

A large, abstract geometric graphic is positioned on the left side of the cover. It consists of several overlapping, semi-transparent shapes in shades of yellow, orange, and red, all contained within a light blue, curved, multi-sided frame that resembles a stylized letter 'A' or a large arrow pointing right.

**African Tax
Administration Paper 28**

The Tax Response to COVID-19 in Ethiopia: Lessons for the Future

Mulugeta Akalu, Misganaw
Gashaw & Zerihun Asegid

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Summary

The government of Ethiopia, like other governments, has provided tax response measures in order to mitigate the socio-economic impacts of COVID-19. These measures, among others, include a waiver of outstanding tax liabilities that taxpayers owe to the government; a tax amnesty or relief on interest and penalties for tax debt; and an extension of filing and tax payment deadlines. These tax measures were adopted with the purposes of helping affected businesses, to keep employees at work, to stimulate the economy and to reduce COVID-19 infections. To be effective, tax relief measures should have been targeted, temporary, speedy, abuse resistant, cost recoverable, predictable, reversible, scalable, easy to administer, resilient to health measures, and adapted to the specific needs of Ethiopia. The strong sides of the Ethiopian tax responses are their speedy nature and the fact that they consider the revenue space and address the status of the poor. The challenges observed on the design and enforcement of the tax measures include lack of adequate targeting, lack of prior assessment, administrative uneasiness, lack of records on the revenue loss, absence of monitoring and evaluation, and that they unfairly benefitted those who failed to comply with their tax duties. Prior assessment, targeted support, convenient response administration, coordination among the government organs, the need for the tax responses to be free from discrimination, the need for appropriate data recording, fair dispute settlement procedures and the need for a permanent disaster response department are suggested for similar incidents in the future.

Keywords: COVID-19; impact; tax measures; challenges; lessons.

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Introduction

Starting from Wuhan City, Hubei Province, China in December 2019, and spreading around the globe in a short period of time, COVID-19 is one of the biggest pandemics in history (Lone and Ahmad 2020). It has caused disruption to both supply and demand at the household level and disruption to key global value chains and macroeconomic variables (Martin, Markhvida, Hallegate and Walsh 2020). In addition to economic repercussions across numerous sectors, COVID-19 has also had significant social and political effects (Bonotti and Zech 2021). In order to mitigate these multiple negative impacts posed by the pandemic, governments have looked to every possible means, particularly by taking monetary and fiscal measures. In Ethiopia, like other developing countries, the pandemic has impacted both the domestic and the external channels of the economy (Geda 2020; Beyene, Ferede and Diriba 2020; Hirvonen 2020). The government has introduced various measures including direct spending, tax relief and cutting interest rates, as part of its emergency package to mitigate the economic impacts of COVID-19 on taxpayers, and also to stimulate the country's economic activities (Hirvonen 2020; Wieser, Ambel, Bundervoet and Haile 2020). Ethiopia, like other developing countries, has focused on tax measures, such as a waiver of outstanding tax liabilities that taxpayers owe to the government; a tax amnesty or relief on interest and penalties for tax debt; an extension of filing and tax payment deadlines (or deferral of tax payments); holding of VAT collected or speedier settlement of refunds of excess input VAT; and removal of taxes on imported raw materials that were meant to be used in preventing COVID-19. The measures introduced included, for example, Federal Directive No. 64/2020 and Amhara State Directive No. 33/ 2020.

