Where the Gap Lay: Presumptive Income Tax Assessment for Small and Micro Enterprises in Addis Ababa City Administration

Amanuel Mekonnen Workneh and Endalkachew Mulugeta Baileyegn with Graeme Stewart-Wilson

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Summary

This study is focused on the presumptive tax reassessment of small and micro enterprises (SMEs) in Addis Ababa City Administration that took place in 2017. The reassessment process was based on average daily revenue estimates calculated by teams of assessors and validated by a series of committees. The release of the reassessment results in 2017 led to widespread public outcry in Addis Ababa, suggesting possible shortcomings of the processes and procedures used. To understand the challenges and opportunities of the reassessment process, the study employed a descriptive survey design; a taxpayer survey and accompanying key informant interviews (KIIs) with tax officials were used to gather data. Stratified random sampling was applied in selecting respondents to ensure the representativeness of selected samples. Surveys and KIIs examined the overall processes and procedures of the reassessment, the indicators used for average daily revenue estimates, the fairness and equitability of results, and the underlying causes of taxpayer complaints. The study finds that overall processes and procedures were opaque both to taxpayers and assessors, with insufficient public awareness campaigns and training sessions. The indicators that were most commonly used to estimate average daily revenue lacked objectivity, and were thus unevenly applied by different assessors to businesses of the same type. As a result, average daily revenue estimates and the taxes levied thereon were not fair and equitable between businesses of the same type in similar locations. The study also identifies some important weaknesses in the complaint resolution process, such as the fact that complaint hearing committees were not empowered to increase initial assessments if the evidence existed. As a result, there was no cost to taxpayers for submitting complaints, which likely contributed to the overwhelming number of complaints received by the authority. Although some important successes were recorded, such as limited perceptions of corruption and unethical behaviour by tax officials, the study identifies significant room for improvement. Based on the study findings, possible policy recommendations are forwarded to inform the next presumptive tax reassessment process.

Key Words: presumptive tax assessment; average daily revenue estimation; small and micro enterprises; Ethiopia; sub-Saharan Africa

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Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERCA</td>
<td>Ethiopian Revenue and Customs Authority</td>
</tr>
<tr>
<td>EPRDF</td>
<td>Ethiopian People’s Revolutionary Democratic Front</td>
</tr>
<tr>
<td>ETRN</td>
<td>Ethiopian Tax Research Network</td>
</tr>
<tr>
<td>ICTD</td>
<td>International Centre for Tax and Development</td>
</tr>
<tr>
<td>KII</td>
<td>Key Informant Interview</td>
</tr>
<tr>
<td>MoFED</td>
<td>Ministry of Finance and Economic Development</td>
</tr>
<tr>
<td>MoT</td>
<td>Ministry of Trade</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Micro Enterprises</td>
</tr>
</tbody>
</table>
Introduction

Many countries around the world use some form of presumptive taxation to simplify the rules for businesses and individuals that frequently escape taxation (Taube and Tadesse 1996). At their most general, presumptive taxes seek to use indirect means to assess the liability of a specific taxpayer, which differ from the usual rules based on taxpayer accounts. The term ‘presumptive’ is used to indicate that a legal presumption exists that a taxpayers income is no less than the amount resulting from application of the indirect method (Thuronyi 1996).

Many developing countries, including Ethiopia, use presumptive taxes as a simplified method of revenue collection from small informal sector firms. Taxation of small informal firms faces two primary challenges: high compliance costs for taxpayers, and high collection costs for administrators (Loeprick 2009). Presumptive taxes help to avoid both of these challenges by simplifying bookkeeping for taxpayers, and by simplifying estimation for tax administrators. Common indirect measures of tax liability include total turnover for a given period or a flat tax on gross assets, as opposed to a tax on net profits or net value added (Sadka and Tanzi 1993; Taube and Tadesse 1996). In some cases, non-financial metrics are used, such as total floor space or number of employees (Joshi, Prichard, and Heady 2013). In Ethiopia, small and micro enterprises (SMEs)—what are termed ‘Category C’ businesses—with annual turnover less than 500,000 birr (US$17,500) are subject to a ‘turnover-based’ or ‘indicator-based’ presumptive assessment.

The implementation of a presumptive tax often dovetails with many objectives beyond reducing compliance and collection costs. For instance, presumptive taxation may seek to increase participation in the formal tax system, to extract some basic level of revenue from all economically active agents, or to educate new taxpayers on their rights and responsibilities under the formal system (Bird and Wallace 2004). Additionally, presumptive taxation may be implemented to minimize tax avoidance or evasion (which only works if the indirect measures on which the presumption is based are more difficult to hide than those used for conventional accounting records) (Thuronyi 1996). Presumptive assessment may seek to achieve a more equitable distribution of the tax burden when normal accounts-based methods are unreliable because of administrative corruption or taxpayer non-compliance (Thuronyi 1996). When presumptive assessments are rebuttable they can also seek to encourage taxpayers to keep proper accounts, as the assessment may subject the taxpayer to a higher tax burden in the absence of such accounts (Thuronyi 1996).

Based on existing legislation, the Ethiopian Revenue and Custom Authority (ERCA) is meant to update its presumptive assessments every three years. However, this process was not carried out between 2011 and 2017, implying that tax administrators were relying on significantly out-of-date assessments for collection. In 2017, ERCA fulfilled its mandate and carried out the reassessment process. Based on data obtained from the Addis Ababa City Administration Revenue Authority, 60,116 Category C businesses in the capital city were included in this reassessment. When the reassessment results were announced, they produced a tremendous uproar from taxpayers. According to data from the Revenue Authority, of all reassessed Category C businesses 52 per cent filed official complaints about the process. At the same time, ERCA continues to state that all appropriate policies and procedures were followed, and that the reassessment process was implemented correctly.

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1 ERCA issued the Average Daily Revenue Estimate Information Collection Implementation Directive no. 123/2009, which contains detailed processes and procedures for standard assessment of presumptive taxpayers within the jurisdiction of the Addis Ababa City Administration. This directive was later expanded to apply to regional states.
Such conflicts around presumptive tax reassessments can have damaging consequences for tax morale and overall compliance. The concept of tax morale began attracting the attention of researchers in the 1990s, and has since become a central concern of empirical research on tax compliance (Torgler 2011; Torgler et al. 2008). Tax morale is usually understood to refer to an individual’s intrinsic motivation to pay tax (Horodnic 2018). Most reviews of the empirical literature now agree that tax morale plays a sizeable role in explaining tax compliance decisions (Luttmer and Singhal 2014). Research has shown that three main categories of factors impact tax morale. These include socio-demographic characteristics and personal values, informal institutions that include social influences (e.g. peer-pressure), and formal institutions including factors related to governance (Fjeldstad, Schulz-Herzenberg, and Sjursen 2012; Horodnic 2018). Of these three categories, the influence of formal institutions on tax compliance is the most heavily researched (Horodnic 2018).

