

The scope of public finance is not just to study the composition of public revenue and public expenditure. It covers a full discussion of the influence of government fiscal operations on the level of overall activity, employment, prices and growth process of the economic system as a whole.

According to Musgrave, the scope of public finance embraces the following three functions of the government's budgetary policy confined to the fiscal department the:

- allocation branch,
- distribution branch, and
- stabilization branch.

These refer to three objectives of budget policy, i.e., the use of fiscal instruments to secure:

- adjustments in the allocation of resources
- adjustments in the distribution of income and wealth, and
- economic stabilization.

Public finance is composed of the following constituents public:

- expenditure
- revenue
- debt
- (financial) administration

Private finance is the study of the income, debt and expenditure of the individual or a private company or business venture or an association. It includes the study of their own view regarding earning expenditure and borrowing.

1.1.4 Similarities and Differences between Public Finance and Private Finance

Despite the differences in scope and nature of the public finance and private finance, following are similarities.

A. Similarities

I. Based on Similar Theories

The basis of public as well as private finance is the same. Both seek the help of various principles of economics in determining various interrelated problems. For example, a person wants to secure maximum utility on count of minimum expenditure and government too wants to secure public utility by spending the least possible amount of public money.

II. Capital Budget

The sector departments of MoED review the capital budget requests from different public bodies. At this stage projects will be screened. If there exist a discrepancy between the respective sector department and the public body, a series of discussions will be held to reach agreement. After such a process the various sector departments of MoED will submit their first round recommendation to the Development Finance and Budget Department of MoED. Then it will be consolidated and prepared for the capital budget hearing and defense.

F. Step Six - Budget Hearing and Defense:

This includes two items. They are:

I. Recurrent Budget

Spending public bodies defend their budget submission in a formal hearing with the MoF. The issue paper will be the basis of the hearing. The hearing focuses on policies, programs and cost issues, when necessary it might involve discussion down to line item. Spending public bodies could also challenge the ceiling. Presenting the hearing will be ministers and/or vice ministers, heads of public bodies and the MoF.

II. Capital Budget

Spending public bodies will be called to defend their projects to a budget hearing convened by the PMO which will be chaired by the prime Minister or the deputy Prime Minister or the their economic advisers. The hearing customarily includes a review of status of the project, implementation capacity of the institution, compatibility with the countries development strategy and policy, cost structure, and regional distribution. A project description will be presented which includes objectives of the project, main activities of the project, status of the project, total cost, past performance of the project, source of finance, and whether the project is accepted or rejected by MoED. On the basis of the discussion the respective sector departments of MoED in consultations with the spending public body will further refine the capital projects.

G. Step Seven - Review and Recommendation

This includes two items. They are:

There are two forms of tax evasion. They are as follows:

1. Suppression of income, and
2. Inflation of expenditure.

7.2.1 Examples for Tax Evasion

The following are the examples for tax evasion:

1. A trader makes a sale for Birr.20, 000 and does not account it, in his books under sales. He is evading tax.
2. An individual lends his money of Birr.50, 000 to another person at 20% interest per annum and does not include this income in his total income.
3. Under-invoicing of sales and inflation of purchases.
4. A manufacturing business employs 30 workers but include 2 more additional namesake workers (not in actual) in the muster roles. The sum shown as paid to such additional namesake workers will amount to evasion.

Human intelligence devices new methods of evasion and the Governments are constantly trying to remove the loopholes in the tax laws.

7.2.2 Causes of Tax Evasion

The following are the important causes for Tax evasion:

A. Multiplicity of Tax Laws

A number of laws enacted for the recovery of a variety of taxes often leads to widespread tax evasion.

B. Complicated Tax Laws

Complicated tax laws are another reason for tax evasion. The tax laws contain a number of exemptions, deductions, rebates, relief, surcharges and so on. For example: the Income Tax Act has 28 chapters and 298 sections including sub-sections. So, such complication in tax-laws is also a root-cause for the tax evasion.