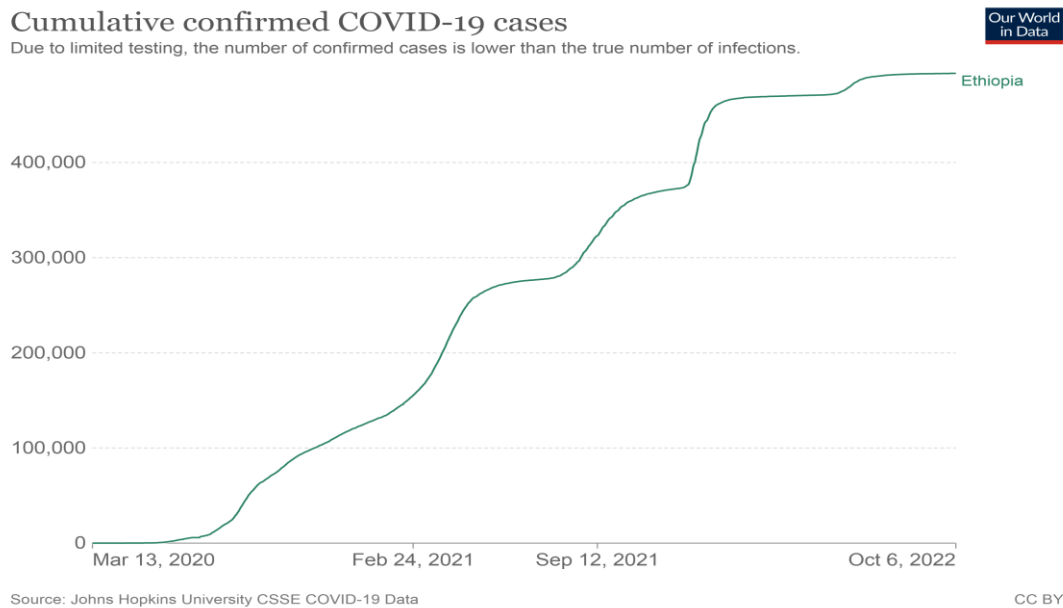
However, the design, content, and enforcement of tax measures have not been subjected to scientific investigation so far. There have been concerns with regard to the revenue implications and the fairness and effectiveness of measures as well as the macro and microeconomic impact. There have so far been only a few studies on the economic measures in general and none of these studies has adequately analysed the design and enforcement issues and the challenges during the implementation of the tax measures (Geda 2020; Beyene *et al.* 2020). The present research is intended to fill this gap.

1 COVID-19 in Ethiopia

Ethiopia confirmed its first case of COVID-19 on Friday 13 March 2020 in the capital Addis Ababa. Since then the pandemic has expanded exponentially to the rest of the country. As of 10 March 2021 there have been 168,335 confirmed cases of COVID-19 with 2,451 deaths, and as of October 2022, the number of confirmed cases of COVID-19 exceeded 400,000 (Our World in Data 2022). In fact this number is not an indicator of a true figure since the number of reported cases is much lower than the number of true infections due to limited testing.

The following graph indicates the trajectory of COVID-19 in Ethiopia.

Figure 1 Cumulative confirmed COVID-19 cases in Ethiopia



The government of Ethiopia has taken several significant steps to keep COVID-19 infections low and to mitigate the pandemic's economic impact (International Food Policy Research Institute 2021). Though there was no national lockdown, an initial six-month long state of emergency, implemented throughout the country between March and September 2020, resulted in travel restrictions, the banning of public meetings, and school closures. The first measures taken by the government included closing schools, banning all public gatherings and sporting activities, physical distancing, mandatory quarantine, and closing bars until further notice (Baye 2021). Due to the inadequacy of these measures, the government then enacted a state of emergency that was meant to be implemented throughout the country (Proclamation No. 3/2020.). Several regional governments imposed restrictions on public transportation and other vehicle movement between cities and rural areas. These containment measures by the government coupled with spill over from global measures brought economic stagnation. The Ethiopian economy was one of the fastest growing economies in sub-Saharan Africa prior to the pandemic, though the rate was contested. However, the shock resulting from the pandemic significantly reduced growth in the 2020 fiscal year (IMF 2020). It had already materially weakened external accounts as services exports, remittances, and foreign direct investment declined. Since then, government officials have been taking successive containment measures such as mandatory 14-day quarantine for travellers entering the country, improving testing and containment capacities, strengthening epidemic response coordination and adopting a state of emergency to limit movement and gatherings and facilitate social distancing orders (Deloitte 2021).