Generally, it is argued that a social contract exists between governments and taxpayers and that taxpayers expect services from the government in exchange for their taxes (Horodnic 2018; Luttmer and Singhal 2014; Torgler, Schneider, and Schaltegger 2007). The most salient factor impacting tax morale is thus a high level of trust in formal governance institutions (OECD 2013). A large body of studies, for instance, concludes that tax morale depends on the perceived fairness and efficiency of the government (Horodnic 2018). In a similar vein, research has shown that tax morale is likely to be higher when taxpayers perceive formal institutions to enforce rules impartially (McKerchar and Evans 2009). When there are perceived inequities, individuals will seek to adjust their inputs to the point that a sense of ‘fairness’ is re-established (Fjeldstad, Schulz-Herzenberg, and Sjursen 2012). The public outcry in Ethiopia regarding the 2017 presumptive tax reassessment thus has considerably wider implications beyond the administration of this one tax. By potentially undermining taxpayers’ sense of fairness and trust in government institutions, the reassessment process could also impact tax morale and thus compliance more broadly.

Grounded in this literature, the recent reassessment experience in Ethiopia provides a novel opportunity to examine some of the challenges and opportunities for presumptive tax administration in a developing country context. Narrowing the focus, this study sought to answer three interconnected questions: 1) how was the recent presumptive tax reassessment in Ethiopia carried out in practice; 2) how did the reassessment process impact the perceptions of different stakeholders towards the tax system; and, 3) what lessons can be learned from the appeals process implemented following public outcry about the reassessment results? To answer these questions, the study employs a descriptive survey design. Written surveys and in-person interviews were used to gather data from taxpayers and tax officials, respectively. Both taxpayers and tax official respondents were selected through stratified random sampling to ensure representative samples.

Our results indicate that tax assessors relied predominantly on only a few indicators that were relatively easy to collect but lacked an objective basis. As a result, average daily revenue estimates were not consistent across similar businesses, or between tax assessors. More than half of surveyed taxpayers did not receive any explanation or justification for the type of presumptive indicator they were subjected to, either through face-to-face sessions, printed leaflets, or electronic media. As a result, taxpayers overwhelmingly perceived the reassessment process to be opaque and inconsistent. Finally, major weaknesses in the appeals process were uncovered, including inefficient use of human and financial resources, a lengthy appeals process, and very high levels of taxpayer dissatisfaction even after they had passed through the appeals process.
This research contributes to the relatively limited body of literature on presumptive taxation in developing countries. In particular, there is a gap in the published literature on the practical challenges involved with administering presumptive taxes, including the necessity of carrying out regular reassessments. This study aims to help fill that gap. We expect this research to be useful, first and foremost, to Ethiopian tax administrators seeking to learn from and improve existing processes. The findings of this paper are also likely to be relevant to policymakers and tax officials in other countries seeking to implement a system of presumptive taxation or to undertake a reassessment process. Finally, we expect the case material provided in this study to be useful for international tax researchers.

The paper is organized as follows. The Introduction presents the focus of the study and its overall objectives. Section 1 presents the study design and methodology. Section 2 provides a brief overview of the presumptive taxation system in Ethiopia, and the reassessment process that took place in 2017. Section 3 presents data analysis and findings, along with a discussion of their significance. Section 4 presents a series of policy recommendations based on the study findings, along with some potential areas for future research. We conclude in Section 5.

1 Study design and methodology

To examine the presumptive tax reassessment applied to Category C taxpayers under the jurisdiction of the Addis Ababa City Administration, both a survey and in-depth key informant interviews (KII) were employed. Data for this study were collected from primary and secondary sources. The survey was administered to a sample of Category C taxpayers in Addis Ababa and was carried out between May and July 2018. The survey was administered using a face-to-face method. Most of the questions in the survey were close-ended, with only a few open-ended discussion questions.

The target population for the survey was the 60,116 Category C taxpayers for which the city administration had carried out a reassessment of average daily revenue in 2017. In Addis Ababa, the total population is stratified into 12 tax branches. Based on the presumptive tax directive issued by ERCA, there are also 33 separate business sectors. To ensure representativeness of the sample, researchers collected data from five randomly selected SMEs from each of the business sectors in each of the tax branches for a total sample size of 1,980 SMEs. The survey response rate was very high (98 per cent), with 1,944 respondents out of the full sample of 1,980. This high response rate was likely because most questions were close-ended and thus quick to answer, surveys were translated into the working language of taxpayers, and the data collection group administered surveys on a face-to-face basis. To validate data obtained from the 1,980 Category C businesses, 12 randomly selected members each from the Average Daily Revenue Estimation Committees and the Complaints Hearing Committees also participated in the KIIs. Aside from this primary data, researchers extensively reviewed unpublished grey literature from the Addis Ababa City Administration Revenue Authority. Responses to the close-ended surveys were analysed using SPSS Version 20, and thematic summaries of the open-ended KIIs and grey literature review were also collated and analysed in alignment with the SPSS output. To bolster reliability of the study findings, a second-round survey was conducted using a randomly selected sub-sample of the original sample between 15–26 December 2018—findings were almost identical to the first-round survey.

One drawback to using survey and interview data of this nature, rather than longitudinal data, is that it cannot be reliably compared with other cross-sectional surveys. This study cannot,
therefore, reveal or explore changes in tax attitudes or behaviours over time. Surveys that are repeated in the same countries or communities using the same sampling procedures may allow for longitudinal comparisons. But in the absence of such comparable surveys, this study can only show a snapshot in time of tax attitudes and behaviours, and cannot be used to infer causal relationships.

2 Overview of presumptive taxation in Ethiopia

Like many developing countries, Ethiopia employs a presumptive tax regime to achieve a variety of sub-objectives. These include raising revenue for public services, increasing tax literacy, and encouraging SMEs to keep more robust accounts. To maintain legitimacy, such taxes need to be perceived as fair and equitable by taxpayers, and they cannot place an excessive burden on small taxpayers. In addition, the implementation of presumptive taxes requires a relatively high degree of cooperation and understanding between tax officials and taxpayers to ensure that assessments accurately reflect reality.

