What is a presumptive income tax assessment?
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. Many countries use some form of presumptive taxation to simplify the rules for businesses and individuals that frequently escape taxation. Ethiopia uses presumptive taxation as a simplified method of revenue collection from small informal sector firms. To implement its presumptive tax, the Ethiopian Revenue and Customs Authority (ERCA) carries out an assessment process to estimate the income earned by small informal sector firms. Defined as ‘Category C’ taxpayers—those with an estimated annual turnover less than 500,000 birr (US$17,500)—such firms are subject to a ‘turnover-based’ or ‘indicator-based’ presumptive assessment. Annual tax bills are then levied on the assessed income of Category C taxpayers.

Presumptive assessment in Addis Ababa
Based on existing legislation, 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this process was not carried out between 2011 and 2017, implying that tax administrators were relying on significantly out-of-date assessments for collection.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. The reassessment was first begun in the jurisdiction of the Addis Ababa City Administration (AACA), and has since been expanded to the rest of the country. Based on data obtained from the AACA Revenue Authority, 60,116 Category C businesses in the capital city were included in the 2017 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 taxpayers 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.

Overall processes and procedures
The core of the reassessment process was the Average Daily Revenue Estimation Committees that were tasked with deploying

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a predefined set of indicators to estimate the average daily revenue of Category C businesses. Standard calculations were used to arrive at an annual income for each business based on these daily revenue estimates, and the presumptive tax was levied thereon. The Average Daily Revenue Estimation Committees were overseen and supported by a plethora of other committees with distinct duties and responsibilities, including those tasked with complaint resolution and with taxpayer sensitization to the reassessment process.

Underlying causes of taxpayer complaints
Following best practice procedures, ERCA established a series of hearing committees at which taxpayers could dispute the assessment they received. Around 52 per cent of reassessed taxpayers filed formal complaints at their local tax office, and of those 58 per cent received a favourable decision (reducing their initial assessment). Despite this high rate of favourable decisions, 83 per cent of all complainants indicated they were not satisfied with the decision received.

The taxpayer surveys and key informant interviews carried out as part of this study point to a number of causes underlying high levels of taxpayer dissatisfaction with the reassessment process. First, tax officials emphasised that the root cause of the high complaint rate was that taxpayers rejected the new assessments, even though they were carried out as per the law, simply because they tended to imply 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.

Both taxpayer respondents and key informants also acknowledged that the committees tasked with raising awareness and sensitising taxpayers to the reassessment process were in many cases not equipped with the adequate knowledge and experience to carry out their roles. More than half of surveyed taxpayers indicated that they did not receive any form of sensitisation to the reassessment process, and among those who did 76 per cent stated that the sensitisation committee members were not able to answer their questions about the process.

Members of the Average Daily Revenue Estimation Committees also frequently lacked basic knowledge about tax and trade practices, and noted that they did not receive sufficient guidance in their assessment tasks. As a result, many assessors relied primarily on only a few indicators to estimate daily revenue that were neither objective nor concrete. Consequently, estimated revenue for similar businesses in similar geographies often varied widely. Additionally, ERCA did not conduct practical demonstrations for the assessors nor did they carry out a pilot test before the implementation of the actual assessment.

Recommendations moving forward
Based on the findings of this study, it is crucial that presumptive tax assessments be carried out on a regular basis, informed by the legally mandated schedule (every three years in Ethiopia), to maintain their legitimacy and avoid unnecessary conflicts. Assessor teams also need to be composed of individuals with sufficient technical knowledge and ample experience; when such individuals are in short supply, the responsible revenue authority should invest in more extensive training. The reassessment process also needs to be carried out over a longer time period, both to allow assessors space to do their jobs correctly, and to allow the responsible sensitisation committees to effectively deploy taxpayer education and training sessions. Finally, the responsible authority needs to re-examine the indicators that are currently used for presumptive assessments. To maintain legitimacy of the tax, a key principle should be that similar businesses in similar locations are taxed similarly. If the current indicators cannot achieve this principle then they should be re-examined.