The pandemic that was followed by restrictive measures caused severe economic and non-economic impacts for ordinary citizens, firms and the government. In Ethiopia, like other developing countries, the pandemic has impacted both the domestic and external channels of the economy (Geda 2020). Among the impacts were: the closure or scaling down of operation by firms; employees losing their jobs; sales of firms' products dropping; cash flow problems; and financial stress (Lacey, Massad and Utz 2021). The pandemic has also impacted employment and caused income loss for employed workers. Household food security has also been impacted. Access to health facilities was severely impacted. The World Bank household survey in April 2020 (Wieser *et al.* 2020) showed that about 18 per cent of urban respondents and 10 per cent of rural respondents had lost their job. The three round surveys in Addis Ababa by the International Food Policy Research Institute (IFPRI)

found that the great majority of respondents (58, 67 and 64 per cent in May, June and July respectively) said that their income was unusually lower than the previous months and 23 per cent of households had run out of food for the past 30 days.

The COVID-19 pandemic has affected economic activity in Ethiopia, with significant adverse effects on employment, particularly at the onset of the pandemic (Harris, Baird, Ford, Jones, Kassa, Meyer, Pankhurst, Wieser, and Woldehanna 2021). The World Bank data (Wieser *et al.* 2020) shows that employment rates plunged in the early days of the pandemic, with 8 per cent of respondents losing their job at the beginning of the outbreak. Urban areas were particularly harshly impacted, with 20 per cent of urban respondents losing their job by April 2020; 64 per cent of them attributed this to COVID-19 (Harris *et al.* 2021). The pandemic has also been followed by great social concerns such as social unrest, lawlessness, bad governance and violations of human rights (United Nations 2020). The pandemic has also greatly affected the hotel and tourism sector as it is closely dependent on the global movement of peoples and the inbound flow of foreign direct investment (FDI) has been severely affected.

The economic recession and social crisis have in turn led to severe revenue losses, reducing the capacity to finance both the crisis and regular public expenditure (African Union 2021). COVID-19 has caused an indirect impact on the Ethiopian economy by bringing huge revenue loss on the part of the government. These losses arise from loss of tax revenue from international tax due to the slow-down of international trade, and loss of revenue from domestic economic activities in the form of direct and indirect taxes as a result of the bankruptcy of domestic businesses (World Health Organization).

To mitigate the impacts of the pandemic, the Ethiopian government has taken rounds of measures including safety-net programmes and agricultural productivity improvement platforms (supplies of fertilisers, improved seeds, and pesticides) and a nationwide resource (financial, human and material) mobilisation campaign (such as donations and medical support) (Hirvonen 2020). The government has also allocated around US\$3.4 billion for its COVID-19 response plan, where US\$1.6 billion is for emergency response and US\$1.8 billion is for macroeconomic interventions (Hirvonen 2020).

The measures can be categorised as fiscal/tax measures and financial/monetary measures. One of the financial/monetary measures taken by the government of Ethiopia to mitigate the adverse effect of the pandemic on the economy includes financial assistance to the business community. The National Bank of Ethiopia has allocated a 15 billion Birr (US\$281 million) loan for banks to enable them to extend loans to private businesses to meet their costs for wages and other regular expenditures. Private banks have been allowed to permit a temporary postponement of loan repayment. The following are the main non-tax support mechanisms:

- Access to loans for small and medium sized enterprises.
- Loan access for micro-finance institutions.
- Support to exporters: exporters were allowed to sell their product to the domestic market.
- Postponement for three months of payment of the pension contributions made by private employers for their employees.

Nevertheless, direct cash grants and other social support systems for the poor were not implemented except exempting basic and necessity goods from tariffs, and some loan arrangements for severely affected businesses. In fact direct cash grants are not feasible for a least developed country due to a very limited revenue space.

2 Tax response to COVID-19 in Ethiopia in comparative context

Countries around the world have taken different measures in response to the economic and social aftermaths of the COVID-19 pandemic. These measures can be categorised into four groups: support to businesses; support to households; support to investment and consumption; and support to the healthcare sector (Zeidy 2020).

The first category of measures is aimed at supporting businesses by boosting cash flows. These measures were introduced to ensure that businesses do not run out of cash and face liquidity problems. The specific measures that fall into this category include increased lending and subsidies, deferral of taxes and social security contribution (SSC) payments, tax filing extensions, accelerated tax refunds, and enhanced tax loss carry (carry forward or carry backward) provisions. A few countries, such as Indonesia and Korea, have introduced tax waivers (amnesties) and tax rate reductions on a targeted basis, by limiting the benefit to the tourism sector (OECD 2022). Even if Ethiopia adopted many of the measures stated above, it differed from the rest of the countries in introducing a massive non-targeted tax amnesty.