2.1 Summary of current Ethiopian tax law and regulation

In Ethiopia, for-profit taxpayers are classified into three categories based on their volume of sales and the form of their business. ‘Category A’ includes companies that are incorporated under Ethiopian tax law, originate in a foreign country, or have an annual turnover of more than 1,000,000 birr (US$35,000). ‘Category B’ encompasses enterprises with annual turnover more than 500,000 birr (US$17,500) but less than 1,000,000 birr (US$35,000). Both Category A and Category B taxpayers must submit profit and loss statements at the end of each fiscal year. The law requires that all account entries are supported with the appropriate invoices and receipts. ‘Category C’ includes those businesses whose annual turnover is estimated by the tax authority to be 500,000 birr (US$17,500) or less. In contrast to the other two groups, the tax liability of Category C taxpayers is determined by the tax authority using a presumptive assessment of average daily revenue, rather than internally generated profit and loss statements.2

2.2 Average daily revenue estimation process

To implement average daily revenue estimations for Category C taxpayers, ERCA issued a directive that defines acceptable modalities for the collection of information required to generate an average daily revenue estimate. This ERCA directive outlines two primary rationales for the implementation of presumptive tax assessments. First, based on the current level of economic development in Ethiopia and projected growth patterns for the coming years, presumptive taxation is the most appropriate mechanism to ensure income tax is collected from as wide a base as possible. Second, a number of new entrants to the market have been identified since the previous assessment, and presumptive taxation will allow them to be assessed and will bring them into the formal income tax system.3

Implementation of this ERCA directive was carried out by plethora of different committees and sub-committees coordinated by the Addis Ababa City Administration. Members of these various committees were drawn from all levels of managerial bodies within the city administration. In

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2 The Federal Income Tax Proclamation No. 979/2016 provides the legal basis for income taxation in Ethiopia, along with the Federal Income Tax Regulation No. 410/2017, which came into force retroactively and applies to all incomes generated as of 8 July 2016.

3 These considerations regarding the assessment of Category C taxpayers are laid out in the ERCA Average Daily Revenue Estimate Information Collection Implementation Directive no. 123/2009.
other words, committee members were drawn from both the top-level and *Woreda* administration units. Each committee was constituted, on average, by ten members drawn from different sector offices.

Implementing committees include three territorially-based committees and five functional committees, each with different duties and responsibilities:

**Citywide Committee**
- Coordinate other committees and lead the average daily revenue information collection tasks.
- Collect daily performance reports, monitor and evaluate overall information collection activities and provide direction to other committees.
- Reorganize other committees based on identified problems; support and monitor in resolving identified problems.
- Lead public relations for the reassessment process and provide directions to the public.
- Provide responses to budget-related inquiries.

**Sub-City Committees**
- Coordinate taxpayers for the successful completion of the average daily revenue estimation process, and provide leadership to the Woreda Committees.
- Follow-up on the Woreda Committees’ daily information collection assignments.
- Evaluate performance based on the timetables and implementation directions provided by the Citywide Committee.
- Mobilise the public for successful completion of average daily revenue information collection activities.
- Resolve taxpayer complaints through coordination with ERCA.
- Provide follow-up and support to average daily revenue information collectors.
- Follow-up and monitor that collected information is properly recorded in the database.
- Submit reports to the Citywide Committee on information collection activities, based on the agreed timetable.

**Woreda Committees**
- Coordinate taxpayers and business owners to provide reliable information to the Average Daily Revenue Estimation Committees.
- Lead assessor teams assigned to their area.
- Follow-up on and support the daily assignments of assessor teams.
- Ensure that information collection tasks are facilitated through public mobilization.
- Amicably resolve disputes, along with ERCA employees, according to tax administration laws.
- Create awareness and clarity among taxpayers to avoid the removal or hiding of inventory and the closure of shops during assessment.

**Average Daily Revenue Estimation Committees**
- Visit taxpayer premises to collect information from taxpayers to serve as input data for estimation of average daily revenues.
- Organize collected data and send reports to the Woreda Committee.
- Ensure the confidentiality of taxpayer information.

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4 *Woreda* are the third-level administrative units in Ethiopia, after regions and zones. They are further subdivided into *kebele*, or neighbourhood associations.
Inspection Committees
- Follow-up whether average daily revenue estimates have been conducted according to the directive.
- Report on the overall average daily revenue estimation process to higher officials.
- Check whether estimations are actually based on data collected by the Average Daily Revenue Estimation Committees.

Sensitization Committees
- Create taxpayer awareness about the average daily revenue estimation processes and procedures.
- Distribute brochures and leaflets to taxpayers regarding average daily revenue estimation.
- Inform taxpayers about the overall processes and procedures for appealing estimations.

Complaint Resolution Committees
- Accept the complaints of taxpayers.
- Investigate the underlying causes of taxpayer complaints and make decisions based on those causes.
- Communicate decisions to taxpayers and to the tax officials responsible for determining average daily revenue estimations.

Follow-up Committees
- Ensure that all taxpayer data has been filed properly.
- Encode taxpayer information to the database.
- Ensure that taxpayer information is kept confidential.

To carry out the reassessment, the Addis Ababa City Administration Authority was provided with 962 assessors from ERCA, who served on the Average Daily Revenue Estimation Committees. The Ministry of Finance & Economic Development (MoFED) and the Ministry of Trade (MoT) also participated in the reassessment, with each ministry contributing 481 assessors who served on the Average Daily Revenue Estimation Committees.

Based on data obtained from the Addis Ababa City Administration Revenue Authority, the activities of all these various committees and sub-committees resulted in the shifting of 9,913 businesses from Category C to Category A, and the shifting of 17,639 businesses from Category C to Category B. On top of these shifts, the authority registered 8,430 new businesses that were operating without a legal license and had not been previously assessed. In sum, the reassessment process undertaken by ERCA and the Addis Ababa City Administration Revenue Authority resulted in significantly higher tax bills for a large number of businesses. Additionally, the change in categorization forced reassessed businesses to maintain much more comprehensive accounts to record their activities, which was not previously required and significantly increased their tax compliance costs.
3 Data analysis and findings

This section provides an analysis of the data collected through taxpayer surveys and KIIIs, and an interpretation of main findings. The data covers all 1,944 SME survey respondents that report to the 12 tax branch offices in Addis Ababa. The surveyed businesses are engaged in manufacturing, services, and retail. To validate findings, interviews were conducted with one individual selected from each of the Average Daily Revenue Estimation Committees and the Complaint Resolution Committees in each of the city’s 12 tax branch offices.

