

Disaggregated Survey Data on Taxation to Improve Policy Design

A PERSPECTIVE FROM THE ETHIOPIA SOCIOECONOMIC SURVEY (2018/19)

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A disaggregated analysis of the tax burdens and economic needs of the most economically vulnerable - such as poor women and men, informal workers, and owners of micro- and small enterprises - is crucial for designing equitable and well-targeted tax and public spending policies. This is particularly important in low-income countries, where formal and informal tax systems often exist in parallel, and administrative data is sparse. Availability of data on tax payments by households and non-farm enterprises, individual-level employment and asset ownership, and contributions to community institutions and infrastructure programs can reveal important distributional implications for tax policy design going forward.

*This survey brief summarizes findings from the tax module of the nationally representative 2018/19 Ethiopia Socioeconomic Survey (ESS), discussed in detail in a new report, **The Taxation of Individuals, Households, and Nonfarm Enterprises in Ethiopia: Findings from the 2018/19 Ethiopia Socioeconomic Survey**.*

The tax module covers different types of formal and informal taxes that households, businesses, and individuals pay, as well as informal contributions towards services and infrastructural improvements in the community. Findings from the multi-topic survey also reveal different tax burdens by socioeconomic and demographic groups, as well as across rural and urban areas, that are important for national tax policy design and targeting.¹

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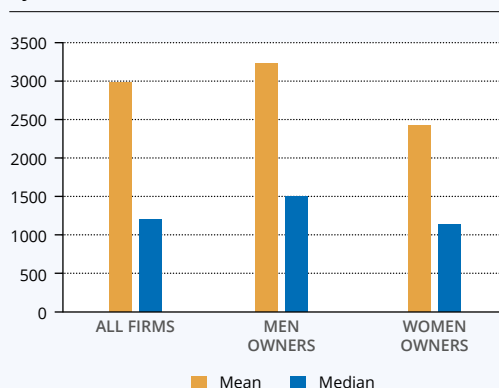
FINDINGS ON INDIVIDUAL, HOUSEHOLD AND BUSINESS TAXATION

BUSINESS TAXES

Respondents provided detailed information on household business activity during the 12 months preceding the survey. Twenty three percent of households (about 38 percent in urban and 16 percent in rural areas) have at least one household business. Most of these businesses are micro enterprises, in small scale activities in retail, transport, home-based shops and services, with 97 percent employing no more than five employees, and about 85 percent of which are own-account (with no employees).

About 12 percent of household non-farm enterprises (18 percent in urban and 6 percent in rural areas) pay the business income tax. Female business owners pay nearly 25 percent less in business income tax compared to male business owners (**Figure 1**). Twenty one percent of household enterprises had paid the business license fee, with the majority of the tax-paying group in urban areas. Only 6 percent of enterprises paid the municipal service fees. Further analysis could shed light on the reasons for the gender differences in tax payments, including differences by business size and industry.

Figure 1
 Annual Business Income Tax Paid (Birr),
 by Sex of Owner



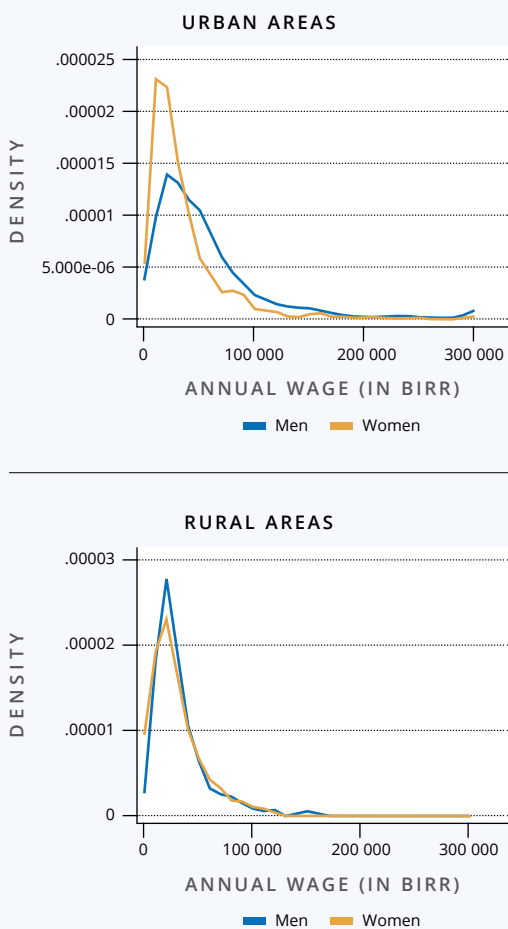
Source: World Bank (2021).
The Taxation of Individuals, Households, and Nonfarm Enterprises in Ethiopia: Findings from the 2018/19 Ethiopia Socioeconomic Survey.

EMPLOYMENT INCOME: IMPUTED TAXES

Among employees, the survey collected detailed information on income earned by wage and salary workers. The estimated taxes paid on this income can be imputed using the rate schedule in the employment income tax (EIT) legislation. Based on gross salary and wage data collected in the survey, about 72 percent of employees earned income above the EIT exemption threshold of 600 Birr/month. Seventy five percent of male earners are in the tax net compared to 67 percent of female earners, because male earnings are higher. **Figure 2** shows that the gender differences in wage earnings are much more pronounced in urban areas.

