education levels and frequent use of Facebook, presents a great opportunity for marketers to reach them through Facebook advertising. It also highlights the low cost and unique chance for marketers to communicate with their audience through Facebook.

## 2.4.2. Facebook Advertising Costs Principle

When advertising on Facebook one has to select from the different pricing options. The major metrics are CPC, CPM, CPE, and CPA.

**CPC (cost-per-click):** You only get charged when someone clicks on the Facebook advertisement you posted.

**CPM (cost-per-mille):** With cost-per-impression (CPM), you pay when Facebook shows your ad 1000 times. Impressions are the number of times your ad is shown to a user on Facebook. This implies that the amount of money you spend on Facebook ads is determined by how many times they are seen rather than how many times they are clicked.

**CPE (cost-per-engagement):** this enables you track and optimize the amount you spend to get someone to engage with your Facebook page after clicking your ad.

**CPA (cost-per-action)-** This enables you to monitor and maximize the amount of money you spend on driving visitors to your website from your advertisement in order to encourage them to convert. The CPA on Facebook advertisements is more precise and provides you with a more comprehensive picture of how successfully your advertising are generating new business.

## 2.5. Taxation in the Digital Age

### 2.5.1. Tax theories and principles applied to taxing the digital economy

In this new digital era, the need for clear taxation guidelines is crucial. In the recent studies of Lucas-Mas et al., 2021 it has been noted that the principles of horizontal equity, benefit principle, and neutrality principle are the most important for taxing digital businesses effectively.

#### 2.5.1.1. Horizontal equity

The principle of horizontal equity states that two taxpayers with equal ability to pay should pay the same amount of tax and also implies that two taxpayers with similar economic circumstances should receive an equivalent tax treatment. Some tax scholars argue that horizontal equity is not an independent principle of tax fairness but instead is subordinate to the concept of vertical equity, which holds that people with different incomes should pay different amounts of tax. However, in

1990 Musgrave noted that horizontal equity is indeed an independent tax principle mentioning its consistency with several different underlying conceptions of tax fairness, although the application of the vertical equity standard will differ as his ground reason. Businesses facing similar economic conditions should be assessed based on their ability to pay taxes in comparison to a common standard. This entails applying the same tax rules regardless of whether they operate digitally or not, ensuring fairness by taxing them equally when their financial resources are comparable (Lucas-Mas et al., 2021).

According to Lucas-Mas et al., 2021 the emergence of digital business has led to the rise of new business models, which has significantly altered the operation, and economic circumstances of business which in turn impacts taxation because of the difficulty of comparing traditional and digital businesses for tax purposes using horizontal equity. One of these models is digital business models which closely resemble traditional ones whereas the other introduces features that disrupt traditional tax practices such as physical presence in market jurisdictions due to the digital nature of their elements and reliance on digital aspects like content, automation which can significantly impact their economic circumstances compared to traditional. Therefore, tax treatment should reflect these differences to maintain horizontal equity in taxation models (tax-disruptive digital business models. To ensure tax fairness and maintain horizontal Tax treatment, digital businesses that Use a similar business model to the traditional one should be taxed using the existing tax system while digital businesses with a tax-disruptive digital business model, one of them being online user-targeted advertising companies such as Facebook need different tax approach.

### **2.5.1.2. Benefit theory (Exchange Theory)**

Hines Jr et al,2000 explained the benefit principle which was a major tax fairness approach in the nineteenth century as a system in which individuals are taxed according to the benefit, they get from government expenditures where traditionally the distribution of benefit from public goods relies on Lindahl price which brought benefit calculations inconsistent and paradoxical feature due to its feature of difference among individuals. According to Lindsay, 2019, the evolved benefit theory which is grounded in economic analysis and models finance as an exchange between the state and the taxpayer addressed some of the objections that were raised on the traditional benefit principle. She also mentioned that the modern benefit theory also came with its issues such as its

tendency to treat altruistic taxpayers unfairly and benefit those with care largely about their projects. The modern benefit theory also holds tax fairness if the benefit gained from the government adequately repays the taxpayer's taxation burden.

Online user-targeted advertising Companies with disruptive digital models such as Meta previously known as Facebook (Lucas-Mas et al., 2021) operate in various countries at the same time which means that tax jurisdiction is not clearly defined however these companies create their value on user presence personalize advertisements (cost-per-view) or who click on such an ad (cost-per-click) (Fuchs, C. 2018), Additionally these companies benefit from physical infrastructure such as fiber optic networks, power grid from the government, and they also benefit from the user data and content for free from their market jurisdiction where they create value and gain a profit, therefore, a different tax approach should give grounds for these countries to claim tax on the profits earned in their location hence benefit theory.

### **2.5.1.3. Neutrality principle**

Neutrality implies that the tax system should seek to be unbiased and fair between different types of businesses when raising revenue while minimizing bias towards or against specific economic choices (OECD 2014). The main goal of taxation is to raise revenue that will finance governments' spending without affecting individual and business economic decisions (Furman, J., 2008). In 2014 OECD noted that neutrality implies that the same principle of taxation should apply to all types of business while catering to specific characteristics that may undermine equal and neutral treatment.

Nonresident companies using tax-disruptive business models such as Meta a user-targeted advertising should be taxed equivalently to non-resident companies operating traditional business models without a permanent presence in the market jurisdiction (Lucas-Mas et al., 2021).

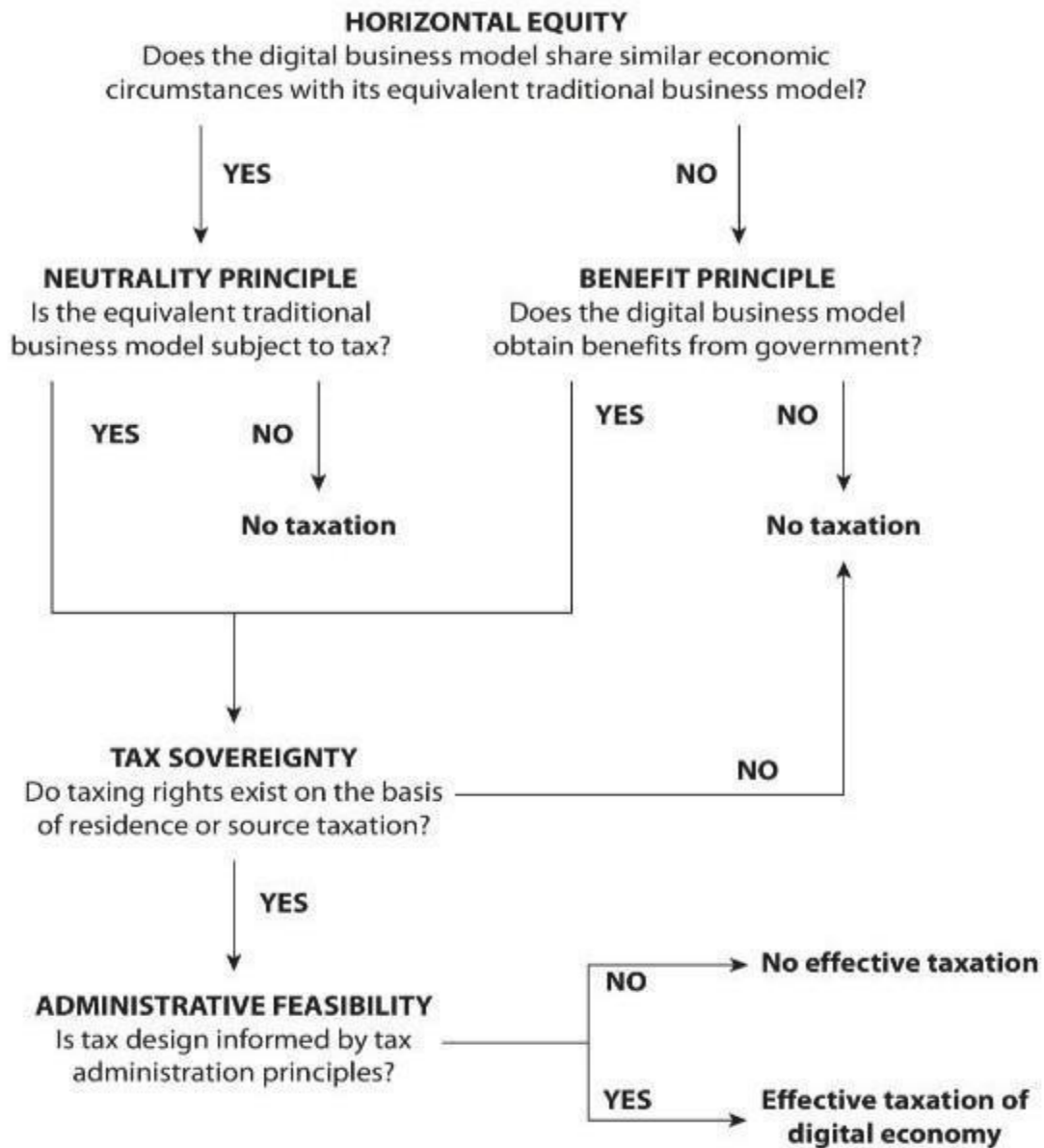
#### **2.5.1.4. Tax sovereignty**

As mentioned by Michal Radvan in 2015 Tax sovereignty is a very popular concept in tax law which refers to the state's authority over tax collection, including determining the objects of taxation, taxpayer groups, and scope of tax obligations. Lucas-Mas et al., 2021 note digital economy may pose a threat to tax sovereignty due to rising rivalry from other jurisdictions seeking new taxing rights. this may result in conflicting claims from multiple jurisdictions over the same taxable amount, leading to double taxation. This study defines tax sovereignty as the power of governments to tax their citizen and territory which is the basis for residence taxation and source taxation, respectively. Lucas-Mas et al., 2021 mentioned that a state can justify claiming tax rights over non-resident digital businesses through source taxation and this can be justified by acknowledging that local users' contribution of data and content as a part of the source state while raising the concern of governments claim as a property of the state could be misappropriation.

#### **2.5.2.5. Administrative Feasibility**

Administrative feasibility refers to the simplicity and effectiveness with which a tax law can be administered and imposed. Lucas-Mas et al., 2021 note that nonresident companies using a digital business model without physical presence should not be taxed by market jurisdiction whereas digital transactions can be subject to taxation from both suppliers and users making most transactions taxable in market jurisdictions. Hence Meta should be taxed on its Facebook advertisements.