3.1 Background of respondents

Out of the 1,944 respondents who took part in the survey, 93 per cent (1,826) were business owners, while the remaining 7 per cent (118) were their legal representatives. The vast majority of survey respondents (96.1 per cent) were engaged in sole proprietorship, with a small portion (3.6 per cent) engaged in a partnership business structure, and the remaining negligible number engaged in other forms of business. From this data, it is possible to conclude that a significant portion of Category C businesses are operated by single individuals. From a gender perspective, 68.5 per cent of respondents were men and 31.5 per cent were women. Most SMEs in this sample are therefore owned by men. Like many developing countries, women in Ethiopia tend to occupy peripheral positions and it is more difficult for them to own a business. In terms of respondents’ educational background, 61.3 per cent had not completed grade 12, the final year of secondary school in Ethiopia. Out of all survey respondents, 20.9 per cent had completed grade 12, 10.4 per cent had received a diploma, and the remaining 8.2 per cent had received a first university degree. No respondents indicated that they had received a second university degree. Based on these survey results, it can be said that achieving a high level of educational attainment is not a prerequisite to operating a business in Ethiopia. Those respondents aged 18 to 30 years made up the largest group, at 43.1 percent. Those aged 31 to 40 years made up 38.4 per cent of respondents; 10.4 per cent were aged between 41 and 50 years, and the remaining respondents were above 50 years old. Survey results also revealed that 12.6 per cent of businesses had been in operation for less than two years, 50.4 per cent had been operating for between two and five years, and 22.2 per cent had been in operation for between five and ten years. The remaining 14.8 per cent of businesses had been in the market for more than ten years. From these responses, it can be inferred that a majority of Category C businesses are not recent start-ups, and have been operating for a reasonable number of years. The survey results also indicated that 45.5 per cent of the study population were engaged in services, 43.8 per cent in retail, and 10.7 per cent in manufacturing. It is thus plausible to conclude that the majority of Category C taxpayers in Addis Ababa are engaged in service and retail businesses.

5 Typically granted from a three-year technical and vocational education and training programme.
3.2 Perceptions of tax payments

Respondents were asked about their perception of tax payments. Results show that 1,301 (66.9%) of respondents replied that paying tax is an honour, provided that the amount imposed is fair and equitable. Conversely, 643 (33.1%) of the respondents replied that taxation burdens them with a responsibility they shouldn’t be required to carry. From these results it can be deduced that most taxpayers are conscious of their obligation to pay tax. They are thus likely to comply with requirements, if they perceive that the tax assessment has been conducted in a fair and proper manner. Interestingly, responses from the KIs with tax officials offered a different picture, with 91 per cent of respondents indicating that they believe taxpayers are not willing to pay taxes, even when the assessment has been conducted with due attention to taxpayer’s ability to pay. These divergent responses point to a disconnect in perceptions regarding tax payments between taxpayers and the officials administering the tax.

3.3 Average daily revenue estimate awareness campaign

As part of the presumptive tax reassessment, Sensitization Committees was tasked with ensuring that taxpayers clearly understood the process. Sensitization Committees were responsible for providing taxpayers with clearly understandable explanations about how their average daily revenue estimate would be calculated either through face-to-face sessions, electronic media, or printed leaflets. Despite the activities of the Sensitization Committees, 53.8 per cent of surveyed Category C taxpayers indicated that they did not receive any form of explanation from the city administration as to how their respective daily revenue was estimated, and how the tax on that revenue was calculated.
As Figure 2 demonstrates, among the 46.2 per cent of respondents who did participate in awareness campaigns, 39 per cent replied that the campaign did not enable them to understand the daily revenue estimation process and its importance. Moreover, 53.6 per cent of respondents showed their dissatisfaction with the answers provided to questions they raised during the awareness campaign sessions. Meanwhile, 68.5 per cent of respondents believed that the awareness campaign sessions did not enable them to understand how the amount of tax owed is calculated on the basis of the average daily revenue estimate, and 48.9 per cent of respondents acknowledged that they did not fully understand their rights and responsibilities as taxpayers, even after participation in the awareness campaign. The great majority of respondents also indicated they were oblivious to the roles and responsibilities of all the various committees at different levels responsible for the reassessment process, with 67.1 per cent replying in the negative. Ultimately, 51.7 per cent of respondents indicated that they did not benefit from the awareness campaign, and that it did not equip them with the necessary information to help resolve disputes. Many of these frustrations were attributed to the perception, indicated by 76.2 per cent of respondents, that the trainers who were sent from the authority to carry out the awareness campaign were not equipped with the adequate knowledge and experience in the areas of tax and trade to successfully fulfil their roles.

In the KIIIs, tax officials again presented a different interpretation, arguing that the time allotted to raise awareness about average daily revenue estimates and the reassessment process was simply insufficient to address all issues before the process began. Moreover, KII respondents declared that the attitude of taxpayers towards taxes in general is very poor, and that they therefore do not give sufficient attention to understanding the necessary processes and requirements. Some tax officials, however, did acknowledge that the persuasion and communication skills of those engaged in delivering the awareness campaign were not up to the required standard.

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Note: statements have been translated into English by the authors.

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Figure 2: Taxpayer perceptions of the reassessment sensitization campaign

