

# TaxDev



# Tax return forms: Issues for TE estimation

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#TaxDev



# Plan

- Business Income Tax
  - Overview of Current Tax Return Form Content
    - Key components of business income tax return forms
    - Income categories covered (profits, deductions, credits, etc.)
  - Identified Gaps for Tax Expenditure Estimation
- Employment Income Tax
  - Overview of Current Tax Return Form Content
    - Components of employment income tax return forms
    - Inclusions and exclusions in the calculation of taxable income
  - Identified Gaps for Tax Expenditure Estimation

# Business income tax returns

- The current tax return form has 4 sections:
  - **Section I:** contains taxpayers information (taxpayer's name, address, TIN) the key detailed information;
  - **Section II:** outlines income tax declaration
    - Details of income and cost of goods/services sold
    - Business expenses.
    - Tax due

# Business income tax returns

Business Income Tax Declaration - (With Annex)

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA MINISTRY OF REVENUES

Check Status:  
 Schedule Business Income Tax  
 Mining Income Tax

**Section 1-Taxpayer Information**

1. Taxpayer's Name (Company Name or Name, Father's Name, Grandfather's Name)		3. Taxpayer Identification Number	8. For the Year of:	Page 1 of _____
2a. Region	2b. Zone/k-ketema	4. Tax Account Number		Document Number (Official Use Only)
2c. Woreda	2d. kebele/Farmers Association	2e. House Number	5. Tax Center	
6. Telephone Number	7. Fax Number			

**Section 2-Income Tax Declaration**

**Income and Cost of Goods Solid**

1	Business Income or Sales /Turnover (Transfer from Annex) 1	5	
2	Non Operating and Other Income	10	
3	Total Gross Income (Add lines 1 and 2 and Enter Total at Right)		15
4	Cost of Goods Sold/Direct Cost of Services (Transfer Total from Annex2)		20
5	Gross Profit /Loss (Line 3 minus Line 4)		25

**Business Expenses**

6	Selling and Distribution Expenses (Transfer from Annex 4)	30	
7	Salary and Wages	35	
8	Other Employee Benefits	40	
9	Repair and Maintenance Expense	45	
10	Investment/Participation Expense	50	

# Business income tax returns

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4	Cost of Goods Sold/Direct Cost of Services (Transfer Total from Annex2)		20
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<b>Business Expenses</b>			
6	Selling and Distribution Expenses (Transfer from Annex 4)	30	
7	Salary and Wages	35	
8	Other Employee Benefits	40	
9	Repair and Maintenance Expense	45	
10	Investment/Participation Expense	50	
11	Foreign Technical Services Expense	55	
12	Utilities Expense	60	
13	Travel Expense	65	
14	Rent Expenses	70	
15	Interest Expense	75	
16	Depreciation Expense	80	
17	Amortization Expense	85	
18	Deduction Taxes and License Fees	90	
19	Deduction Donations and Gifts	95	
20	Other Deductions (Transfer Total from Annex 5 )	100	
21	Total Expenses (Add Lines 6 through 20 and enter total)		105
<b>Calculation of Tax Due</b>			
22	Net Income /Loss (Line 5 minus Line 21)		110
23	Loss Carry Forward from Previous Period ( From Annex 6) (refer the Instruction)		115
24	Carry Backward Adjustment (Attach Supporting Document & Refer Instruction)		120
25	Taxable Business Income (Line 23 plus 24)		125
26	Income Tax payable (line 25 x Schedule Tax Rate)		130
27	Foreign Tax Credit(Transfer Total from Annex 7)	135	
28	Withholding Tax (Attach Schedule on Import and Payment)	140	

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# Business income tax returns

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18	Deduction Taxes and License Fees	90	
19	Donations and Gifts	95	
20	Other Deductions (Transfer Total from Annex 5)	100	
21	Total Expenses (Add Lines 6 through 20 and enter total)		105
Calculation of Tax Due			
22	Net Income /Loss (Line 5 minus Line 21)		110
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24	Carry Backward Adjustment (Attach Supporting Document & Refer Instruction)		120
25	Taxable Business Income (Line 23 plus 24)		125
26	Income Tax payable (line 25 x Schedule Tax Rate)		130
27	Foreign Tax Credit(Transfer Total from Annex 7)	135	
28	Withholding Tax (Attach Schedule on Import and Payment)	140	
29	Total Credits (Line 27 plus Line 28)		145
30	Nat Tax due(Refundable Amount(Subtract Line 26 from Line 29)		160

Taxpayer or Authorized Agent	Seal	For Tax office use only	Seal of tax office
Name _____		Name _____	
Signature _____		Signature _____	
Date _____		Date _____	

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# Business income tax returns

- **Section III:** Annexes
  - Business sales/turnover (local sales, export sales, service income)
  - Cost of goods and services, and expenses (including distribution)
  - Deductions
  - Loss carry forward
- **Section IV:** Taxpayer (legal representative) declaration/certification

# Business income tax returns

## What are the key gaps?

- I. Taxpayers are only required to file one (aggregate) tax return for all business activities
  - This hides important information about which business activities benefit from income tax exemptions (tax holidays).
  - Making it impossible to estimate TE for business income taxes
- II. The tax authority does not really push for the correct filing of tax returns by companies under the tax holiday schemes.
  - The law explicitly requires such companies to file regular tax returns.