Households have also been supported and protected by tax and expenditure measures. There have been cash transfers for households, wage subsidies for employees, and unemployment benefits for the self-employed. The filing and payment deadlines for personal income taxes have been delayed. But most of the support to households was effected through direct transfers rather than tax measures (Zeidy 2020). Measures that were aimed at supporting households were rare in Ethiopia.

Support to investment and consumption is focused on stimulating the economy. Unlike other measures, it was only applied in a few countries, such as Kazakhstan, Kenya, and Indonesia. These countries tried to stimulate investment and consumption by reducing corporate taxes for manufacturing companies and lowering VAT rates (OECD 2020). It seems that for most countries, encouraging investment and consumption was not a priority issue during the outbreak phase of the pandemic. These countries focused on alleviating the adverse impacts of containment and prevention measures on businesses and households.

Countries have introduced tax and non-tax measures to support health systems in their fight against the pandemic. In this regard, the common measure was the temporary lifting of customs duties on medicines and medical equipment. There was also expedited customs clearance for goods necessary in fighting COVID-19 (2020). Healthcare workers received special allowances. Businesses that engaged in the production of health equipment were allowed a reduction of tax rates and accelerated tax depreciation. These measures were common in developing countries (OECD 2020). Ethiopia has allowed the importation of some goods such as COVID-19 test kits, protective garments, thermometers, disinfectants or sterilisation products, and other medical devices and products, free of customs duty (Ministry of Finance Letter, No 4/0650/12). These items were important for the prevention and control of the COVID-19 pandemic.

Almost all countries were quick in providing the necessary measures in response to the COVID-19 pandemic (Pragyan, Furceri, Ostry, Tawk and Yang 2021). The measures were more frequent in March and April 2020 than at other times. These months are considered the acute first stage of the COVID-19 pandemic for most countries. Since June 2020, countries have begun to reduce and diminish the measures due to the relaxation of containment measures. Except for Chad, African countries were ranked first in implementing speedy measures (Lacey, Massad and Utz 2021). The introduction and implementation of tax

measures in Ethiopia were also timely. The measures were announced and began to take effect within a short time following the occurrence of the disease in Ethiopia. For instance, Ethiopia's first case of COVID-19 was reported in March 2020, and the tax amnesty was announced in April 2020 (Directive No. 64/2020).

Regarding the targetability of the measures, there were differences among countries. European and Central Asian countries provided the most targeted support compared to others. They limited the scope of the benefits (measures) to groups and activities that were affected by the pandemic. The least targeted measures were introduced by Middle East and North African countries (Lacey, Massad and Utz 2021). Among sub-Saharan countries, Angola, Comoros, Guinea, Guinea Bissau, Malawi, Sierra Leone, and Somalia are known to have provided better-targeted support, whereas Zambia, Mozambique, D.R. Congo, Cameroon, and Botswana have provided the least targeted support (Lacey, Massad and Utz 2021). As will be discussed later on, Ethiopia's tax amnesty was not adequately targeted.

In terms of administrative easiness, the Ethiopian tax measure falls in the middle when compared to other African countries. It is not easy to administer, although not as difficult as countries such as Madagascar, Chad, Eswatini, Gabon and Mauritius which have the most administratively complex tax measures. On the other hand, Zambia, Zimbabwe, Somalia, Gambia, etc. have implemented the easiest to administer tax measures. Compared to these countries, the Ethiopian tax measure is highly difficult to administer.

3 Research method

The purpose of this research was to explore and determine 'what' and 'how' questions in designing and enforcing the tax relief measures given to taxpayers in response to the COVID-19 pandemic in Ethiopia. In this regard, the research was qualitative and the research questions involved a qualitative analysis of data. Key informant interviews and focus group discussions (FGD) were held in four major cities (Addis Ababa, Adama, Bahir Dar, and Hawassa) and with the federal government, with purposively selected participants, who have experience and/or knowledge in the area of emergency economic and fiscal measures, tax law and administration, and representatives of the business community. Secondary data was also collected from federal and regional tax laws (such as proclamations, regulations, directives, and decisions of the council of ministers), official reports, tax administrative data, research works, books, journals, periodicals, conference papers, and similar sources. The results were thematically presented and discussed in a way that could inform post COVID-19 government measures or tax responses to other similar events.