*Figure 1: Interaction of Tax Principles as Applied to Digital Business Models*



Source: A Proposal for a Digital Data Tax and a Global Internet Tax Agency, World Bank

## 2.6. Taxation of FB Advertisement and the International context

In 2019, Pakkala & Spohrer defined digital service as a service that a technical system fully carries out when a user uses an ICCAT-based system to attain a specific result. This type of service is central to the digital economy, which includes all online economic activities involving interactions among people, businesses, electronic devices, data, and the methods used to handle them (Mao, Hu, Leng, & Liu, 2024). The taxation of the digital economy has emerged as a critical issue, prompting discourse among revenue authorities, multinational enterprises, and international policy bodies like the OECD.

In response to the growth of the digital economy, several European nations and the European Commission have implemented or proposed "digital services taxes" (DSTs) and these taxes target specific revenue streams generated by multinational corporations (MNCs) within the digital sector (Lowry, 2019). The widespread adoption of highly digitalized business models, as exemplified by Google, Amazon, and Facebook, has revealed shortcomings in the current framework for allocating corporate profits and determining tax jurisdiction. These traditional rules struggle to keep up with the realities of the digital economy (Kim, 2019).

Tax refers to a "compulsory levy by a public authority for which nothing is received directly in return" (James and Nobes, 1992). Tax can be defined as 'a compulsory levy, imposed by government or other tax-raising body, on income, expenditure, or capital assets, for which the taxpayer receives expenditure, or capital assets, for which the taxpayer receives nothing specific in return. It is also defined by the Organization for Economic Cooperation and Development (OECD) as obligatory unrequited payments to the general government (Messere and Owens 1985). Traditionally, profit is allocated to market countries when the business has a physical presence there. However, highly digitalized business models can generate profits in market countries without a physical presence (Kim, 2019).

According to Favourate Y. Mpofu in 2022 Digital tax policies target international social media companies such as Facebook, Google, and Amazon, online services as well as other e-commerce marketplaces to broaden the tax base by extending existing legislation to new players or directing new tax legislation specifically to new companies and platforms that were previously not subject to tax. The digital economy offers numerous benefits, including increased growth, employment,

and overall well-being. At the same time, it presents several challenges to policymakers. These challenges extend beyond tax policy to include international privacy law, data protection, accounting, and regulations (OECD 2014).

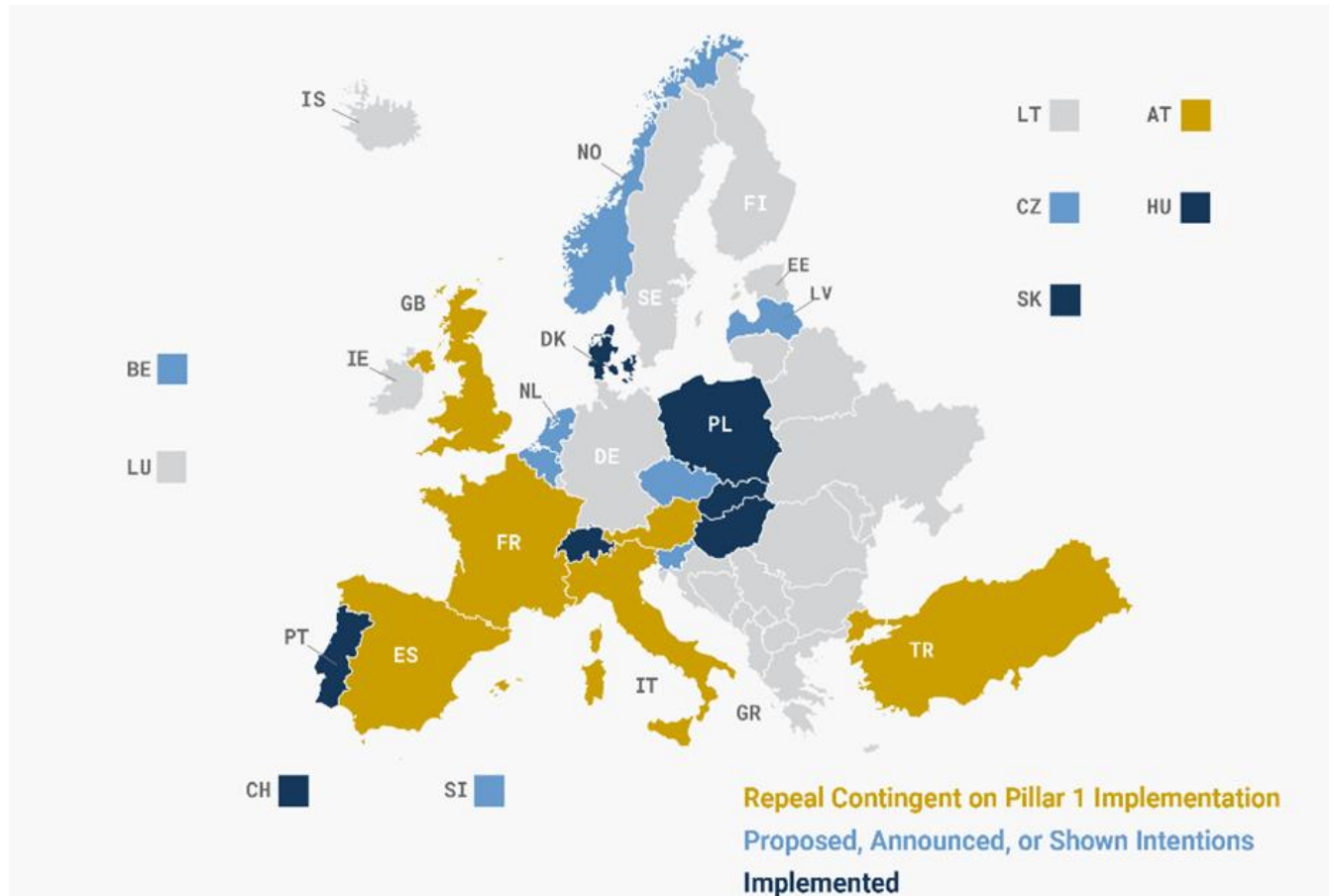
To tax giant digital companies providing products and services trade digitally even when the companies do not have a physical presence in the countries where they provide services, countries have taken different measures, for example, African countries like Kenya and South Africa has reformed VAT policies. In some countries, corporate tax policies have also been reformed to include digital services in the tax net (Bunn et al. 2020). Achieving international consensus on the structures, implementation, and implications of digital tax policies is imperative to avoid conflicting and overlapping regulations across various national tax frameworks, which could lead to instances of double or excessive taxation. Given the uncertainties surrounding the efficacy and suitability of prevailing tax regulations in encompassing the digital economy within the tax framework, apprehensions have arisen from both developed and developing nations regarding the necessity of integrating digital transactions into tax legislation (Mpofu, 2022). To avoid problems with double taxation and conflicting tax laws for digital businesses, the OECD has been working with over 100 countries for years to come up with clear guidelines on how to tax the digital economy.

Digital service, particularly social media advertisement has exploded in popularity in recent years, and its growth trajectory is only going upwards. According to a new report from Million Insights, the global social media advertising market is anticipated to reach \$262.62 billion by the year 2028. This market is forecasted to exhibit a compound annual growth rate (CAGR) of 12.4% during the period spanning from 2021 to 2028. While this growth fosters a thriving business environment with numerous benefits, it's not without its fair share of complications. The mobile and intangible characteristics of digital services pose challenges to existing tax policies that are based on a clear-cut jurisdiction barrier, which is directly linked to the assumption that brick-and-mortar physical locations where goods and services are produced could signify physical presence (also known as a permanent establishment) and be used to determine where tax must be paid (Asian Development Bank, 2017).

Globally, some countries have taken unilateral measures against online advertising. The basis for this taxation is that resident companies' profits from running advertisements are normally taxed in the country, whereas nonresident companies' profits from the same activities are not. As a result, some countries have begun taxing payments made by recipients of advertising services to nonresident providers to "equalize" the positions of resident and nonresident providers, treating them equally for tax purposes (at least in terms of profit taxation) (Anni Varanda, 2019).

Some countries have implemented measures to tax income from digital services which includes FB ads, targeting large multinational enterprises conducting business through online platforms. These measures vary in objective and scope, building on existing income tax rules (Cebreiro-Gómez et al, 2022). Many countries are implementing consumption taxes (VAT and GST) on digitally provided goods and services, sometimes combining consumption and income tax measures. Financial transaction taxes have also been introduced due to increased online payments (Cebreiro-Gómez et al, 2022). Lessons from other countries offer valuable insights for Ethiopia in taxing Meta's advertising revenue. First, a thorough economic assessment is needed to ensure digital taxes do not hinder growth or innovation. Participating in multilateral forums like the OECD and ATAF helps African nations address unique challenges and influence global tax policies. Effective tax policies should prioritize fairness and transparency while avoiding harmful distortions. Additionally, investing in capacity building and data protection is essential for efficient tax administration. Strengthening regional collaboration can improve compliance, and engaging stakeholders ensures that digital tax policies support economic growth without negative side effects (Mpofu, 2022).

*Figure 2: Digital Service Taxes in Europe as of February 21, 2024*



Source: Tax Foundation (2024).

### **Characteristics of Implemented DSTs**

Countries have debated taxing the digital economy for over two decades, but only recently have actual measures been implemented (Cebreiro-Gómez et al, 2022).

**Table 1: Characteristics of Implemented DSTs**

Country	Scope	Global Threshold	National Threshold	Tax Rate	Year
United Kingdom	Full	€560 million	€30 million	2%	2020
France	Full	€750 million	€25 million	3%	2020
Italy	Full	€750 million	€5.5 million	3%	2020
Spain	Full	€750 million	€3 million	3%	2021
Turkey	Full	€750 million	€2.5 million	7.5%	2020
Austria	Advertisement	€750 million	€25 million	5%	2020
Portugal	Advertisement	None	None	4%	2021
Kenya	Full	None	None	1.5%	2021
Tunisia	Full	None	None	2%	2022
Nepal	Full	None	€15,000	2%	2022
Kyrgyzstan	Full	None	None	2%	2022
India	Full	None	€220,000	2%	2020
India	Advertisement	None	€1,350	6%	2016

Source: Kane Borders, Sofía Balladares, Mona Barake, Enea Baselgia. Digital Service Taxes. 2023.

**Table 2: Taxes on Meta Ads Placement in African Countries**

Country	Type of tax	Tax rate	Year Implemented
Kenya	Digital Services Tax (DST)	1.5%.	November 2022
South Africa	Value Added Tax (VAT)	15%	May 2019
Zimbabwe	Value Added Tax (VAT)	14.5%	September 2020
Egypt	Value Added Tax (VAT)	14%.	July 2023
Nigeria	Value Added Tax (VAT)	7.5%	January 2022

Source: Meta, 2024

## **2.7. Challenges Taxing FB Advertisement**

The rise of the digital economy enables businesses to expand internationally and create jobs, but it also poses a challenge such as how to tax multinational corporations that operate without a physical presence in a country which as a result raises concerns that these companies might be avoiding taxes (Hathorne & Breunig, 2020).