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The sensitization campaign enabled me to understand the daily revenue</td>
<td>129 (14.2%)</td>
<td>308 (33.9%)</td>
<td>117 (12.9%)</td>
<td>354 (39.0%)</td>
</tr>
<tr>
<td>estimation process and its importance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am satisfied with the answers provided to questions that I raised</td>
<td>6 (0.7%)</td>
<td>303 (33.4%)</td>
<td>112 (12.3%)</td>
<td>487 (53.6%)</td>
</tr>
<tr>
<td>during the awareness campaign</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The awareness campaign allowed me to understand how average daily</td>
<td>34 (3.7%)</td>
<td>153 (16.9%)</td>
<td>99 (10.5%)</td>
<td>622 (68.5%)</td>
</tr>
<tr>
<td>revenue estimates are computed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I now clearly understand my rights and responsibilities as a taxpayer</td>
<td>79 (8.7%)</td>
<td>313 (34.5%)</td>
<td>72 (7.9%)</td>
<td>444 (48.9%)</td>
</tr>
<tr>
<td>The awareness campaign helped me to understand how my tax bill is</td>
<td>14 (1.5%)</td>
<td>148 (16.3%)</td>
<td>93 (10.2%)</td>
<td>653 (71.9%)</td>
</tr>
<tr>
<td>calculated from the daily revenue estimate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I was provided with sufficient information about the different committees</td>
<td>21 (2.3%)</td>
<td>189 (20.8%)</td>
<td>89 (9.8%)</td>
<td>609 (67.1%)</td>
</tr>
<tr>
<td>responsible for the reassessment process and their various roles and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>responsibilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The awareness campaign provided me with information about the complaints</td>
<td>23 (2.5%)</td>
<td>261 (28.7%)</td>
<td>155 (17.1%)</td>
<td>469 (51.7)</td>
</tr>
<tr>
<td>and hearing process, and processes for dispute resolution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall, those delivering the awareness campaign had sufficient knowledge</td>
<td>10 (1.2%)</td>
<td>46 (5.4%)</td>
<td>148 (17.3%)</td>
<td>653 (76.2%)</td>
</tr>
<tr>
<td>and experience</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.4 Indicators used to estimate average daily revenue

The ERCA directive that established the procedures to implement the reassessment process in 2017 included 16 separate indicators that could be used to produce acceptable daily revenue estimates. As previously discussed, these indicators were first used to assess SMEs in the jurisdiction of the Addis Ababa City Administration, and have since been expanded for use by regional revenue authorities. Although these possible indicators were included in the directive issued by ERCA, the directive did not state in what configuration they should be used or which should be given priority. The 16 possible indicators included in the directive were the following:

1) The condition of the business
2) The conduciveness of the location for conducting business
3) Good will of the business
4) Expenses declared by the tax payer
5) Accounts used by the taxpayer to record sales or turnover
6) Items available for sale or services available to customers; quantity and sale price
7) Business category or type of businesses
8) The desirability of items available for sale or services offered in the market
9) The size of the business premise
10) Taxpayer experience in conducting business
11) Condition of the taxpayer’s warehouse
12) Quality and quantity of goods or services offered
13) Source of supply
14) Taxpayer’s customer base
15) Taxpayer’s total assets
16) The number of employees engaged in the business

Survey respondents were asked to identify the primary indicators used by assessors during the average daily revenue estimation process. Based on respondent answers, the major criteria used were (1) the conduciveness of the location for conducting business, (2) the size of the business premise, (3) items available for sale or services available to customers, and (4) the overall condition of the business.

Of all surveyed taxpayers, 65.2 per cent indicated that they did not believe the indicators used provide enough information to accurately estimate average daily revenue. From taxpayer responses, four primary causes of this inadequacy were identified. First, respondents argued that the indicators used were neither objective nor comparable between similar businesses. For example, when considering a beauty salon or barber shop, the average waiting time to service a single customer was not included. However, this indicator can be objectively assessed by simple observation, and from this objective observation it would be relatively straightforward to determine the average daily revenue of such a business. Second, taxpayers argued that the operation of some businesses (e.g. garages, photography studios, printing shops, and beauty salons) are directly impacted by the availability of electricity. Allowances for possible power fluctuations were not considered in the process of calculating average daily revenue, although power interruption is a common trend across Ethiopia. Third, taxpayers claimed that the operation of some businesses is strongly impacted by the seasonality of the products they sell to market (e.g. vegetables, fruits and cereals). Seasonality of goods was not accounted for in the calculation of average daily revenue estimates. Finally, taxpayers indicated that some businesses are heavily dependent on the government for necessary inputs (e.g. bakeries rely on the state for their supply of flour). Supply delays were not considered in the estimation process, although they can significantly impact a business’s revenue.
In line with the survey findings, members of the Average Daily Revenue Estimation Committee who participated in KIIs also confirmed that they were not fully aware of which out of the 16 possible indicators should be employed in which circumstances. They also reiterated that, in practice, only a few of the possible indicators were used in the reassessment process. KII participants identified the condition of the business, location of the business, items and services available for sale, and accounts information provided by taxpayers as the indicators that were predominantly relied upon by assessors. Assessors also complained that the indicators they were provided lacked objectivity and comparability, making their role more challenging.

### 3.5 Perceived fairness of average daily revenue estimates and levied taxes

Perceived fairness is a critical issue that renders tax law effective. The majority (75 per cent) of survey respondents, however, replied that the average daily revenue estimates calculated in the 2017 reassessment process, and the taxes levied on those estimates, lacked fairness. Most taxpayers complained that their assessed tax bill was far above their ability to pay.

From the KIIs conducted with members of the Average Daily Revenue Estimation Committee, tax officials acknowledged that most initial assessments produced very high results that were beyond the ability of taxpayers to meet. Committee members tended to credit inconsistent and difficult-to-apply indicators with these high estimations. Additionally, a number of committee members pointed to interference from high-level tax officials, who gave directions to the lower committees indicating that most Category C taxpayers should be transitioned into Category B or Category A. Committee members also complained that the number of days allocated to carry out the reassessment were insufficient, and that the large time gap between the 2011 and 2017 assessments was too large. As a result of this large time gap, a general feeling existed among assessors that they should assess businesses as high as possible to make up for missed tax revenue and to receive approval from the tax officials above them in the hierarchy.

### 3.6 Perceived equity of average daily revenue estimates and levied taxes

In most cases, income should be considered as the best measure of ability to pay taxes. Hence, taxpayers with different incomes should be taxed at different levels to ensure vertical equity (unequal treatment of unequals). In contrast, taxpayers assumed to have the same income should be taxed similarly to ensure horizontal equity (equal treatment of equals).

Based on the survey results, 67.8 per cent of respondents believed that the tax imposed on them was not equitable compared to other similar businesses. In other words, a majority of taxpayers perceived bias in the determination of tax liability among taxpayers engaged in similar types of business. Even though similarly sized businesses offering similar goods or services were in the same general location, most taxpayers reported that the tax imposed on their counterparts was less than on themselves.

KIIs with tax officials confirmed many of the suspicions expressed in the taxpayer survey, as businesses engaged in the same activities in the same geographic location were sometimes assessed by different individuals or even different committees. Since the assessment criteria lacked objectivity and comparability, they were applied differently by different assessors and committees. Interviewed assessors complained that they were not provided with any guiding principles or written manual for how best to make average daily revenue estimates in different circumstances, or how best to solve common problems encountered in the process. They also
indicated that they did not have easy access to the ERCA directive, which included some of these
details and considerations.

