

***PUBLIC FINANCE AND  
TAXATION***

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# UNIT FOUR

## ETHIOPIAN PUBLIC FINANCE

### 4.1. Budget in Ethiopia

The word Budget originally meant the moneybag or the public purse. The word now means, “Plans of government finances submitted for the approval of the legislature”. The budget reflects what the government intends to do. The budget has become the powerful instrument for fulfilling the basic objectives of government. The budget covers all the transactions of the central government.

Budget is a time bound financial program systematically worked out and ready for execution in the ensuing fiscal year. It is a comprehensive plan of action, which brings together in one consolidated statement all financial requirements of the government. The budget goes into operation only after it is approved by the parliament. A rational decision regarding allocation of resources to satisfy different social wants requires considerable thinking and planning. Thus budget is an annual statement of receipts and payments of a government.

### 4.2 Functions of Budget

The functions of budget include the following:

- proper allocation of resources: - to relate expenditure decisions to specified policy objectives and to existing and future resources;
- to relate all major decisions to the state of the national economy;
- long term economic growth:- to ensure efficiency and effectiveness in the implementation of government programs;
- to facilitate legislative control over the various phases of the budgetary process.
- equitable distribution of income and wealth and
- Securing economic stability and full employment.

It implies that the objective of budget policy is to take corrective measures or to adopt regulatory policies to remove imperfection or inefficiencies of market mechanism. Besides, the objective of the budget policy is to make provision of social goods or the process by

### **I. Recurrent Budget**

After the hearing is over, the budget committee of the MoF will review the discussion and make a recommendation. If there is an increase (over ceiling) this will go to the PMO for approval.

### **II. Capital Budget**

After the hearing and defense with the PMO and MoED, sector departments of MoED will give a final recommendation to the development finance and budget department of MoED. This will then be compiled and put in appropriate formats for submission to the council of ministers.

### **H. Step Eight: Submission to the council of Ministers**

At this stage the two budgets (recurrent and capital) will be consolidated, and MoF will prepare a brief analysis of the total budget.

#### **I. Recurrent Budget**

The recommended budget will be submitted to the deputy Prime Minister for economic affairs. This will first be reviewed by ministers and vice ministers in economic affairs, and then presented to the Prime Minister along with a brief. The Prime Minister may or may not make amendments and then the budget will be sent to the council of Ministers for discussion.

#### **II. Capital Budget**

A brief analysis of the capital budget will be prepared by MoED on the final recommended budget and, along with the consolidated capital budget, will be submitted to the council of ministers. MoED will defend the budget in the council. The council of ministers may make some adjustment and the draft capital budget will pass the first stage of approval.

### **I. Step Nine - Submission to the Council of Peoples' Representatives**

Once approved by the council of ministers, the Prime Minister will present both the recurrent and capital budget to the council of peoples' representatives. The budget will then be debated based on the recommendation of the budget of the committee.

### **J. Step Ten - Notification and Publication**

The approved budget will then get the legal status through the publication in the 'Negaret gazeta.' Spending public bodies will then formally be notified of their approved budget by line items from MoF and MoED for recurrent and capital budgets, respectively. MoF will notify spending public bodies through Form 3/1. Likewise, MoED will inform through Form

But such multiple taxation should not lead to double taxation. Double taxation occurs when the Government levies taxes on the same base in more than one way. Hence, double taxation can be defined as, “*taxation of the same tax base twice either by one authority or by different authorities*”. Here, the two taxes should be levied with reference to the same period.

#### **A. Examples of Double Taxation**

1. Mr. X earns his income in Ethiopia and U.S.A. If both the Governments levy taxes on his entire income, it is considered as double taxation i.e. international double taxation, because he has to pay tax in two countries on the same income.
2. The Government of a country levies taxes on the profits of a company before the distribution of dividends. Thereafter, it taxes the individual shareholders on the dividends received by them. Then it becomes a double taxation. Here the company and shareholders are taxed on the same income.

Hence, double taxation means, taxing the same tax twice and it may be of international or federal double taxation.

#### **B. Kinds of Double Taxation**

Double taxation can be classified on the following ways:

1. Double Taxation by different authorities.
2. Double Taxation by the same authority.