### 2.7.1. Policy challenges

OECD in 2014 categorized the main policy issue raised by the digital economy in Nexus, Data, and characterization. These categories are the following:

**Nexus** the lack of permanent establishment of tech giants imposed a challenge of considering taxation while raising the question whether the current rules of determining nexus with jurisdiction is appropriate for the purpose of taxation.

**Data:** the rapid growth and complexity of IT-enabled tech giants to gather and use data across borders raises the issue of how to determine the value created from the generation of data through digital products and services.

**Characterization:** There are questions regarding how to properly characterize payments made in the context of new business models, especially when it comes to cloud computing, when new digital goods or methods of providing services are developed

Traditional tax systems rely on physical presence(Nexus and Jurisdiction), which is often absent in digital transactions, leading to difficulties in establishing tax jurisdiction(Nembe et al., 2024).Digital companies have access to consumers in countries all over the world without physical presence in these countries. As a result, their profits remain untaxed (Popova, 2020).

### 2.7.2. Administrative challenges

The rise of the digital economy presented administrative issues. In 2014 OECD identified three key areas of concern regarding administrative challenges in the digital age: Identification, Determining the extent of activity, Information collection and verification, and Identification of customers.

### 2.7.3. Profit Shifting

Multinational corporations exploit gaps in tax regulations to shift profits to low-tax jurisdictions, undermining local tax bases(Kontz, 2023). Profit shifting makes taxing the digital economy more difficult by allowing businesses to move their earnings to low-tax jurisdictions, which makes it

more difficult for tax authorities to enforce compliance and efficiently collect revenue (Fiyinfoluwa, 2023).

## **2.7. Opportunities Taxing FB Advertisement**

Taxing Facebook advertisements presents a significant opportunity for developing countries to recover tax losses, enhance revenue, and establish a more equitable competitive environment((Fatih et al, 2017). Revenue-generating potential arise from taxing online ads through the establishment of precise rules, the application of current tax legislation, and the cooperation of information technology and communication agencies to ensure compliance(Jawahir et al, 2021).

Facebook ad taxation offers chances to distribute taxing authority among market jurisdictions, preventing profit shifting and guaranteeing that significant economic activity is taxed in the location where it takes place(Harpaz, 2021).Taxing digital advertising could help balance the revenue distribution between companies and public services. This could prevent big tech companies like Facebook from avoiding taxes and ensure that internet platforms that serve the public interest receive fair funding (Fuchs, 2018). However this tax could significantly affect downstream output and offline sales, potentially altering market dynamics and competition, particularly disadvantaging SMEs and micro businesses.

Developed countries like Australia and the European Union have shown that digital taxes can increase tax revenue, there's less evidence and more mixed results for this in Africa. The impact of digital taxes in Africa is still debated and uncertain. taxing the digital economy offer African countries the chance to increase revenue mobilization and expand their tax bases. Particularly for SSA nations with sizable and steadily growing informal economies and limited tax bases, the potential is crucial (Becker, 2021). The enhancement of revenue mobilization indicates that the government would effectively generate the necessary funds to achieve its objectives.Taxing digital multinational enterprises (MNEs) without physical presence fosters trust in tax administration by ensuring fairness between domestic and international companies (Mpofu, 2022).

## **2.10. Gaps in Knowledge and Need for Further Research**

The lack of comprehensive awareness and research related to FB advertising taxation and its challenges and opportunities, especially in the case of Ethiopia is the significant gap in understanding the unique complexities inherent in taxing digital platforms. The absence of awareness and research on the implementation for taxing social media advertising in Ethiopia is one of the other challenges. In general, the lack of literature on the taxation of digital services in the context of Ethiopia is the major literature gap. Future research should focus on developing a comprehensive policy framework and investigate the design and implementation of administrative structure and enforcement mechanisms necessary for the effective taxation of social media platforms and digital monitoring technologies. Additionally, future research should be conducted to assess the feasibility and effectiveness of different taxation models.

# **CHAPTER THREE**

## **RESEARCH METHODOLOGY**

### **3.Introduction**

This chapter outlines the research methodology employed to achieve the objectives of the study. It will delve into the following key aspects: Research Design, Research Approach, Data Collection Methods.

### **3.1. Research Design**

Kothari (2004) defines a research design as the organization of variables for data collection and analysis that balances relevance to study objectives with the economy of technique. Due to the novelty and limited research surrounding the phenomenon of Facebook advertisements and taxation in the Ethiopian context, this study necessitates an exploratory research design. Exploratory design aligns with the established purpose of exploratory research, which is to delve into under-investigated areas, generate fresh insights, and formulate a well-defined research problem and potential hypotheses for further inquiry. By employing this methodology, the study aims to gather preliminary data and illuminate the complexities surrounding this under-researched phenomenon, paving the way for subsequent, more conclusive investigations (greener,2008).

### **3.2. Research Approach**

According to Creswell (2009), there are three types of research approaches: qualitative, quantitative, and mixed. The researcher used Qualitative research to explore and provide more in-depth insights into real-world problems (Tenny, Brannan, & Brannan, 2022). A qualitative approach is ideal for acquiring a deeper understanding of a situation (Hancock & Algozzine, 2006).

According to Pamela and Susan (2008), qualitative research is a helpful method for understanding a phenomenon in its natural setting and allows researchers to gather different types of data to gain a rich and detailed picture. This study examines various social media advertising taxation frameworks and models proposed by different scholars.

### 3.3. Data source

Since the secondary data that is currently available does not adequately address the research's specific questions, the researcher collected primary data. This allowed the researcher to fill in gaps in the literature, explore new areas, and obtain rich, detailed information directly from participants—information that is essential for understanding the depth, context, and nuance of the participants' experiences. By collecting data firsthand, the researcher aimed to ensure that the information is highly relevant to the specific context and research questions being investigated, making the findings more applicable and tailored to the particular setting.

Primary data was gathered from a diverse range of stakeholders to capture a holistic perspective. This included interview conducted with representatives from revenue minster, Tax law experts, MINT, and INSA. When selecting research participants for this thesis, four key criteria were employee their expertise, experience related to the topic, diversity of backgrounds, and their willingness and availability to participate. Participants are often chosen based on their expertise and experience related to the research topic, as their insights can provide valuable, informed perspectives. Another important criterion is diversity, as including participants with varied backgrounds, roles, and viewpoints can enrich the data, offering a more comprehensive understanding of the issue. Accessibility and willingness to participate are also crucial; participants must be both available and willing to engage fully in the research process.

Including representatives from the Ministry of Revenues, Tax law experts, the Ministry of Innovation and Technology (MINT), and the Information Network Security Agency (INSA) in the research is essential for several reasons. Representatives from the Ministry of Revenues provide insights into the existing tax regime, potential challenges in implementing a new tax, and the administrative capacity of the government, as they are directly involved in tax collection and administration. Tax law experts are crucial as they help shape the legal and regulatory framework that would govern such a tax, ensuring it aligns with national priorities and legal standards.

MINT's involvement is required since they oversees the digital and technological infrastructure in Ethiopia, which is closely tied to social media sites like Facebook. Their insights can be used to assess the administrative and technological challenges involved in putting into place and enforcing a tax on digital ads. INSA's participation is vital due to its role in cybersecurity and digital

regulation. They can provide expertise to understand technical challenges, regulatory considerations of taxing FB Ad activities, and ensuring compliance with the tax laws. The involvement of these stakeholders is crucial to the success and applicability of the research as a whole since they offer a holistic perspective on the opportunities, challenges, and practicalities of taxing Facebook advertisements in Ethiopia.

## **3.4. Population**

### **3.4.1. Target population**

The population is defined as the entire set of individuals from which the researcher collects data. Population refers to the entire group of individuals in which the researcher is interested (Williams, 2011). In qualitative research, the population is characterized by a small number of participants who exhibit the capacity to articulate their experiences and/or knowledge regarding certain study topics or phenomena. Furthermore, the foundation for addressing the objectives of qualitative research is the participants' extensive descriptions of their experiences (Asiamah, Mensah, & Oteng-Abayie, 2017).

Based on their direct involvement with and knowledge of the subject of Facebook ad taxation in Ethiopia, the researcher selected 27 people in total as the relevant population for the study. This population includes representatives from three key departments: IT, Research and Development, and Law within the Ministry of Revenues. Additionally, the population encompasses personnel from the Digital Economy Department of the Ministry of Innovation and Technology (MINT) and officials from the Information Network Security Agency (INSA).

These departments and organizations were chosen to ensure an extensive understanding of the numerous components involved in the proposed taxes because of their key roles and direct interest in the research issue. Aggregating the relevant personnel across these departments resulted in the final figure of 7, reflecting a carefully considered selection of stakeholders who possess the necessary expertise and involvement in the subject matter.

Convenience and purposive sampling were both employed to select 27 individuals from the identified population. The need to obtain in-depth, nuanced insights from individuals with direct

and significant expertise on the taxation of Facebook adverts informed the selection of 27 participants.

### **3.4.2. Sample Technique**

Sampling involves selecting enough population elements for study and understanding, allowing for the generalization of properties or characteristics to other population elements (Williams, 2011). The study employed a combined non-probabilistic sampling approach, utilizing elements of both convenience and purposive sampling techniques. This approach aimed to balance accessibility with participant selection based on their relevance to the research objectives. Purposeful sampling is a technique widely used in qualitative research for the identification and selection of information-rich cases for the most effective use of limited resources (Patton, 2002). Purposeful sampling is a qualitative research technique that involves selecting individuals or groups with expertise in a particular phenomenon, focusing on their availability, willingness to participate, and ability to communicate their experiences effectively (Palinkas et al., 2013).

### **3.4.3. Participants**

To gain deeper insights into the industry, 2 focus group discussions, 2 open-ended surveys, and 15 comprehensive interviews were conducted with key stakeholders. This included representatives from diverse sectors, encompassing:

- Tax law experts
- Technology Experts
- Researchers

The focus group discussions, interviews, and open-ended surveys provided different insights and perspectives to the study's objective. Encompassing data from diverse sources and perspectives, the challenges and opportunities, of imposing a tax on Facebook advertisements were to be investigated.

## **3.5. Methods of Data Collection**

To gain a comprehensive understanding of the taxation of Facebook advertising in Ethiopia, a multi-method data collection approach was employed.