4 The Ethiopian tax relief measures

The COVID-19 pandemic has created adverse economic and social impacts in Ethiopia. It induced shocks in exports, imports, tourism, household consumption, labour employment, etc. In Ethiopia, as part of the widest fiscal and monetary measures, the federal and regional governments have introduced various tax relief measures that bid to mitigate the economic impacts of COVID-19 on taxpayers and, then, to stimulate the economic activities of the country. At the federal level, the Ministry of Finance has issued two directives. Regional governments have also taken the same measures.

The major objectives planned to be achieved by the measures were the following:

- To ensure the effectiveness of measures taken by government.
- To protect society from the health crisis arising from the pandemic.
- To ensure the continuity of the hardest hit businesses and exporters.
- To ensure the retention of workers in their employment.
- To prevent the urban poor from exposure to dislocation on account of their inability to pay house rent.
- To encourage taxpayers to supplement the government's effort to prevent the impact of the pandemic by making financial support in the form of donation.

The following are the tax relief measures that were taken by the regional and federal governments of Ethiopia.

- i. **Tax amnesty/debt relief:** The federal and regional governments of Ethiopia introduced a sweeping amnesty of tax debts, interest, and penalty that were due during the pre-COVID-19 tax years. The tax amnesty measure focused on those taxpayers with unpaid past liabilities. Two categories of tax years were created for the purposes of the amnesty. Category A represented the tax years before 2008 E.C. (Ethiopian Calendar).¹ For this category, the governments waived all unpaid tax debts, including interest and penalty, if any. Category B covered the tax years from 2008 to 2011 E.C. For this category, there was an amnesty of unpaid penalty and interest, but not the main tax, which should be paid.
- ii. **Tax credit for category C taxpayers (small businesses):** Category C taxpayers are sole proprietors with an estimated annual turnover of less than 500,000 Birr (around US\$11,111). Although the extent of the measure varied across the regions, Category C taxpayers were allowed to claim a reduction of a certain percentage of tax liability for the 2012 E.C. tax year. For example, the Addis Ababa City Administration offered a tax credit that was equal to 25 per cent of the annual tax liability of the taxpayers. Amhara National Regional State introduced different reduction rates of tax liability based on the type of business sectors in which the taxpayers engaged. For example, those taxpayers whose activities were barred by the state of emergency laws, such as nightclubs, bars, cinemas and theatres, billiards games, and sports betting, were entitled to a tax credit of 25 per cent of their total tax liability for the year. Some sectors, such as retail trade and cafeterias, were provided with a tax credit of 12.5 per cent of the annual tax liability. The tax credit for the transport sector was 8.3 per cent.
- iii. **Extension of filing and tax payment deadlines for value added and turnover taxes:** Even if the measure was taken for a short time, the filing and payment periods of value added and turnover taxes were extended. The taxes that would have been due in March, April, and May 2012 E.C. were shifted to be filed and paid in June 2012 E.C.
- iv. **Introduction of separate loss carry forward for 2012 E.C. tax year:** Losses incurred in 2012 E.C. could be forwarded to the next tax year (2013 E.C.) without being affected by the limitations set by the country's regular income tax laws. Taxpayers were allowed to forward the 2012 E.C. losses even if they had previously exhausted their rights under the regular income tax laws. The latter only allow taxpayers to carry forward losses incurred in a current tax year to a future tax year twice.

¹ The Ethiopian Calendar is seven years and eight months behind the Gregorian calendar. The new year in the Ethiopian calendar starts on 11 September. Hence depending up on the month in which the action takes place 2008, for example, in the Ethiopian calendar might be equivalent with 2015 or 2016 of the Gregorian calendar.