### 3.7 Independence of assessors

The majority of respondents (73.6 per cent) assured survey administrators that assessors were
largely independent. As such, most taxpayers were not unethically approached by members of
the Average Daily Revenue Estimation Committees. They were not asked for a bribe or
facilitation in exchange for a favourable assessment. These results indicate that the
reassessment process was transparent, and that the ethical considerations outlined in the ERCA
directive were largely enforced and respected. Taxpayers and tax officials indicated many
problems with the reassessment process, but widespread corruption was not one of them.

### 3.8 Complaint resolution processes and procedures

Once the authority completed the average daily revenue estimation process, businesses were
provided notice of the new assessment on which they were required to pay tax. Following these
notifications, the authority was flooded with a large number of taxpayer complaints. Taxpayer
complaints were so numerous, and many so extreme, that they provoked a crisis response from
the authority that called for immediate remedial action.

To handle the high volume of complaints, the authority established Complaint Resolution
Committees at the **Woreda** level, as per the ERCA directive. Committee members were selected
based on the criteria set out in the directive, which also outlined clear duties and responsibilities.7
Although the ERCA directive called for the establishment of committees at the **Woreda** level to
hear complaints about the reassessment process, the authority went further by establishing three
levels of committees to handle complaints. These included the Woreda Complaint Resolution
Committees, Branch Office Ad Hoc Committees, and Permanent Tax Complaint Hearing
Committees at the sub-city level. Taxpayers could lodge a complaint with their local Woreda
Complaint Resolution Committee, and could then appeal to the Branch Office Ad Hoc Committee
and Permanent Tax Complaint Hearing Committee if their complaints were not resolved by the
lower committee.

Among the many rights of taxpayers, one is the right to file a complaint with the tax office in cases
where their estimated average daily revenue is too high or was unfairly calculated. As shown in
Figure 3, information obtained from the Addis Ababa City Administration Revenue Authority
indicates that around 52% of reassessed taxpayers filed formal complaints with their local tax
office requesting a reduction in their average daily revenue estimate and the tax levied. KII
respondents noted that the root cause of this high complaint rate was that taxpayers tended to
believe that the estimated daily revenue amount and tax levied on that amount were unfair, since
their tax bills were significantly higher than they had been under the previous assessment. By 9
November 2017, the authority had resolved 100 per cent of complaints, either reducing the
assessed amount for a complainant or maintaining the initial assessment. Of the 18,312
complaints received, 58 per cent received a favourable decision that reduced the initial
assessment of their average daily revenue estimate.

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7 See ERCA Average Daily Revenue Estimate Information Collection Implementation Directive no. 123/2009
for a full description of the complaint resolution committee member selection criteria, duties and responsibilities.
Even once taxpayers had submitted their complaints to the required branch office, many remained unsatisfied. As shown in Figure 4, among survey respondents who filed complaints 73.9 per cent did not believe that they received a timely response from the responsible committee. This finding was substantiated from the KIIIs, during which almost all interviewed members of the different complaint resolution committees stated that their offices could not provide timely responses because of the huge volume of similar complaints. Members of each complaint resolution committee were limited, and the process itself took a substantial amount of time because each complaint had to be investigated by visiting the taxpayer’s business premise and carrying out a new average daily revenue estimation.

In a similar vein, a large majority of taxpayers responded that they were not satisfied with the decisions received from the complaint resolution committees. Of all complainants, 83.1 per cent indicated that they were not satisfied with the decision received from the relevant complaints committee. Survey results indicate that 61.8% of respondents did receive a favourable ruling from the complaints process that reduced their tax liability—but even among this portion, 77.2 per cent of respondents indicated that the deduction given to them from the original assessment was insufficient and did not meet their needs. In contrast to the view of taxpayers, the tax officials interviewed believed that the deductions given to taxpayers following the complaints process were fair, and noted that for a few taxpayers their assessments had even become smaller than the earlier ones made in 2011.

**Figure 3 Category C taxpayer complaints until 9 November 2017**

<table>
<thead>
<tr>
<th>Tax branch office</th>
<th>Total no. of taxpayers assessed</th>
<th>Total no. of complainants</th>
<th>Complaint rate</th>
<th>Decision to reduce initial assessment</th>
<th>% of complainants receiving a decision to reduce initial assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arada</td>
<td>3,882</td>
<td>2,250</td>
<td>58%</td>
<td>1,188</td>
<td>53%</td>
</tr>
<tr>
<td>A’ketema</td>
<td>4,540</td>
<td>2,668</td>
<td>59%</td>
<td>1,634</td>
<td>61%</td>
</tr>
<tr>
<td>Lideta</td>
<td>2,529</td>
<td>1,096</td>
<td>43%</td>
<td>652</td>
<td>59%</td>
</tr>
<tr>
<td>Kolfe keranyo</td>
<td>12,639</td>
<td>5,681</td>
<td>45%</td>
<td>3,120</td>
<td>55%</td>
</tr>
<tr>
<td>Akaki Kality</td>
<td>5,817</td>
<td>2,939</td>
<td>51%</td>
<td>1,561</td>
<td>53%</td>
</tr>
<tr>
<td>Kirkos</td>
<td>3,843</td>
<td>1,628</td>
<td>42%</td>
<td>726</td>
<td>45%</td>
</tr>
<tr>
<td>Bole</td>
<td>7,615</td>
<td>4,784</td>
<td>63%</td>
<td>1,355</td>
<td>28%</td>
</tr>
<tr>
<td>Yeka</td>
<td>7,225</td>
<td>2,848</td>
<td>39%</td>
<td>867</td>
<td>30%</td>
</tr>
<tr>
<td>N/Lafjo</td>
<td>8,001</td>
<td>5,200</td>
<td>65%</td>
<td>776</td>
<td>15%</td>
</tr>
<tr>
<td>Guilele</td>
<td>2,842</td>
<td>1,443</td>
<td>51%</td>
<td>711</td>
<td>49%</td>
</tr>
<tr>
<td>Merkato #1</td>
<td>471</td>
<td>389</td>
<td>83%</td>
<td>169</td>
<td>43%</td>
</tr>
<tr>
<td>Merkato #2</td>
<td>712</td>
<td>385</td>
<td>54%</td>
<td>203</td>
<td>53%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>60,116</strong></td>
<td><strong>31,311</strong></td>
<td><strong>52% (average)</strong></td>
<td><strong>18,312</strong></td>
<td><strong>58% (average)</strong></td>
</tr>
</tbody>
</table>