### **3.5.1. Interview**

There are several reasons why qualitative analysis should start with interviews. Interviews provide in-depth details about participants' perspectives and experiences related to a certain topic (Guenna Holmgren et al., 2023). Qualitative interviews can provide a better understanding of variables including trust, driver attitude, and self-confidence in addition to quantitative measures (Mann, 2016).

Semi-structured interviews were conducted with open-ended questions on the topic and the interviewer adapted to the responses with three high-level personnel from the Ethiopian Ministry of Revenue, and four employees within the vital service taxation department. This diverse group of participants provided valuable insights from various perspectives within the Ethiopian taxation landscape.

Utilizing semi-structured interviews allowed for a flexible and open-ended approach, enabling the researcher to delve deeper into participants' experiences, justifications for their viewpoints, and their understanding of the current situation regarding Facebook advertising taxation.

### **3.5.2. Focus Group Discussion**

A Focus Group Discussion was conducted with the Revenue Ministry legal team and research team to get an in-depth understanding of the current practice regarding the taxation of Facebook advertisements and the legal challenges that hinder the implementation of this taxation,

### **3.5.3. Open Ended Surveys**

The researcher conducted an online survey targeting technology experts from the Information Network Security Agency (INSA), selected for their expertise and experience in digital advertisements, online monitoring, and technology policy. The survey included open-ended

questions designed to explore the technological challenges and opportunities associated with implementing a tax on Facebook advertisements. The researcher intended to gather in-depth, comprehensive answers to the open-ended questions in order to gain a greater understanding of the technical and security issues at hand.

## **3.6. Data Analysis Method**

Qualitative research uses several techniques including interviews, focus groups, and observation. Interviews can be semi-structured, with open-ended questions on a topic and the interviewer adapts to the responses. Semi-structured interviews have a predetermined number of questions that every participant is asked. It is usually one-on-one and is appropriate for sensitive topics or topics needing an in-depth exploration, Thematic analysis will be utilized to analyze information gathered using interviews, focus group discussion, and open-ended online surveys.

### **3.6.1. Thematic Analysis**

Caulfield, in 2019 defined Thematic analysis as a qualitative data analysis method that involves reading through a data set (such as transcripts from in-depth interviews or focus groups), and identifying patterns in meaning across the data to derive themes.” The process of identifying, categorizing, and interpreting patterns or themes in qualitative data is known as thematic analysis. This can help provide a comprehensive and rigorous response to the study questions, as well as fresh insights and recommendations for imposing tax in the advertisement revenue of Facebook targeting Ethiopia's demography.

In general, Thematic analysis offers a versatile and adaptable approach to analyzing qualitative data, allowing researchers to delve into their research questions and uncover meaningful insights (Braun, Clarke, & Weate, 2019).

In this study, a data-driven (inductive) approach was used for thematic analysis, allowing themes to emerge directly from the data without imposing preconceived categories. A data-driven approach is well-suited to exploratory research as it enables the researcher to remain open to unexpected themes and patterns that reflect participants' genuine perspectives (Braun & Clarke, 2006). This contrasts with theory-driven (deductive) coding, where existing theories or hypotheses guide the coding process, often aligning the analysis with specific, predetermined concepts

(Boyatzis, 1998). While theory-driven coding is valuable for testing theoretical frameworks and exploring known constructs, it can restrict the discovery of novel insights, as researchers may overlook unique themes that do not fit the predefined structure. By adopting a data-driven approach, this study embraced flexibility in analyzing stakeholders' views on Facebook advertisement taxation, ensuring that the findings were grounded in participants' actual responses rather than constrained by theoretical assumptions. This inductive process was particularly valuable given the limited academic exploration of this topic, allowing the research to contribute fresh insights into the challenges and opportunities in the Ethiopian context.

In this study, manual coding was chosen as the primary approach for thematic analysis. Manual coding involves a hands-on, iterative process of reading through data, identifying recurring themes, and systematically categorizing them. This approach fosters a deep understanding of the data, as researchers interact directly with the text, allowing them to grasp subtle nuances, context, and meanings embedded within the responses (Braun & Clarke, 2006). While electronic coding software like NVivo and MAXQDA can expedite the analysis process and offer structured data management, they may limit a researcher's immersion, potentially reducing the depth of insight gained (Friese, 2014). Manual coding, though more time-intensive, offers flexibility and adaptability, allowing the researcher to refine themes organically as new patterns emerge during analysis. By directly engaging with the data without relying on software-driven coding suggestions, this approach helps minimize interpretive distance, fostering a nuanced understanding that is crucial in exploratory research where existing knowledge may be limited. Hence, despite its labor-intensive nature, manual coding was ideal for capturing the complexities in stakeholders' views on Facebook advertisement taxation in Ethiopia, a relatively unexplored area in academic literature.

According to Caulfield, 2019 there are six steps involved in systematically identifying and analyzing recurring themes or patterns within the data.

### **Step 1: Familiarization**

Getting to know the data by transcribing the interview audio and then reading and re-reading interview transcripts while taking initial notes.

## **Step 2: Coding**

This is the step where we highlight meaningful segments of text and phrases to make a label or code to represent their content which will represent the upcoming themes.

## **Step 3: Generating Themes**

The next step is identifying the patterns and connections between the code we have generated resulting in a broader concept known as a theme.

## **Step 4: Defining and Naming Themes**

This process involves coming up with an easily understandable name to provide a clear and concise description of the nature of the data.

## **Step 5: Organizing and Presenting Theme**

The final step is writing up the analysis of the data by construction of framework or hierarchy to organize the identified themes.

## **3.7. Credibility and Conformity**

According to Mertler (2018), a pilot test is critical for identifying flaws in the study design and making necessary adjustments to ensure that the data acquired is accurate and dependable. Instrument validity refers to a measuring instrument's ability to accurately measure its intended results (Yin, 2013). To guarantee the credibility of the final study, researchers conducted pilot interviews with personnel from businesses engaged in Facebook advertising in the Ethiopia participants. These preliminary interviews, however, were excluded from the final analysis. The purpose of the pilot interviews was to assess whether the actual respondents would be receptive to the questioning style and content, ultimately ensuring the final study would obtain the desired data. By sharing the output results with the participatory personals, the researchers achieved conformity.

According to Creswell and Poth (2013), "validation" in qualitative research is an attempt to assess the "accuracy" of the results, as best described by the researcher, participants, and readers. Chase

and Mandle (2001) identified four primary validation criteria: credibility, authenticity, critical appraisal, and integrity. Lewis (2015) evaluated the effectiveness of idea indicators in representing data collected with a specific instrument.

### **3.8. Ethical consideration**

This study prioritized ethical conduct by adhering to established legal and moral principles. Participants were fully informed about the study topic and its objectives through a comprehensive briefing process. To ensure informed consent, data collection solely occurred with participants' voluntary participation. Furthermore, the study guaranteed data confidentiality. All data collected will be used exclusively for academic purposes and will not be shared with any third party. Additionally, the study meticulously avoided plagiarism by appropriately acknowledging prior research efforts. Comprehensive details regarding previous works were meticulously documented within the text and reference list, strictly adhering to the American Psychological Association (APA) style guidelines.

# **CHAPTER FOUR**

## **DATA ANALYSIS, DISCUSSION AND INTERPRETATIONS**

### **4.1. Introduction**

In this section, we will discuss the data analysis and findings along with the discussion of each question. The researcher employed the study's objective as a guide to analyze the data gathered from the stakeholders. The study's objectives were used to categorize the findings into the following sections: Background Information, Facebook advertisement taxation challenges, and Facebook Advertisement taxation potential opportunities.

### **4.2. Background Information**

Interviews and online surveys were conducted with a range of stakeholders in the Ethiopian digital economy including nine high-level personnel from different departments of Ethiopia's Ministry of Revenue, a representative from the Ministry of Innovation and Technology, a representative from the Information Network security agency.

**Table 3: Demographic Information of Respondents**

<b>Variables</b>	<b>Classification of variables</b>	<b>Frequency</b>	<b>Percent</b>
Gender	Female	9	33.33
	Male	18	66.67
	<b>Total</b>	27	100
Age	30-39	21	77.78
	40-49	4	14.81
	50-59	2	7.4
	<b>Total</b>	27	100
Educational Qualification	BA/BSc	11	40.74
	MA/MSc	16	56.26
	PhD	0	0
	<b>Total</b>	27	100
Years of Work Experience	1-5	2	7.41
	6-10	20	74.07
	11-15	3	11.11
	More than 15	2	7.41

	<b>Total</b>	27	100
Educational Fields of Respondents	Information technology	8	29.63
	Business & Economics	12	44.44
	Law	7	25.93
	<b>Total</b>	27	100

Source: Own Survey, 2024

The data reveals a notable gender disparity among the respondents, with 66.67% being men and 33.33% being women, such an imbalance suggests that the perspectives and contributions of women may be underrepresented in these critical fields, potentially limiting the inclusivity and diversity of viewpoints in policy development and innovation.

Regarding age distribution, the majority of respondents 21(77.78%) fall within the 30–39 age group, while 14.81% are aged between 40 and 49. A smaller portion, 7.4%, are between 50 and 59 years old, with no respondents older than 59. This suggests that most participants are young, enthusiastic and competent staff members in their respective organization.

In terms of educational qualifications, 40.74% of respondents hold a bachelor's degree, while a majority of 56.26% have a master’s degree, and none are PhD holders. This indicates that the respondents are well-educated, with most possessing a master’s degree, reflecting a strong knowledge base in their respective fields.