- v. **Deduction of donations (expenses) made in response to the fight against the COVID-19 pandemic:** The regular income tax rule regulates that taxpayers are entitled to a deduction of donations made to charities to the extent of 10 per cent of their annual taxable income. By derogating this rule, for those taxpayers that contributed to the fight against COVID-19, Ethiopia increased the amount of deduction to 20 per cent of their taxable income.
- vi. **Exemption of some goods from custom duty:** There were two cases where the federal government decided that some goods could be imported free of customs duty. It allowed the importation of goods that were regarded as important for the prevention and control of the COVID-19 pandemic. These include COVID-19 test kits, protective garments, thermometers, disinfectants or sterilisation products, and other medical devices and products. In addition, it allowed companies to import basic food items like rice, bread flour, baby milk, and other food items duty free to reduce the impact of the pandemic on society.
- vii. **Tax credit for lessors of buildings:** In Addis Ababa City, lessors were granted a tax credit for the 2012 E.C. tax year provided that the following conditions were met. First, the lessors should exempt the lessees from the payment of rent at least for two months. Second, the lessees should be individual taxpayers, micro and small enterprises or educational institutions, or any other person that leased the house for residential purposes with a monthly rent of less than 10,000 Birr (around US\$222). If the lessors exempted their lessee for one month, they were entitled to a tax reduction of 50 per cent of the annual rental income tax liability. In other regions, the lessors were not allowed a tax credit (i.e. a reduction from the final tax liability). Upon fulfilment of some conditions, they were entitled to deduct the amount of exempted rent as expenses.
- viii. **Waiver of rental income tax for building owners and employment income tax for employees:** The tax relief directives obliged building owners to waive two months' rental for their lessees in exchange for a waiver of income tax for the current tax year. This benefit applies to buildings rented for schools, for residence and for small and medium businesses. The building owner was entitled to be relieved from paying the tax for the year 2019/2020 if they could prove that they had granted lessees exemption from the payment of rent for two months.

4.1 Design and enforcement challenges

To be effective, tax relief measures should be targeted; temporary; speedy; abuse resistant; cost recoverable; predictable; reversible; scalable; easy to administer; resilient to health measures; and adapted to specific countries' needs (Clausing 2020). In short, a good tax relief measure designed to mitigate the impacts of COVID-19 should fulfil the following conditions.

- i. **Measures should be targeted:** Targeted measures, in contrast to blanket measures, are aimed at providing tax support to the specific households and business groups judged to have been hit the hardest by the pandemic and its economic fallout, or businesses which are most crucial to helping mitigate the impacts of the crisis. Targeted measures are considered by many to be effective for the most affected businesses though they are cost ineffective. Targeted measures aimed at the groups which have been most adversely affected may be more cost effective. Targeted measures can bolster the cash flow of businesses and individuals which in turn could reduce the need to sell assets and the risk of business failure. Broad-based tax relief measures might result in a loss of huge revenue and would be less effective than

usual given that social distancing measures prevented people from working and spending normally, and businesses are likely to be particularly risk-averse (Philips and Steel 2020).

- ii. **Measures should be temporary:** This means having clear end dates or tying the duration of measures to the attainment of certain outcomes (e.g. recovery in certain sectors, a specified level of employment) (OECD 2021). Making the measures temporary helps encourage businesses and households to bring their spending and investments forward and limit the impact on public budgets.
- iii. **Measures should consider the specific conditions of the country:** A tax measure which is implemented in a developed country might not work for a developing country since the latter will face tighter constraints on their options, such as more limited fiscal space, larger informal sectors outside of the tax net, and lower administrative capacity (Philips and Steel 2020).
- iv. **Measures should be easy to administer:** For a tax measure to be effective it must be easy to identify the targeted beneficiaries, and the measure itself must be easy to enforce and simple so that it can be understood by taxpayers (Lacey, Massad and Utz 2021).
- v. **Measures should be speedy:** This means that the benefit must accrue to the beneficiaries within a very short period of time – probably within less than a month (Lacey, Massad and Utz 2021).
- vi. **Measures should be scalable:** This means the extent to which the tax response can be expanded or replicated for additional groups of beneficiaries in accordance with needs (Lacey, Massad and Utz 2021).

When evaluated based on the above criteria, the Ethiopian tax relief measures have faced some challenges. This does not mean that the tax measures do not have good sides. One of the strong sides of the Ethiopian tax measures was their rapid speed, coming into force within a month of their declaration. The government has tried to cushion the impacts of the pandemic within the limited revenue space available given a very stiff revenue scarcity. Attempts have been made to support vulnerable groups by providing tariff cuts on imported basic commodities. The government has facilitated a loan scheme for highly affected businesses through private banks. A time extension for value added tax declarations and income tax cuts for employers who paid a monthly salary for employees who were off work are other strong features of the Ethiopian tax relief measures.