Figure 4 Taxpayer satisfaction with complaint resolution process

<table>
<thead>
<tr>
<th>Questions</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did you receive a timely response from the relevant complaint resolution committee?</td>
<td>26.1% (380)</td>
<td>73.9% (1077)</td>
</tr>
<tr>
<td>Did you receive a satisfactory response from the relevant complaint resolution committee?</td>
<td>16.9% (246)</td>
<td>83.1% (1211)</td>
</tr>
<tr>
<td>Did you receive a deduction from the initial assessment after filing a complaint?</td>
<td>61.8% (900)</td>
<td>38.2% (557)</td>
</tr>
<tr>
<td>If you received a deduction from the initial assessment, was it satisfactory?</td>
<td>22.8% (205)</td>
<td>77.2% (695)</td>
</tr>
</tbody>
</table>
KIIIs were conducted with members of the various committees to evaluate the overall complaint hearing process and procedures. Informant responses were sorted into the following seven thematic points:

First, taxpayers didn’t understand the reassessment process, and there was a great deal of confusion among taxpayers. There was a tendency among taxpayers to mistake their estimated annual revenue as the tax they owed in the assessment notices they received. The main cause of this confusion was that the amount of total tax owing was not included in the assessment notices served to taxpayers by ERCA. ERCA officials have already accepted blame for this misunderstanding, and notices are now designed to more clearly indicate both a taxpayer’s estimated annual revenue, and the tax amount charged on that estimated revenue.

Second, there was an initial gap between the information conveyed in awareness activities and the actual practice of how average daily revenue estimates were calculated. The authority has gradually narrowed this gap by strengthening the Sensitization Committees with members holding better knowledge and experience of the assessment process.

Third, taxpayers rejected the new assessments, even though they were carried out as per the law, simply because in most cases they implied an increase from the previous amount that taxpayers had become used to paying. From this perspective, the extended delay between assessments was the primary reason for taxpayer dissatisfaction.

Fourth, the city administration demonstrated an extreme willingness to entertain complaints without any cost imposed on taxpayers. Since taxpayers incurred no costs as a result of presenting a complaint, and since the result of a complaint would either be a reduction in tax liability or a maintenance of the initial assessment, many taxpayers were motivated to submit a complaint because they had nothing to lose by doing so. No mandate was given to the complaint resolution committees to increase assessments over and above the initial estimate during the process of resolving complaints.

Fifth, many traders actually lease their operational license from others, meaning that the business operator and the licence owner (who is the actual taxpayer) may be different. License owners were often the ones who filed complaints, as their trade and tax literacy are very low and they did not understand how and why the assessments had been made.

Sixth, many taxpayers filed complaints not because of their higher reassessments, but to resist being shifted from Category C to Categories B or A, because of the higher compliance costs.

Seventh, because businesses in similar locations engaged in the same activities were often assessed by different committees and received different daily revenue estimates there was a widespread perception of inequity amongst taxpayers. When taxpayers felt that they were assessed at a higher rate compared to similar businesses in the same area, they were much more likely to file an official complaint.

In general, responses obtained from the Complaint Resolution Committee indicated that the authority deployed a huge amount of human capital to complete the complaint resolution process, which in the end took almost a full year. Ultimately, the complaint hearing process consumed significantly more financial and human resources than did the reassessment process itself.
3.9 ERCA perceptions of taxpayer behaviour during the reassessment process

Throughout the reassessment process, ERCA complained that certain businesses did not cooperate with assessors to allow them to reach an appropriate estimate. The following points were identified by ERCA officials interviewed through the KIIs as problems caused by taxpayers during the course of the reassessment.

- Merchandise was removed and hidden from shopping shelves
- Inaccurate and inappropriate information was provided to assessors
- Businesses were purposefully closed to avoid assessment
- Owners intentionally left inappropriate people in charge of their shops who were not knowledgeable about the business and were unable to provide the necessary information to assessors.

3.10 General observations of the average daily revenue estimation process

Although different committees with distinct roles and responsibilities were established from top-level city authority management down to the Woreda level, the bulk of work was completed by the assessors on the Average Daily Revenue Estimation Committees. These committees each had four members that were selected based on criteria contained in the ERCA directive. However, most of the selection criteria in the ERCA directive lacked objectivity and concreteness. For instance, assessors were required to hold ‘better developmental attitudes,’ which indicates a distinct bias towards one political party. It’s hard to tell how an individual’s ‘better developmental attitude’ could be determined other than through their affiliation with the Ethiopian People’s Revolutionary Democratic Front (EPRDF), which makes an explicit distinction between ‘better developmental attitudes’ and ‘rent-seeking attitudes’ (Woldegebriel 2017). According to the ERCA directive, each Average Daily Revenue Estimation Committee should be composed of two members from ERCA, one member from the MoT to serve as secretary, and one member from MoFED. Initially, the Chamber of Commerce was also meant to be represented on each committee. However, at least in Addis Ababa, the Chamber of Commerce is not recognized as a legitimate body representing the business community, and the state therefore refuses to collaborate with it. Somewhat paradoxically, the so-called ‘Traders Forum,’ a de-facto association that is favourably patronized by the incumbent regime as representing ‘taxpaying businesses,’ was instead included in the ERCA directive as a collaborating entity.

Following a brief training period, assessment teams were assigned to specific areas. All members of the team were engaged in gathering information that was assumed to be important in determining estimated average daily revenue from businesses in the designated area. By pooling together different inputs set out in the ERCA directive from different assessors, the process was intended to produce a fair estimate for each taxpayer. In cases where there were discrepancies or disagreements between assessors, the indicator value was decided through a vote.

KIIs with tax officials identified eight primary observations about the overall average daily revenue estimation process.

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Selection criteria were broad, and included considerations like ‘possesses a better understanding of the objective of tax and its assessment,’ or ‘holds a better developmental attitude.’ See the ERCA Average Daily Revenue Estimate Information Collection Implementation Directive no. 123/2009 for a full list of criteria.
First, although the size and composition of assessment committees were appropriate, many members lacked the necessary knowledge (e.g. tax and trade literacy) and experience to fulfil their responsibilities. Additionally, members did not have the technical knowledge necessary to assess all types of businesses.

Second, assessors were selected according to subjective criteria. When asked, almost no assessors knew why they had been selected to serve on the committee and many were not familiar with the criteria laid out in the ERCA directive.