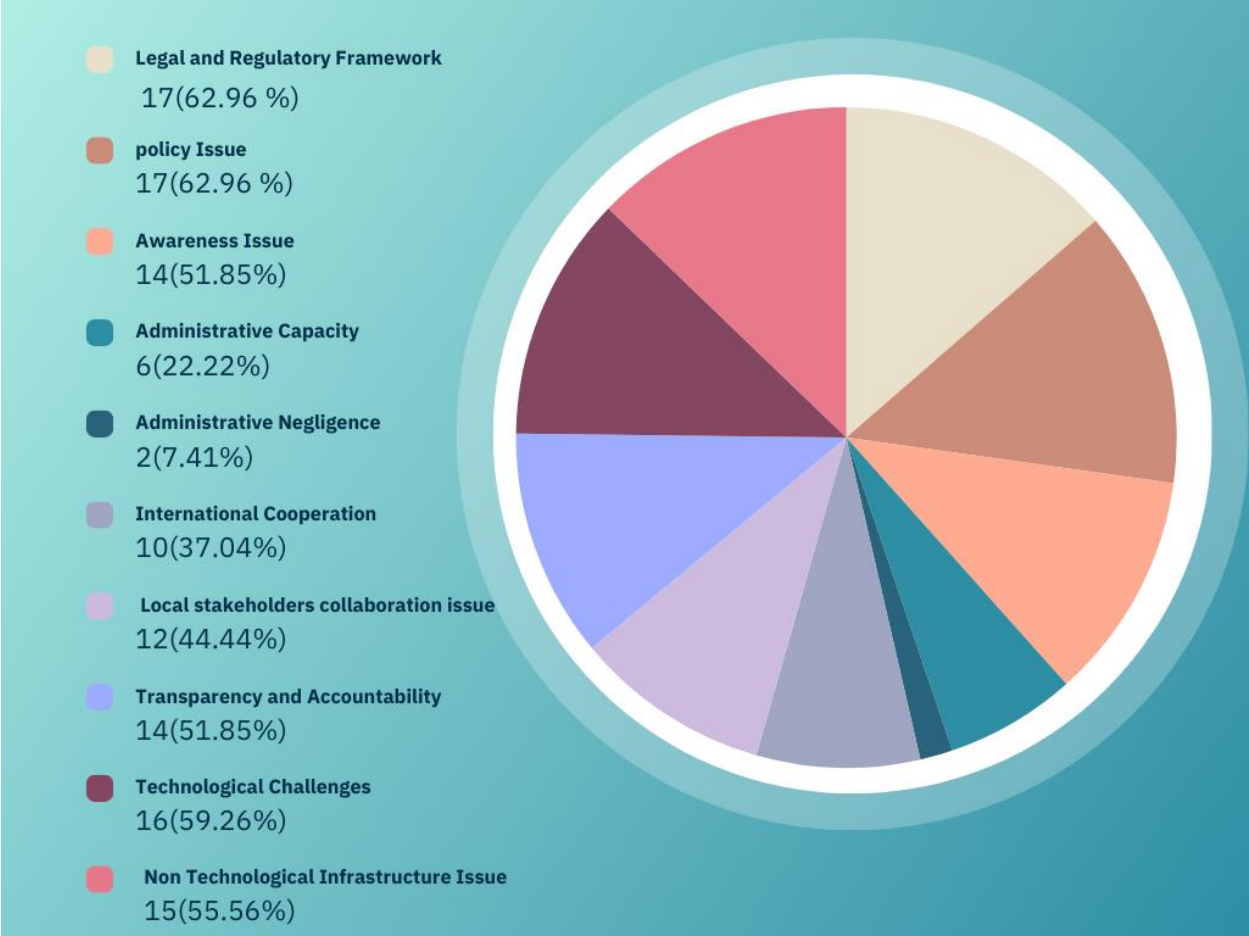
When it comes to work experience, a small percentage (7.41%) have 1–5 years of experience, but the majority (74.07%) have between 6 and 10 years of experience. Additionally, 9.6% have 11–15 years of experience, and 7.41% have more than 15 years. This distribution shows that most

respondents are moderately experienced, with 6 to 10 years of professional experience in their areas of expertise.

The researcher believes that this sample of respondents is sufficient to obtain reliable data, as it includes key stakeholders from relevant government agencies and experts in taxation and digital services, ensuring a comprehensive understanding of the challenges and opportunities related to the taxation of Facebook advertisements in Ethiopia.

### **4.3. Facebook Advertisement Taxation Challenges**

Themes and codes have been generated, as illustrated in the figure below. These thematic areas and codes were created based on the challenges encountered by the Ethiopian Ministry of Revenue in taxing social media advertisements, specifically Facebook. The identified codes are Legal and Regulatory Framework, policy issue, Awareness Issue, Administrative Capacity, Administrative Negligence, International Cooperation, local stakeholders' collaboration issue, Transparency and Accountability, Technological Challenges, and Non-Technological Infrastructure Issues.



**Figure 3: Result of Challenges**

**Table 4: Data Structure for Challenges**

<b>Raw Data (Quotes)</b>	<b>Codes</b>	<b>Themes</b>
<p><i>“We don’t have laws specifically designed for taxing digital advertisements.” <b>Legal team</b></i></p> <p><i>“Our tax laws are outdated and don’t consider digital businesses like Facebook.” <b>Research and development team</b></i></p> <p><i>“Enforcing tax collection from a multinational firm like Facebook is a legal murky area, because our rules do not stipulate how to deal with non-resident entities.” <b>Legal team</b></i></p> <p><i>“We have no regulatory guidelines for foreign digital companies operating in Ethiopia. This leaves a loophole for ad platforms like Facebook.” <b>Research and development team</b></i></p>	<p><i>Legal and Regulatory issue</i></p>	
<p><i>“Our tax laws are outdated and don’t consider digital businesses like Facebook.” <b>Research and development team</b></i></p> <p><i>“We need rules that comply with global digital taxation norms, yet our current approach is antiquated.” <b>Legal team</b></i></p> <p><i>“We don’t have a policy that mandates data sharing by digital ad platforms, which is essential for enforcing taxes.” <b>Legal team</b></i></p> <p><i>“The policies don’t specify how to handle advertisements from companies that aren’t physically present in Ethiopia.” <b>Legal team</b></i></p> <p><i>“Even though other countries are moving forward with digital ad taxes, our policies are still lagging far behind.” <b>Legal team</b></i></p>	<p><i>Policy Issue</i></p>	<p><i>Challenges</i></p>

<p><i>“There’s no alignment between policies on digital advertising and traditional advertising, creating inconsistencies in tax treatment.” <b>Revenue minister IT Dep</b></i></p> <p><i>“There’s no specific policy on digital advertising taxation, so everyone has different interpretations of what is taxable.” <b>Research and development team</b></i></p> <p><i>“The government hasn’t provided a clear framework for taxing online advertisements, making it difficult for us to create a consistent approach.” <b>Legal team</b></i></p>		
<p><i>“Many of our staff are unfamiliar with the specifics of digital advertising, so they struggle to understand how to apply taxes to it.” <b>Research and development team</b></i></p> <p><i>“Our agency has a limited awareness of the digital economy and its influence on our tax base.” <b>Top management at revenue minister</b></i></p> <p><i>“Our team hasn’t received any specific guidance on digital ad taxation, so most of us are unsure about the procedures.” <b>Legal team</b></i></p> <p><i>“There’s a misconception within the agency that digital advertisements are too complex to tax, which discourages proactive efforts.” <b>Research and development team</b></i></p> <p><i>“Few in the agency realize the financial potential of taxing internet ads, thus it's not prioritized.”</i></p> <p><i>“We don’t have a dedicated team that specializes in digital taxes, which limits our knowledge and</i></p>	<p><i>Awareness Issue</i></p>	

<p><i>ability to enforce such taxes effectively.” <b>Research and development team</b></i></p> <p><i>“The tax authority hasn’t communicated the importance of digital ad taxes internally, so staff don’t see it as relevant to their daily tasks.” <b>Legal Team</b></i></p> <p><i>“Most tax officials are unaware of how other countries handle digital ad taxes, which limits our ability to develop effective policies.” <b>Research and development team</b></i></p>		
<p><i>“There’s no dedicated task force for digital ad taxation; it’s just handled as part of a broader tax enforcement strategy, which dilutes our focus.”</i></p> <p><b>Research and development team</b></p> <p><i>“The budget allocated to digital tax enforcement is minimal, so we don’t have the financial means to improve our systems or hire the necessary staff.”</i></p> <p><i>“Our current administrative capacity is not sufficient to handle the complexity of digital tax enforcement, especially with regards to international companies.”</i></p> <p><i>“The enforcement of digital ad taxes requires coordination between multiple departments, but we lack the capacity to ensure effective inter-departmental collaboration.” <b>Research and development team</b></i></p>	<p><i>Administrative Capacity</i></p>	
<p><i>“We are aware that some online platforms are dodging taxes, but there has been no real investigation or effort to prevent it.” <b>Legal team</b></i></p>	<p><i>Administrative Negligence</i></p>	

<p>“There’s a tendency to delay action on the taxation of digital ads, often waiting until it becomes an urgent issue, instead of being proactive.” <b>Research and development team</b></p> <p>“Despite the growing revenue potential from digital ads, the tax department hasn't prioritized creating a framework for taxing these ads.” <b>Research and development team</b></p> <p>“Despite years of discussion, there is a general lack of urgency within the tax authorities when it comes to introducing digital ad taxes.” <b>Research and development team</b></p>		
<p>“The lack of cooperation between Ethiopian authorities and international tax bodies makes it hard to track the revenues of foreign companies.”</p> <p>“Without international agreements, it's difficult to enforce tax policies on foreign digital companies operating in Ethiopia, like Facebook.” <b>Legal team</b></p> <p>“We’re facing difficulties in negotiating with international companies because there’s no framework in place to deal with digital ad taxation.” <b>Research and development team</b></p>	<p><i>International Cooperation</i></p>	
<p>“The lack of collaborative cooperation between regulatory authorities and the ministry of finance generates confusion, making enforcement harder.” <b>Research and development team</b></p> <p>“The Ministry of Revenue has its own priorities, and the Ministry of Finance is focused on the national budget, while the Ministry of Innovation is all about tech. But when it comes to digital ads, no one is fully on the same page, and we end up</p>	<p><i>Local stakeholders’ collaboration issue</i></p>	

<p><i>working in silos.” <b>Innovation and technology Minister officials</b></i></p> <p><i>“While the Ministry of Finance establishes revenue rules, the Ministry of Revenue is left to handle logistics in the absence of appropriate input from the Ministry of Innovation on how to track digital ads. This lack of coordination causes bottlenecks.”</i></p> <p><b>Research and development team</b></p> <p><i>“The Ministry of Innovation often proposes tech-based solutions, but the Ministry of Revenue doesn’t always trust those ideas, preferring traditional methods. This tension only delays the creation of a viable digital ad tax system.”</i></p> <p><i>“It feels like every time we meet, the ministries are arguing over whose job it is to take charge of the digital ad tax project. If we can’t get our act together locally, how can we expect global companies to comply?”</i> <b>Research and development team</b></p> <p><i>“The lack of communication between the Ministry of Finance and the Ministry of Innovation has led to a delay in adopting the right tax policies for digital ads. We can’t enforce anything if we don’t have all the pieces in place.”</i> <b>Research and development team</b></p>		
<p><i>“There is no public disclosure of how Facebook calculates and reports income made by Ethiopian advertisers, raising concerns about whether they are paying their fair share of taxes.”</i></p>	<p><i>Transparency and Accountability</i></p>	