Nevertheless, before the introduction of the tax measures, the federal and regional governments did not carry out an adequate prior assessment of the nature and extent of the impacts of the pandemic on taxpayers' activities. As a result, it was not possible to provide targeted tax support for the businesses and individuals who were affected the most by the pandemic. The tax amnesty, which was Ethiopia's major tax relief measure, was not targeted and sector-specific. The non-payment of past tax debts was employed as the sole eligibility criterion for the amnesty. The sectoral impacts of COVID-19 on taxpayers' businesses had no role at all. The amnesty's application was not directed or limited to those taxpayers that were most affected. The tax amnesty was also not fair. It exclusively benefitted those taxpayers that had not paid their tax liabilities in the past. Those taxpayers that diligently paid past tax liabilities received no benefit at all. There was neither an amnesty nor an equivalent remedy for these diligent taxpayers.

The enforcement of the tax measures was not supported by monitoring and evaluation mechanisms. The federal and regional tax administrations did not assess the proper implementation, effectiveness, revenue implications, and gaps of the tax measures. There was no official data on issues like the number of taxpayers who utilised the tax relief measures, the amount of revenue foregone due to the tax relief measures, and the amount of money the taxpayers saved. Due to the administrative weakness of its institutions, Ethiopia does not prepare annual tax expenditure reports. It was difficult for the authors of this paper to evaluate the implications of the tax measures on the country's budget and spending programmes. All these factors imply that the government authorities concerned do not keep appropriate tax data that could be used for future policy making.

The issue of whether the government lost much revenue due to the tax relief measures could not be answered persuasively due to lack of recorded evidence, although the writers of this paper contended the possibility of substantial revenue loss. Some tax officials contended that the tax relief measure did not cause any reduction in government revenue. Instead, they said that there was an increase in the net government revenue relative to the revenue amount recorded in previous years. They argued that the tax relief measure has boosted government revenue by attracting formerly non-compliant taxpayers into the tax net (Legal Officer of Ministry of Finance 2020). On the other hand, a revenue officer at Amhara Revenue Bureau (2020) disagreed with this view, alleging that the increase in revenue happened because the government collected its own money that it had failed to collect during the previous years. The writers of this paper contend that the government of Ethiopia has lost considerable revenue due to the tax relief measures implemented. We claim this because firstly, the country's tax-to-GDP ratio was lower than the previous pre-COVID years; secondly, even if the absolute revenue amount might show an increase, the actual value of revenue is lower than the pre-COVID years because of the extreme inflation that is taking place in the country; and thirdly, the additional revenue that was obtained after the adoption of the tax relief measures is not new revenue, rather, it was the government's own money that had failed to be collected for a number of years due to administrative limitations.

Finally, since the tax administrations did not communicate effectively with taxpayers, there were information gaps and confusion over the tax relief measures. It was common to observe disputes between taxpayers and tax authorities, and these disputes were not handled through proper grievance handling mechanisms. Our findings indicate that the Ethiopian tax relief measures were not administratively easy to implement.

5 Lessons for the future

This study provides the following lessons if the government of Ethiopia is to take tax relief measures to help individuals and businesses reduce their tax burdens during emergencies.

- i. Preliminary assessment should be conducted before tax responses are enacted when an emergency of such kind happens. Taxpayers were not all impacted equally by the pandemic. There were sectors or taxpayers who were affected the most, there were sectors who were affected very little, and there were even sectors or taxpayers who benefitted from the pandemic. All those sectors and taxpayers do not need a similar tax response. That is why prior assessment is necessary to identify the taxpayers who need the utmost treatment. The assessment must focus on the extent and nature of the impacts caused by the pandemic on each sector. This enables the tax authority to provide targeted support based on the extent of the impact.