Third, the training given to assessors over about one week was not sufficient for them to become competent in the required tasks. Assessors complained that training was often conducted by individuals without prior experience, and those whose tax and trade literacy was very low. The training did not include any practical demonstrations or pilot tests conducted before implementation of the actual assessment.

Fourth, after the reassessment process had been ongoing for four days, the Addis Ababa City Administration Revenue Authority made an estimation of the tax expected to be collected, and concluded that it was insufficient. In part because of the new income tax proclamation that increased the minimum taxable threshold from 1,800 birr to 7,200 birr (US$65 to US$250), the contribution of presumptive taxes from Category C businesses was likely to be quite low. Following this internal estimation, clear direction was given to the Average Daily Revenue Estimation Committees from the top level of city authority administration to increase their estimations. Assessors believed that this pressure to increase their estimations was not based on objective evidence, or the ability of taxpayers to pay, but was only based on the revenue needs of government.

Fifth, Average Daily Revenue Estimation Committees were initially ordered to conduct estimates for 40 businesses each day, which averages to about five businesses per hour. Assessors were completely unable to achieve this goal, which was an unrealistic target for small teams of four individuals. Requirements were subsequently relaxed to between 15 and 20 businesses per day, which most assessors still considered an unattainable target. Some assessors interviewed claimed that other assessors were carrying out their estimations carelessly or in a reckless manner to reach the very high established targets.

Sixth, many assessors believed that the city administration rushed into the average daily revenue estimation process without raising sufficient awareness among taxpayers about the process and requirements.
4 Policy recommendations

Based on the findings of this study, the authors outline the following recommendations. These recommendations should be useful for Ethiopian authorities seeking to carry out the next presumptive taxation assessment, or for other African countries seeking to do the same.

- The tax authority should implement regular presumptive tax reassessments as required by law (every three years in the case of Ethiopia). Regular reassessments will help to avoid the mentality in the tax authority that they need to recover ‘lost taxes’ by imposing higher estimates of daily revenue on taxpayers.

- If the authority is unable to undertake reassessments on a timely basis, it should consider incorporating automatic annual presumptive tax increases based on inflation, economic growth, or some other econometric measure.

- The relevant directive should prioritize objective indicators to estimate average daily revenue. Objective indicators could include things like power fluctuations, electricity consumed, floor space or facilities, total number of employees, seasonality of inputs, and demand for goods and services. In the case of Ethiopia, this will require amendment of ERCA Directive No. 123/2009.

- Assessor teams should be composed of people with technical knowledge and ample experience, and should also include representatives from the tax authority, relevant ministries, and the business community. Assessment teams should be well trained, and should conduct practical demonstrations and pilot assessments before full implementation.

- The authority should design and implement more effective taxpayer education, training, and awareness-raising sessions before the implementation of any new legislation, regulations, and directives. More effective taxpayer outreach will help avoid confusion, and will also allow the tax authority to collect information on taxpayer opinions about whether the designated processes are likely to achieve their intended goals.

- Presumptive tax assessments should put more of an emphasis on being equitable and fair. To help maintain legitimacy of the tax, businesses engaged in the same operations in similar locations should be assessed by the same individuals and committees.

- For future assessments, the relevant authority should seek to limit reliance on the complaint resolution process. Although the ability to file a complaint is a key right of taxpayers, the cost of the complaint resolution processes recorded in this study was extremely high, as the authority deployed large numbers of employees and took almost a year to complete the process. Despite these extensive financial and human resource expenditures, the great majority of taxpayers remained unsatisfied with the results.

- Tax authorities should consider giving a mandate to complaint resolution committees to increase assessments over and above the initial amount, if they find reasonable cause to do so. Such a mandate could help to prevent specious complaint filings from taxpayers.

Some possible areas for future research that would bolster the findings of this study include an examination of the impact of presumptive assessment on business performance. Very little
information currently exists as to what impacts the assessment and tax collection process has on the ability of businesses to operate effectively, or to grow and increase productivity. Additionally, many questions remain regarding the capacity of Category C taxpayers to keep formal account books. The compliance costs associated with a shift from Category C to Category B or A are often more of a burden to taxpayers than their increased tax liability. Understanding these compliance costs and how best to mitigate them would be valuable for tax authorities seeking to shift taxpayers into more conventional systems of taxation.

Conclusions

The Addis Ababa City Administration Authority originally sought to undertake a daily revenue estimation of SMEs every three years. Following the 2011 assessment, however, the next one was not completed until 2017. During this six-year period, the authority did not make any changes to the amount of tax levied, and failed to follow the common practice of revising taxes owed upwards based on inflation during the years they were unable to carry out the reassessment. As a result, when the reassessment was finally carried out in 2017, it was a shock to taxpayers and resulted in significant pushback and an expensive complaint resolution process. In addition, the city authority did not make all necessary preparations before carrying out the 2017 reassessment, including providing sufficient awareness campaigns to the public and sufficient training for assessors. The authority also failed to prepare clear guidelines for the reassessment process and did not execute a pilot test assessment.

The majority of taxpayer respondents to this survey argued that the indicators used in the assessment process were not objective, were applied differently to similar businesses, and did not consider crucial aspects of their business operations. In addition, taxpayers suggested that assessors were not fully aware of all possible indicators, and only used a few easily-accessible ones in the estimation process. As a result, both taxpayers and tax officials perceived the results of the reassessment to be unfair and inequitable across similar businesses.

The reassessment process resulted in extensive confusion among taxpayers, including the tendency to interpret ‘estimated yearly revenue’ as their total tax owed on the assessment notifications they received, largely because of poorly designed notification documents. A number of taxpayers also demonstrated resistance to being reassessed, preferring to stay with the previous amount of tax they paid based on the 2011 assessment. Taxpayers also frequently rejected reassessment results when they were shifted from Category C to Categories B or A because of the associated higher compliance costs.

Finally, the complaint resolution process implemented by the city authority following intense public outcry left much to be desired. Although the authority deployed a huge amount of financial and human resources to administer the complaint resolution process, most complainants still remained unsatisfied with the decisions they received.

In sum, while the 2017 presumptive tax reassessment process in Addis Ababa included important successes, perhaps most notably the limited experiences of corruption or unethical behaviour by tax officials, there is still significant space for improvement. By incorporating some of the recommendations of this study into the next reassessment process, Ethiopia can avoid some of the pitfalls associated with the 2017 reassessment.
References