<p><i>“It is extremely difficult for tax authorities to ensure Facebook is complying with local tax laws because they have not fully disclosed their business operations or revenue models in Ethiopia.”</i></p> <p><i>“Without precise financial records and real-time ad income statistics, we have little to no method of holding Facebook accountable for how much it pays in Ethiopian taxes.”</i> <b>Research and development team</b></p> <p><i>“The issue is not just about tax payment, but also about whether Facebook is fully disclosing how its platforms are used to advertise to Ethiopian businesses—without this, how can we ensure compliance?”</i> <b>Research and development team</b></p>		
<p><i>“We do not have the necessary tools to effectively evaluate Facebook's advertising network. The technology required to monitor cross-border digital transactions is just not accessible in Ethiopia.”</i></p> <p><b>Innovation and technology Minster officials</b></p> <p><i>“The current digital infrastructure in Ethiopia isn't advanced enough to track international ad revenues in real time, making it difficult to apply taxes effectively to companies like Facebook.”</i></p> <p><b>Research and development team</b></p> <p><i>“Tracking digital ad revenue generated from Ethiopian users on Facebook requires advanced data analytics, which is a significant challenge given the current technology and expertise available within our tax authorities.”</i> <b>INSA officials</b></p>	<p><i>Technological Challenges</i></p>	

<p><i>“A lack of technical capacity to handle cross-border taxation on digital ads, especially those from multinational platforms like Facebook, hinders efforts to ensure compliance with tax laws.” <b>INSA officials</b></i></p>		
<p><i>“There’s a lack of specialized personnel who understand the intricacies of digital advertising, so general tax officers are tasked with managing it without proper expertise.”</i></p> <p><i>“We lack the infrastructure needed to track online ad revenues effectively.” <b>INSA officials</b></i></p> <p><i>“The limited experience of tax authorities in understanding the complex algorithms used by platforms like Facebook to target ads and distribute revenue poses significant challenges to enforcing tax laws.” <b>Innovation and technology Minster officials</b></i></p> <p><i>“Without the necessary technological infrastructure, we are significantly disadvantaged in imposing taxes on digital ads. Facebook's algorithm-driven approach to ad targeting is much beyond our ability to monitor.” <b>INSA officials</b></i></p>	<p><i>Non-Technological Infrastructure Issue</i></p>	

**Key findings**

**4.3.1 Legal and Regulatory Framework**

Most of the respondents emphasize the legal and regulatory issue which is hindering the taxation of multinational companies such as Meta (Facebook’s parent company). According to *Federal Income Tax Proclamation No. 979/2016*, the requirement to be subjected to taxation is permanent establishment, residency, and source of income (earning taxable income within Ethiopia's jurisdiction) which gave a loophole to multinational corporations that operate digitally without

*permanent establishment and residency. Due to these loopholes, the Ethiopian government is losing a significant amount of revenue while this Facebook (multinational corporation) are involved in tax evasion and avoidance methods. In the Focus Group Discussion with the legal team at the Ministry of Revenue it is noted that there should be a policy reform to incorporate these companies which is the responsibility of the Ministry of Finance Ethiopia. The Research and Development Department of the Ministry of revenue mentioned the permanent establishment should be considered a significant economic presence concept that could help target nonresidents who are gaining income to be taxed also mentioned that currently there is ongoing research that is being done by the revenue minister under the revenue enhancement project with consideration of the of ministry of finance support while there has not been any collaboration with none of the above potential government stallholders such as ministry of innovation and technology and ethio telecom.*

#### **4.3.2. Policy Issue**

One of the major challenges that has been raised by the participants was policy issue. The focus group discussion with the legal team and academics with taxation expertise stresses the role of the Ministry of Finance as the major solution to digital economy taxation in general. *The Ministry of Revenue Researchers and revenue enhancement project consultants mentioned that there is a current initiative and proposal of new policy formulation to tax e-commerce including multinational companies such as Meta and its platform Facebook. In conclusion, the ministry of finance, considering its central role, should take leadership by collaborating with legal experts, academics, and the revenue minister to bridge the lack of clarity in the taxation of the digital economy, particularly corporations without permanent establishment.*

#### **4.3.3. Awareness Issue**

From the interviews, focused group discussion, and survey the lack of awareness about the concept of taxing digital services, particularly online user-targeting advertisement platforms was vivid. The focused group discussion with researchers and interviews with academics have confirmed the lack of understanding and unawareness about social media taxation. Many respondents indicated misunderstanding or unawareness about the taxation of digital advertising leading to inconsistent

and incomplete answers. The researchers noted the complex nature of the digital economy is a factor for the awareness issue.

#### **4.3.4. Administrative Capacity**

Participants from ministry revenue highlighted the lack of administrative capacity to efficiently execute the taxation of this tech giant platform and effectively govern. The Head of digital industry development at the Ministry of innovation noted as a country we have a long way to go in order to efficiently implement digital service tax stressing on the lack of administrative capacity. He also mentioned factors such as technical expertise and infrastructure, the global nature of the operation and the digital nature of the business model while recommending collaboration of every local and international stakeholder. By highlighting the administrative challenge in digital multinational companies, this key finding suggests the urgency of developing tax administrative capabilities to ensure effective implementation of taxation of online user targeting advertisement platform Facebook.

#### **4.3.5. Administrative Negligence**

According to revenue enhancement project researchers through comprehensive analysis, a common pattern of administrative negligence has been identified. There seems to be a common attitude among senior management multinational corporations using the priority of local tax compliance as a justification. The Lack of fundamental awareness regarding the means of taxation of corporations such as Facebook could be considered as factor for the negligence. Moving forward, future research should be done to address the knowledge gap, and training senior management on the issue is necessary.

#### **4.3.6. International Cooperation**

Taxing multinational digital platforms such as Facebook presents significant challenges due to a lack of international cooperation. Ethiopia is not a member of global and continental organizations such as OECD and ATAF that are working to promote policies and regulations to improve the economic and social well-being of people all around. due to the gaps and mismatches of the international law mismatch digital giants like Facebook exploit it whereas local business that use traditional business model are taxed rigorously. To address these issues, Ethiopia should actively

engage in international tax forums, such as the Organization for Economic Co-operation and Development (OECD) and the United Nations, to advocate for the development and adoption of global tax standards for the digital economy.

#### **4.3.7. Local stakeholders' collaboration issue**

*As highlighted by the legal team, the lack of cooperation between the local institutions such as the Ministry of Finance, Ministry of Innovation and Technology, Information Network Security Administration (INSA), and Ethio telecom encouraged the exploitation of these gaps in the taxation requirements. The lack of coordinated and consistent effort between this key institution resulted in the loss of a significant amount of income that could have been raised.*

Consequently, governments lose out on vital funds for public services, local businesses face unfair competition, and citizens become frustrated as they shoulder a disproportionate tax burden. To address this, efforts are underway to establish a multilateral agreement on digital taxation by the Ministry of Revenue and Ministry of Finance. They mentioned challenges, such as unclear communication channels and coordination mechanisms, conflicting priorities, and a lack of understanding of the digital advertising landscape. The representative also mentioned the reformation of these institutions as one cause recalling the previous attempts of the Ethiopian Ministry of Science and Technology (MoST) to propose digital taxation before its reformation to the Ministry of Innovation and Technology (MinT).

*The Ministry of Revenue's Research and Development Directorate emphasized that the absence of corporations from these institutions made it difficult for them to carry out their research for their Revenue Enhancement Project, which suggests taxing digital services. In the focused group discussion with the revenue minister's research and development department personnel, the need*

Creating a multi-stakeholder task force comprising representatives from the tax authority, relevant government ministries, digital advertising agencies, and business associations to tax multinational digital corporations like Meta (Facebook's parent company) was mentioned. Finally, Ethiopia has

the potential to generate a significant amount of income from effectively taxing digital advertisements like Facebook by addressing these challenges.

#### **4.3.8. Transparency and Accountability**

Respondents from different departments of the Ministry of Revenue highlighted the lack of transparency and accountability surrounding tax practices of multinational digital corporations. Facebook is one of the results of their complex financial structure, Ethiopia's outdated tax framework that does not consider the digital era, and complex that makes it challenging for tax authorities to determine the exact profits and amount of tax due. The consultant of the revenue enhancement project mentioned they faced this challenge in their research that aimed to propose digital taxation while suggesting Facebook to publicly disclose country-by-country report of its revenue and profit. To ensure data accuracy, the researchers and scholars emphasized the importance of working with Ethiopian Telecom, INSA, and MINT. The researchers stated that their attempt to do so was unsuccessful. Without cooperation, it is difficult to get a clear picture of digital advertising activities, which makes tax assessment more cumbersome.

#### **4.3.9. Technological Challenges**

Ethiopia's taxation of social media advertising platforms such as Facebook has been hindered by major technology issues that make it difficult to collect and administer taxes efficiently. The digital nature of Facebook platforms' advertisement transactions creates difficulties that the traditional tax system of Ethiopia is ill-prepared to manage. Advanced technology solutions are necessary to address crucial difficulties such as accurately allocating revenue to the country, processing massive volumes of data, and tracking online adverts. Ethiopia tax authority's ability to enforce tax on digital companies like Meta is affected by the technological issue resulting in the miss out on a substantial sum of money from an ever-growing sector of the economy and threatens the authority's ability to maintain equitable taxes and enforce tax compliance.

*The respondent from the ministry of innovation and technology suggested the use of big data technology and data analytics which can be used to efficiently collect data and internet information, manage information effectively, and create a comprehensive tax database. In conclusion, Ethiopia should strategically invest in*

*technology and skill development for the effective taxation of the digital economy ensuring not only increased government revenue but also ensures tax fairness and efficiency of the tax system.*

#### **4.3.10. Non-Technological Infrastructure Issue**

Among the difficulties of imposing taxation on a multinational Digital Corporation such as Facebook is a technological infrastructure issue which the respondent listed as follows: skilled manpower in sectors that related to the taxation of this corporation such as international law, technology, legal advisors, administrative staff training and development personnel, researcher etc...

The recurring theme emerging from the interviews and focus group discussions revealed the urgency of investing in this infrastructure for the effective implementation of taxation on Facebook advertisements and multinational digital corporations, where the complexity of the digital advertisement environment is the driving force behind the urgency. In general Research and training initiatives are essential to provide tax officials with the knowledge and skills necessary to handle the complexities of digital taxes, which exacerbates the problem even further.