# Employment income tax return form

- Employers are required to withhold and remit to the relevant tax authority on a monthly basis.
  - They are therefore subject to a monthly filing requirement.
  - The tax return form requires DETAILED information on
    - Employers' details
    - Employees' details (including TIN, Address, monthly salary, and all fringe benefits, and any other deductions, and tax due)
    - However, employers often report the total tax collected (from their employees).



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## Digitization and tax administration

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Digitization could play a crucial role in improving the overall tax administration process.

- *Understanding the tax base*
  - It allows tax authorities to collect information to identify taxpayers and on tax liabilities that taxpayers might otherwise conceal.
- *Detecting tax evasion*
  - It enables tax administrations to process real-time data in real-time (including data from third parties) to automatically identify anomalies.
  - Analyze this bulk data to take targeted administrative action to improve tax compliance.
- *Facilitate tax compliance*
  - It facilitates compliance for taxpayers.
  - It simplifies the tax filing and payment process thereby reducing the compliance costs for the taxpayers.

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## Digitization experience from Ethiopia

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# Digitization experience from Ethiopia

## Standard Integrated Government Tax Administration System (*SIGTAS*)

- SIGTAS is an information system widely used by tax authorities;
- It was initially adopted in 2003 to administer VAT mainly for corporate taxpayers;
- In 2006, the tax authority expanded the use of SIGTAS to all other domestic taxes across all branch offices;
- Then in 2008, the authority launched a project to install SIGTAS in the offices of Ethiopia's 10 regional revenue authorities.

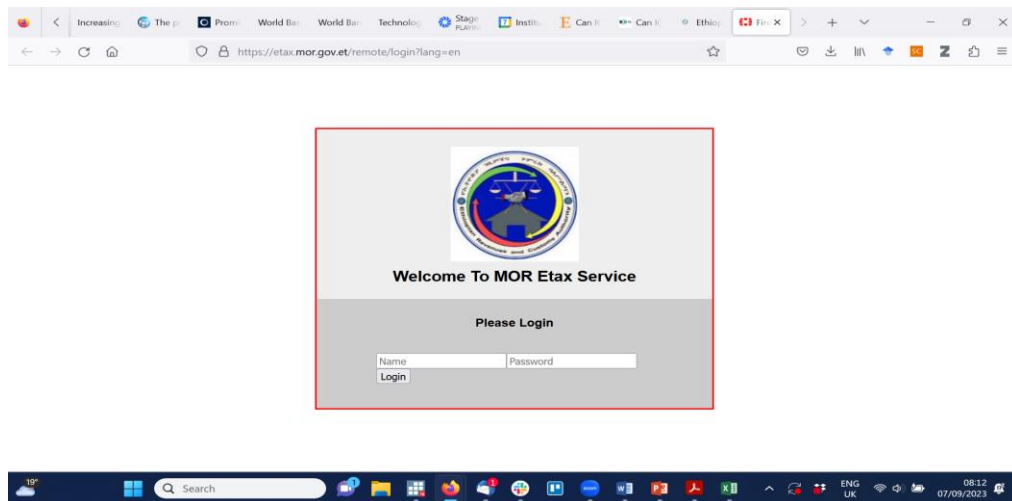
# Digitization experience from Ethiopia

## e-filing

- With the back-end system in place, the tax authority built an e-filing module into the SIGTAS in 2010.
- It was first rolled out as a pilot program to SELECTED large taxpayers.
- In 2011, it was extended to all large taxpayers, and in 2013 to medium-sized enterprises/businesses/taxpayers in urban areas with reliable electricity and internet access.
- In 2013, the program was extended to medium-taxpayers/businesses

# Digitization experience from Ethiopia

- Currently, the e-filing process has been rolled out by regional states
  - But not yet fully operational in some regions.
  - At the federal level, around 93% of the taxpayers file their tax returns through the e-filing platform





## What are the key issues?

- *Limited capacity* at the data centers.
  - The Ministry of Revenue has a dedicated unit i.e. Information Technology Centre administrating the domestic taxes including the e-filing and SIGTAS
  - But these units are mostly staffed with purely IT professionals
- *Garbage in garbage out.* Due to weak capacity, the data quality is often poor.
  - Often challenging to duplicate the official aggregate data using the administrative data coming from the SIGTAS as well as eCMS



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