- ii. Tax relief measures should be designed in a manner that is targeted. Those who are affected the most by the pandemic must get a response comparable to their losses and those who are affected the least must get the least support. Tax responses must overlook those businesses and individuals who are not affected and tax those who are positively affected more. The tax response measures that have been enacted by the government of Ethiopia were not targeted as they were available for any taxpayer regardless of the impact. This made the tax responses unfair. The tax response must address only businesses that have been affected due to the pandemic. However, most of the tax responses of Ethiopia issued in the name of mitigating the impact of COVID-19 were debt remission measures that purported to relieve non-compliant taxpayers from their past accumulated debts. They mainly tried to relieve taxpayers of their tax liabilities they had owed the government for several years before COVID-19 happened. In the future, tax response measures must limit themselves to the direct impacts of the pandemic or emergency.
- iii. Governments need to establish a system that is convenient to successfully implement the tax response as planned. Tax measures can only be effective if they are given sufficient time and procedures are transparent. Taxpayers were given only one month to benefit from the tax response measures, a time that was very short given the complex bureaucracy and inadequate infrastructure. This prevented several taxpayers from benefitting from the tax responses. Future tax response measures must provide adequate time and less complex procedures to enable taxpayers to use the opportunity.
- iv. Coordination of different government organs must be a top priority. The effectiveness of tax response measures for pandemics or other emergencies of this kind needs a coordinated effort from various government departments. What we saw from the enforcement process of the Ethiopian tax response measures is lack of coordination and understanding among the different departments. For instance, the tax response measure that entitled taxpayers to import basic commodities tariff free for a month was unsuccessful as importers were unable to benefit from it due to the complex bureaucracy in customs declaration procedures. Thus the right provided by one government organ was made ineffective because of the bureaucratic working procedures of the other organ and because of absence of coordination between them. In the future, this must be avoided.
- v. The government needs a permanent pandemic response department whose purpose is responding to the impacts of pandemics. There needs to be an office staffed with highly qualified personnel and with sufficient funds to address new challenges. Due to the absence of a permanent government organ entrusted with the task of responding to unforeseen pandemics such as COVID-19, it was impossible to identify an appropriate government organ that could provide a robust and swift response. To avoid this confusion, a separate organ with its own powers and functions needs to be established.
- vi. Future tax responses for pandemics such as COVID-19 should not discriminate among taxpayers. Those who are impacted equally should be treated equally. The Ethiopian tax response measures were seen to be discriminatory as they provided debt remission only for those who had failed to comply with their past tax obligations. Even those taxpayers who did not comply with their past tax obligations were treated differently as pre-2014/15 G.C. and post 2014/15 G.C. This has created anger among taxpayers who complied with their tax obligations as they allege that they have been overlooked by the law from benefitting from the tax response just because they had

paid their taxes honestly. This mistake should not be repeated in future tax responses.

- vii. The effectiveness of the tax response measures should be subjected to continuous monitoring by a government department established for that purpose. Our assessment reveals that the absence of regular monitoring and follow up by a responsible authority has made the tax response measures less effective.
- viii. Tax response measures must set appropriate dispute settlement procedures for possible disputes between the taxpayers and the tax authorities. The tax response legislations enacted to mitigate the impacts of COVID-19 have failed to provide adequate dispute settlement procedures, as a result of which taxpayers who complained of their grievances failed to obtain satisfactory decisions. Hence, future tax response measures should consider providing appropriate dispute resolution mechanisms.
- ix. As a government of a poor country with fragile revenue, the revenue consequences and the availability of alternative sources must be taken into account before measures are designed. The government of Ethiopia has lost huge revenue as a result of the tax responses it provided. In doing so, no alternative revenue was considered. This has brought fiscal imbalance causing huge repercussions for the economy. Hence, the availability of alternative revenue sources must be exhausted so as to fill the revenue gap when future tax response measures are designed.
- x. The government needs to put in place an appropriate data recording system for the tax response measures and their effects. One of the critical problems that we witnessed was the absence of relevant data on who benefitted, how much they benefitted, who did not benefit, why they didn't benefit, the amount of revenue lost due to the tax response, the micro and macroeconomic impact that the tax response brought, and so on. It was impossible to gauge the effectiveness of the tax response due to a lack of adequate recorded data. Hence, future tax response measures should be accompanied by appropriate data recording systems so that their impacts can be easily analysed.

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