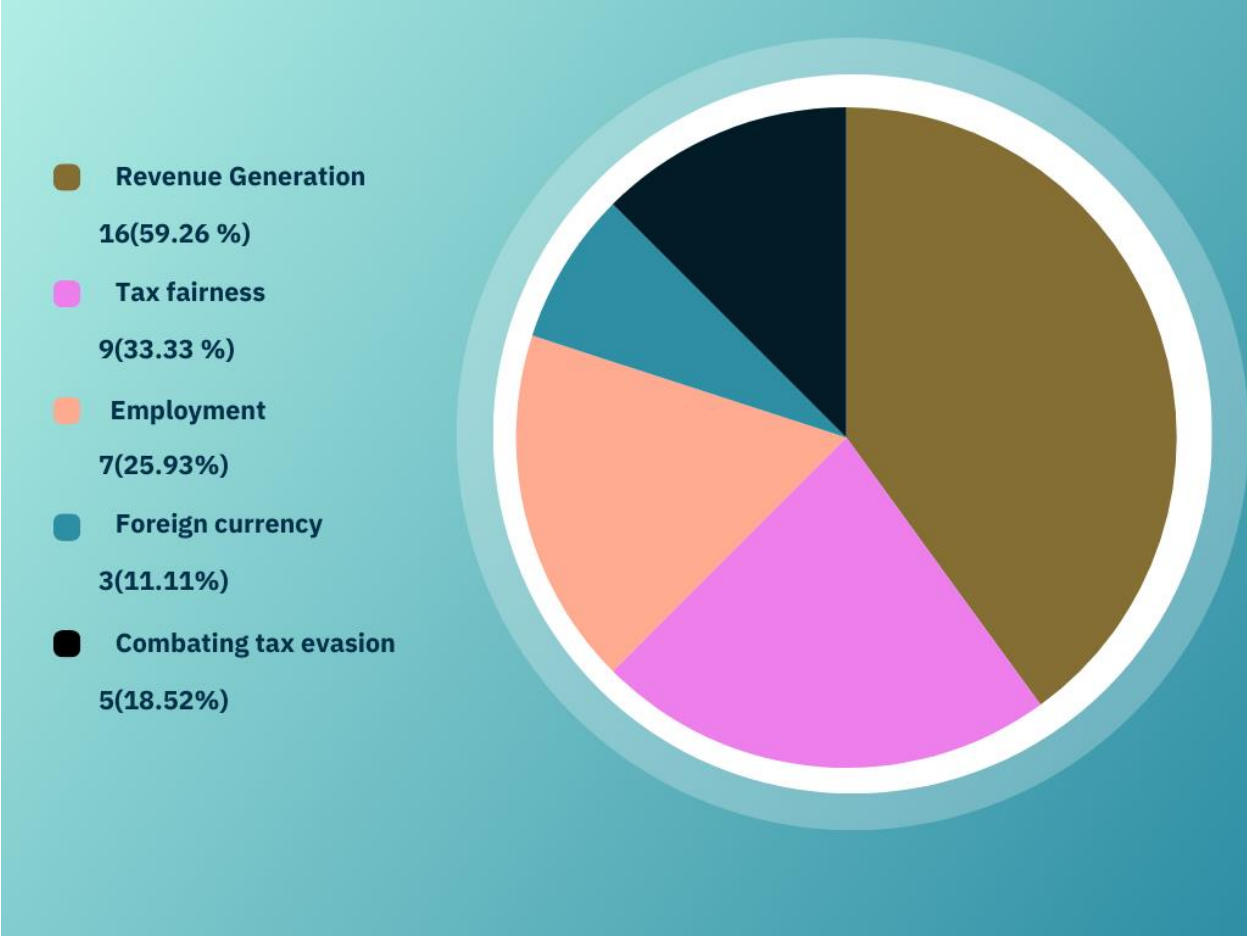
The thematic analysis of revealed Legal and Regulatory Framework and policy issues as the main challenges faced by the Ethiopian Ministry of revenue for taxing FB advertisement activities as evidenced by the frequency of their mention by respondents. This finding aligns with the existing research on the topic and literature reviews of prior study's outcomes where they have documented similar challenges. Furthermore, the participants mentioned additional issues hindering the taxation of the platform which includes Awareness Issue, Administrative Capacity, Administrative Negligence, International Cooperation, local stakeholder collaboration issue, Transparency and Accountability, Technological Challenges, Non-Technological Infrastructure Issue.



**Figure 4: Challenges map**

#### **4.4 Facebook Advertisement Taxation Potential Opportunities**

According to the analysis of Industry experts, revenue minister personnel responded “*Taxing social media advertising, particularly Facebook which is the most popular platform in Ethiopia has several opportunities.*”. The taxation of Facebook advertisements in Ethiopia offers an array of potential opportunities such as revenue generation, generating foreign currency, tax fairness, employment, and combating tax evasion. The taxation of Facebook ads can yield a variety of opportunities for several economic sectors, such as traditional businesses, banks, and the general public.



*Figure 5: Result of opportunity*

**Table 5: Data structure for Opportunities**

<b>Raw Data (Quotes)</b>	<b>Codes</b>	<b>Themes</b>
<p>“Implementing a tax on Facebook advertisements could significantly boost the country’s revenue base, especially with the growing digital economy.” <b>Research and development team</b></p> <p>“Digital advertising has become an essential component of the global economy. Taxing this industry will help guarantee that Ethiopia capitalizes on the potential given by digital platforms, allowing for sustainable economic growth.” <b>Innovation and technology Minister officials</b></p> <p>“A Facebook ad tax might help Ethiopia diversify its revenue streams, which is critical for a sustainable economy. It has the potential to minimize our reliance on traditional sectors like agriculture while also creating new revenue streams that are in line with global digital trends.” <b>Top management at revenue minister</b></p>	<p>Revenue generation</p>	
<p>“We cannot let foreign firms exist without paying to the national budget. Taxing Facebook ads will rectify the imbalance between international and local firms, ensuring that all market participants contribute equally to Ethiopia's prosperity.” <b>Research and development team</b></p> <p>“A tax on Facebook ads aligns with the principle of fairness in taxation. Local businesses have to comply with tax regulations, so international companies profiting from the Ethiopian market should also contribute their fair share, which will also foster a sense of tax equity across sectors.” <b>Legal team</b></p>	<p>Tax fairness</p>	

<p><i>“Taxing Facebook adverts would result in a more equitable tax structure in which both local and multinational enterprises contribute equitably. It levels the playing field for domestic enterprises, ensuring that giant global corporations do not exploit tax loopholes while benefitting from the local market.”</i></p>		<p><i>opportunities</i></p>
<p><i>" Taxing Facebook adverts might open up new job opportunities in tax administration, digital surveillance, and compliance. This would necessitate hiring more people to oversee the tax system, resulting in jobs in both the public and private sectors." <b>Research and development team</b></i></p> <p><i>"The funds obtained by taxing Facebook ads might be returned into the digital economy, resulting in greater job opportunities, particularly for young people in technology-related areas. As digital advertising expands, so will the demand for trained individuals to administer and analyze these platforms." <b>Legal team</b></i></p> <p><i>"By taxing digital platforms like Facebook, the government can generate additional revenue that could be directed towards creating jobs in tech, marketing, and even local entrepreneurship programs that would help grow the digital economy and provide employment opportunities for young people." <b>Research and development team</b></i></p> <p><i>“Revenue from the taxation of Facebook ads could fund national projects aimed at enhancing digital literacy and skills, which would increase the employability of Ethiopian youth. More investments in technology would also create jobs in the growing digital sector.” <b>Top management at revenue minister</b></i></p>	<p><i>Employment</i></p>	

<p><i>“Taxing Facebook adverts might provide a much-needed source of foreign currency, particularly as Ethiopia relies more on digital platforms for economic progress. This would aid not only in satisfying foreign exchange requirements, but also in promoting larger economic changes.”</i> <b>Research and development team</b></p> <p><i>“Imposing a tax on Facebook ads could lead to an influx of foreign currency as international companies pay for their ads. This revenue could be leveraged to boost Ethiopia’s foreign exchange reserves and could even help stabilize the local currency in the long term.”</i> <b>Top management at revenue minister</b></p> <p><i>“Imposing a tax on Facebook ads could lead to an influx of foreign currency as international companies pay for their ads. This revenue could be leveraged to boost Ethiopia’s foreign exchange reserves and could even help stabilize the local currency in the long term.”</i> <b>Legal Team</b></p>	<p>Foreign currency</p>	
<p><i>“Placing a tax on Facebook adverts would help to address the loopholes that firms use to avoid paying taxes.”</i> <b>Research and development team</b></p> <p><i>"By implementing a tax on these ads, we can tackle tax evasion by ensuring that all digital transactions are captured and taxed appropriately."</i> <b>Legal Team</b></p> <p><i>“One of the key benefits of taxing Facebook ads is that it directly targets tax evasion in the digital economy. Many international companies operate here without paying taxes, but with clear regulations and taxes on their ads, we can ensure that they pay their fair share, which is crucial for revenue generation.”</i><b>Legal team</b></p>	<p>Combating tax evasion</p>	

<p><i>“Tax avoidance is a continuing issue in Ethiopia, particularly with regard to overseas digital platforms. By taxing Facebook advertisements, we create a system in which multinational corporations cannot as easily escape taxes.”</i> <b>Top management at revenue minister</b></p> <p><i>“The taxation of Facebook advertisements would be an effective tool in combating tax evasion. With many digital companies not being subject to the same regulations as local businesses, taxing their advertisements would close these gaps and ensure that they pay taxes, just like any other business operating in Ethiopia.”</i> <b>Research and development team</b></p>		
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Based on the analysis shown in Figure 5 ,59.26% of the respondents highlighted the revenue generation opportunity. According to them, even with difficulties in taxing a large, complexly organized firm such as Facebook, there are unquestionable financial advantages that could greatly boost Ethiopia's economy as a whole. 11.11% of the respondents mention the potential of earning foreign currency from the taxation of Facebook advertisements which in return can improve the ability of Ethiopia's engagement in international trade. Other potential includes employment opportunity, combating tax evasion.



**Figure 6: potential opportunity map**

The respondent emphasized the revenue generation opportunities which can stimulate the digital economy and in general Ethiopian economy considering the new found revenue which could be directed towards various development initiatives. an economist from the ministry of revenue highlighted” the substantial growth of digital advertisement in Ethiopia which could consequently bring a considerable amount of revenue which can be instrumental in funding the public service, education, healthcare, and technology sectors which are essential for the development of the nation”. as figure 6 illustrate foreign currency as one of the opportunities of taxing Facebook Ad.

*Experts highlighted Due to Facebook's significant ad sales revenue, a portion of these profits should be subject to taxes and would have to be paid in foreign currency to the Ethiopian government.*

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

#### 5.1. Introduction

The study explored the potential of imposing a tax on the advertisement revenue of Facebook in Ethiopia. The investigation explored the potential challenges and opportunities associated with taxing FB advertisements in Ethiopia. As a digital service, specifically Facebook advertisement taxation became a common practice globally.