Figure 2

Taxable Income Distribution by Place of Residence and Sex



Source: World Bank (2021).

The Taxation of Individuals, Households, and Nonfarm Enterprises in Ethiopia: Findings from the 2018/19 Ethiopia Socioeconomic Survey.

PROPERTY TAXES (URBAN AREAS)

The survey asked urban households reporting ownership of a dwelling on whether they paid an urban land use fee and housing tax. About 42 percent of urban households lived in privately-owned dwellings, about

57 percent of whom paid the land use fee and the housing tax. Male- and female-headed households paid about the same amounts in taxes. In general, however, property valuation in urban areas such as Addis is outdated and does not reflect changes in urbanization.

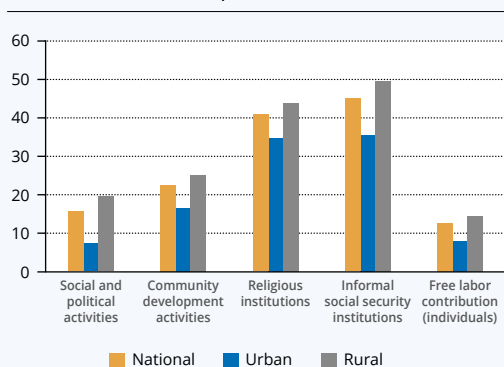
INFORMAL TAXES AND CONTRIBUTIONS

In Ethiopia, households are more likely to interact with local formal and informal systems of taxation. Informal taxes include *in-kind* and *cash contributions* by households to finance public goods, such as roads and schools; and *informal taxation* by local public officials, enforced through social channels (community fundraisers and direct collection; also see a discussion by Olken and Singhal, 2011).² Existing questions in the survey were refined to differentiate between the various informal cash and in-kind labor contributions made to local state and non-state actors. The findings reflect the significant contributions made, particularly by rural households (Figure 3). Nationally, about 44 percent of households contribute to informal social security institutions and 40 percent to religious institutions; in rural areas, these shares go up to 49 and 44 percent, respectively. Twenty two percent of households contribute to local community development activities and 15.2 percent to social and political activities, with higher shares again in rural areas. Twelve percent of individuals in the sample make free labor contributions to social and local development activities.

² Informal taxation can have one advantage: local officials better understand both their community's needs and the distribution of income. For additional recent studies on informal taxation, also see Khan *et al.* 2016; and Walker 2018.

Figure 3

Share of households making informal local contributions in Ethiopia



Source: World Bank (2021).

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There are also gender differences when examining the share of households making informal local contributions. While male-headed households are more likely to make these contributions overall, female-headed households that contribute to informal social security institutions pay about the same amount as male-headed households. Among female-headed households, contributions to informal social security institutions also tend to be highest, whereas for men, the greatest average contributions are towards religious institutions.

In future analyses, the data allows to make a distinction between the different types of tax and non-tax payments and develop a more comprehensive picture of the overall tax burdens of individuals and households.

AGRICULTURAL INCOME TAX AND LAND USE (RURAL AREAS)

In 2019, about 79 percent of the population lived in rural areas, and agriculture (farming or livestock) is practiced by 96 percent of rural households. About three-quarters of rural households pay some type of agricultural tax. Rural farmers are required to pay a rural land use fee and an agricultural income tax, the total of which usually takes the form of a “crop farming income tax.” About 74 percent of rural households pay this tax. Pastoralists are subject to a livestock income tax according to the number of livestock they own, but is paid by very few households (2 percent).

Each region sets their own tax rates. The rates are typically determined according to the amount of agricultural land. For example, in Oromia, tax liabilities also vary between whether farmers have access to irrigation. Consumption-poor households tend to have a higher tax burden, and separate research shows that female adult-only households have a higher burden (Komatsu *et al.*, 2021).

IMPLICATIONS OF DISAGGREGATED DATA COLLECTION FOR POLICY DESIGN

The Ethiopia Socioeconomic Survey provides new and disaggregated data on taxation of individuals, households, and household businesses, and is an important step toward collecting micro-survey data on taxation. The survey findings show how improving the evidence base on taxation at the subnational level can raise relevant issues for policy design, and help enhance government capacity to develop better-targeted and more equitable policies on taxation and spending.

Microeconomic survey data collection can also complement administrative data to

help us better understand the impact of changes in tax policy and tax administration. The responses to these questions will enable researchers and policymakers to develop a more detailed understanding of the prevalence and magnitude of local and informal taxes, as well as a more comprehensive picture of the overall tax burden faced by individuals and households. Data disaggregated at these levels, alongside administrative data that can be used in assessments of government programs and initiatives, is important for shaping policy targeting and vital for a well-functioning and well-informed tax collection system.

The 2018-19 Ethiopia Socioeconomic Survey can be accessed [here](#).

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