#### 5.2. Conclusion

The aim of this study was to explore the potential taxation of Facebook advertisements in Ethiopia, identifying the associated challenges and opportunities. To achieve this, data were collected through two focus group discussions with taxation law experts, open-ended surveys of officials from the Information Network Security Agency (INSA), and fifteen semi-structured interviews with representatives from the Ministry of Revenue and the Ministry of Innovation and Technology. The findings from this research lead to the following conclusions:

- The primary challenge identified for implementing taxation on Facebook advertisements in Ethiopia is the lack of a comprehensive policy and legal framework governing the taxation of digital services. This gap presents significant hurdles in formalizing tax obligations for digital platforms operating within the country.
- Respondents also highlighted a general lack of awareness regarding the potential of taxing Facebook advertisements and digital services.
- Additional challenges include insufficient local and international collaboration, limited administrative capacity, negligence issues, and concerns related to transparency and accountability. Moreover, both technological and non-technological infrastructure deficiencies were cited as impediments to effective tax administration.
- Despite these challenges, the analysis revealed substantial potential benefits for Ethiopia from taxing Facebook advertisements and other digital services. These benefits include significant revenue generation, increased foreign currency inflows, and job creation.

Furthermore, the implementation of such taxation could help combat tax evasion and promote tax fairness within the digital economy.

- Respondents emphasized the urgent need for ongoing research into the taxation of the digital economy, advocating for the development of a robust policy and legal framework, enhanced administrative capacity and infrastructure, and strengthened stakeholder collaboration. Additionally, they recommended joining intergovernmental organizations, providing incentives for compliance, and establishing an independent digital tax authority as strategic measures to facilitate the effective taxation of Facebook advertisements.

In conclusion, while the potential for taxing Facebook advertisements in Ethiopia offers numerous opportunities for economic enhancement, addressing the identified challenges through strategic planning, policy development, and stakeholder engagement is essential for successful implementation. By taking these steps, Ethiopia can create a fair and effective taxation system that captures revenue from digital platforms while fostering a thriving digital economy.

### **5.3. Recommendation**

Ethiopia does not currently tax Facebook advertisements, however, there are some initiatives for taxing digital services in general. The study provides some implementation measures for putting this taxation into practice. Considering this fact and the findings of the study, the following recommendations are forwarded:

#### **For the Ministry of Finance**

- Develop a clear taxation policy for the purpose of taxation digital advertising, such as Facebook ads. This should specify the details of advertisements subject to taxation, the rates, and the procedures for collecting the taxes.
- Regularly review the taxation policy to ensure it remains effective and relevant in the fast-evolving digital landscape.
- Establish penalties for non-compliance in order to make sure that all companies follow the new tax regulations.
- Collaborate with global organizations like the OECD to implement optimal strategies for levying taxes on digital services.

- Collaborate with local stakeholders for the effective implementation of FB advertising taxation.
- Collaborate with other countries that have successfully implemented similar taxes to learn from their experiences.

### **For the Ministry of Revenue**

- Amend current tax legislation to specifically address digital advertising services. This includes defining what constitutes digital advertising and specifying the entities liable to pay taxes.
- Take part in international negotiations to make sure that multinational digital platforms such as Facebook comply.
- Invest in technology to monitor digital advertising activities. This can entail creating tools and algorithms for tracking targeting and ad spending on platforms like Facebook.
- Conduct awareness initiatives to inform nearby companies and advertising about the new tax laws.

### **For the government of Ethiopia**

- Establish a dedicated division within the tax authorities with an emphasis on the digital economy. This unit should have expertise in technology, data analytics, and digital taxation.
- Invest in training programs for tax officials to enhance their understanding of the digital economy and equip them with skills to monitor and enforce digital tax regulations.
- Develop the tax authority's capacity to evaluate data from digital platforms, ensuring accurate assessment and collection of taxes.

## 5.4. Limitations and Suggestions for Further Research

The study on taxation of Facebook advertisements in Ethiopia has several limitations, including its use of qualitative methods which can provide in-depth insight however it may not capture the full breadth of perspectives that a quantitative approach could offer. The scope of the research was focused on the Facebook platform, excluding other digital advertising platforms which can limit the generalizability of the findings to the broader digital advertising market in Ethiopia. Additionally, budget constraints and a lack of literature on digital advertisement taxation in Ethiopia limit the depth of the study and its generalizability to the broader digital advertising market. Furthermore, the data collection methods employed, specifically interviewing and focused group discussion with stakeholders, are susceptible to potential biases. Participants may have incomplete or distorted memories of past events or may be inclined to present themselves and their practices in a favorable light. This inclination could introduce inaccuracies and compromise the overall reliability of the data.

Future research on taxing Facebook advertisements in Ethiopia could expand to include other major digital advertising platforms, investigate the economic and social impacts of taxation on local businesses and consumers, and engage with various stakeholders. A mixed-methods approach could be adopted, combining qualitative and quantitative techniques.

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## Appendix

A, code Notebook

Themes and Codes	Description
<b>Challenges (theme)</b>	
Administrative Capacity(code)	The lack of administrative capacity such as Institutional Structure. Financial Resources, Leadership, and Governance. Operational Process.
Administrative Negligence(code)	The failure of senior management to perform their administrative duties with the level of care, competence, and attention to detail that is reasonably expected.
Awareness Issue(code)	The lack of understanding and knowledge on the right to impose taxing Facebook ads as a country,
International Cooperation(code)	The lack of cooperation and membership with organization that work on taxation issue and that formulate taxation such as OECD and ATAF.
Legal and Regulatory Framework(code)	Lack of rules and regulations for the effective implementation of taxation of FB ads.
Local stakeholders' collaboration issue(code)	The lack of cooperation and collaboration between the Ministry of Revenue, the Ministry of Finance, MINT, INSA, and Ethio Telecom.

Non-Technological Infrastructure Issue (code)	Lack of adequate infrastructure for the taxation of FB ads such as skilled manpower in sectors related to the taxation of this corporation such as international law, technology, legal advisors administrative staff training, and development personnel.
Policy Issue (code)	The absence of policies to enforce the taxation of FB ads and monitor compliance.
Technological Challenges(code)	The lack of Advanced technology solutions is necessary to address crucial difficulties such as accurately allocating revenue to the country, processing massive volumes of data, and tracking online adverts.
Transparency and Accountability(code)	The lack of transparency and accountability surrounding taxation data Facebook.
<b>Opportunities(themes)</b>	
Revenue generation(code)	The substantial amount of income that can be acquired by taxing FB ads.
Tax fairness (code)	The issue that arises is due to the taxation of traditional businesses and not taxing the digital ones like Facebook.
Employment (code)	The job creates opportunities for imposing tax on FB ads.
Foreign currency(code)	Taxing Facebook ads can generate foreign currency, that can be used to fund the public sector.
Combating tax evasion (code)	The possibility of FB deliberately avoiding paying the true tax share or non-payment or underpayment of tax.

## **B. Interview question**

### **Questionnaires for ERCA**

#### **Exploring potential taxation of Facebook advertisement in Ethiopia: challenges, and opportunities.**

My name is Edilawit Solomon, and I am currently pursuing a Master of Business Administration (MBA) at Addis Ababa University. I am conducting a qualitative study titled " Exploring potential taxation of Facebook advertisements in Ethiopia: challenges and opportunities." I invite you to participate in this study. Your insights and responses will be used exclusively for research purposes. I greatly appreciate your time and consideration, and I would be delighted to share the study's findings with you once it is completed.

Contact information: \_\_\_\_\_

1. Can you provide an overview of the current tax framework for digital advertising in Ethiopia?
2. How does Ethiopia currently tax foreign companies providing digital services, including online advertising?
3. Are there any current efforts or discussions underway to tax online advertisements, specifically on platforms like Facebook? if so How has the government engaged with key stakeholders, including Meta, local businesses, and consumers, regarding this potential tax? Or Are there plans to update or revise existing tax laws to better accommodate the digital economy?
4. What feedback or concerns have been raised by these stakeholders, and how is the government addressing them?
5. Are there any additional digital economy areas that the government is considering for future taxation?
6. What are the primary reasons for considering a tax on Meta for its Facebook advertisements targeting Ethiopian users?
7. What insights can you provide on the scale and scope of Facebook advertisements targeting Ethiopian users?
8. What are the expected benefits and potential downsides of implementing such a tax?

9. What challenges do you anticipate in implementing and enforcing a tax on Meta for its advertisements?
10. How does Ethiopia plan to monitor and ensure compliance from a multinational corporation like Meta?
11. How would the government track and measure Facebook advertisements targeting Ethiopian users to ensure accurate taxation?
12. What strategies or solutions could be employed to overcome these challenges?
13. Are there international precedents or models that Ethiopia is looking at in terms of taxing digital advertisements by foreign companies?
14. Is Ethiopia considering cooperation with other countries or international bodies to establish a more effective digital tax regime?
15. What technological and legal infrastructure is necessary to effectively tax digital advertisements, and how prepared is Ethiopia in this regard?

## Questionnaires for INSA and MINT

### **Exploring potential taxation of Facebook advertisement in Ethiopia: challenges, opportunities, Implementation Strategy, and Impact**

My name is Edilawit Solomon, and I am currently pursuing a Master of Business Administration (MBA) at Addis Ababa University. I am conducting a qualitative study titled " Exploring potential taxation of Facebook advertisement in Ethiopia: challenges, opportunities, Implementation strategy, Impact." I invite you to participate in this study. Your insights and responses will be used exclusively for research purposes. I greatly appreciate your time and consideration, and I would be delighted to share the study's findings with you once it is completed.

Demography

Age range\_\_\_\_\_

Gender\_\_\_\_\_

Level of education\_\_\_\_\_

Educational Fields\_\_\_\_\_

Length of Service\_\_\_\_\_

Current position\_\_\_\_\_

1. Is it possible to discern the frequency and engagement with which Facebook has employed Ethiopian demographic data for advertising purposes, if so how?
2. What technical challenges does your institution foresee in implementing and monitoring a tax on Facebook advertisements?
3. What mechanisms could be put in place to ensure transparency and accountability in the reporting of advertising revenue by these platforms?
4. From your institution's perspective, what are the key regulatory considerations and challenges associated with taxing Facebook advertisements targeting Ethiopian users?

5. How does your institution envision its role in enforcing compliance with taxation requirements in the digital advertising sector? And what kind of technology will be employed to assure compliance with the new tax regulation?
6. How will your institution ensure data accuracy and protect the privacy of advertisements while implementing this tax?
7. What measures will be taken to protect the privacy and security of data collected from Facebook?