TAX COMPLIANCE GUIDE FOR FOREIGN INVESTORS ETHIOPIA



In partnership with:







Foreword

Every year a great number of foreign and domestic companies join the various attractive and productive industries Ethiopia. In addition to creating jobs, generating exports, and/or substituting imports, these companies broaden the tax base and contribute to generating income for the government.

The Ethiopian Investment Commission (EIC) appreciates and is grateful for the contribution investors are making towards generating tax income. However, we are also cognizant of the challenges being faced by investors and authorities around taxation. These challenges partly emanate from investors lacking awareness or clarity around the various tax regulations and directives, and compliance requirements.

In an effort to address the aforementioned problem, EIC, in conjunction with the Ethiopian Revenues Authority, has been creating various awareness raising and information sharing platforms. In addition to these efforts, we believe it is beneficial for potential and existing investors to find information on applicable taxes and compliance requirements in an organised manner.

Hence, we have sought the support of our long-time and valued partner in promoting and facilitating investment, the International Trade Centre – Partnership for Investment and Growth in Africa (ITC/PIGA) project, to develop a guide on the domestic tax system of Ethiopia.

We are glad to have collaborated with ITC/PIGA project on this work. ITC has brought a dedicated, experienced and highly qualified team of local and international experts to work in compiling and presenting all relevant tax proclamations, regulations, and directives in a manner that is meaningful and useful to investors.

We are confident that investors will find the guide useful, be it in assessing Ethiopia as a potential investment destination or registering and operationalising their business in Ethiopia. EIC management and staff will happily and readily respond to investors seeking clarification or additional information on any of the content provided herein.

Lelise NemeCommissioner
Ethiopian Investment Commission (EIC)

This guide is intended to provide information about the Ethiopian domestic tax system to both new investors and those already operating in the economy so that they have better clarity on their compliance requirements as taxpayers.

The guide starts with an introduction of how it is initiated, the legal framework, laws in force and proceeds to tax compliance. The type of taxes, their respective rates and due dates for payment are also discussed. Detailed compliance requirements are presented in Part III. This part starts by introducing bodies responsible for issuing tax laws in the form proclamation, regulations and directives. Attempt has been made to structure compliance requirements along with the life cycle that a typical taxpayers passes through, starting with registration requirements.

Information provided in Part III is obtained from federal laws; i.e. the proclamations enacted by the House of Peoples' Representatives (HPR), regulations issued by the Council of Ministers and directives issued by the Ministry of Finance and Ministry of Revenues or the tax authority. Even if regional, their own tax laws follow the same principles as the federal laws. In addition, users of this guide are expected to be bodies whose tax compliance is under the federal government. Accordingly, detailed requirements are discussed under each section with focus on what is required of the taxpayer.

The information provided herein is based on directives issued as of the date of this guide. A few directives still remain to be issued by the Ministry of Finance and Ministry of Revenues.

Reference to the masculine gender in this guide shall also apply to the feminine and self-identified genders.

ACKNOWLEDGEMENTS

The International Trade Centre (ITC) expresses its gratitude to Mr. Asrat Bekele for the development of this tax compliance guide for foreign investors in Ethiopia. ITC also acknowledges the contributions of EIC's staff, Mr. Nasreen Adem and Mr. Addis Barega of international consultants and coordinators involved in the development of the guide including T.C.A Ranganathan for the technical inputs, Mr. Amdework Dilnessaw for the coordination, Vanessa Finaughty for the editing and Iva Stastny Brosig for the design.

The views expressed in this guide are those of the authors and do not represent the official position of the International Trade Centre or the Government of the Republic of Ethiopia. The images used may not always reflect accurately the country context.

ГО	reword	1		II
Ac	knowle	edg	ements	II
Ac	ronym	s ar	nd Abbreviations	V
PA	RT I: IN	ITRO	ODUCTION	
1.			and objectives	2
2.			erview and commissioning of work	
3.	,		institutional framework	
	3.1		gal framework – responsible bodies	
	3.2	Leg	gal framework – Tax revenue assignment and administration responsibilities	3
	3.2	.1	Federal power of taxation	3
	3.2	.2	State powers of taxation	4
	3.2	.3	Concurrent power of taxation	4
	3.3	Tax	heads and their respective tax rates	4
	3.3	.1	Schedule A – income from employment	5
	3.3	.2	Schedule B – income from rental of buildings	7
	3.3	.3	Schedule C – income from business.	8
	3.3	.4	Schedule D – other income	10
	3.3	.5	Schedule E – exempt income	12
	3.3	.6	Value-added tax (VAT)	12
	3.3	.7	Turnover tax (TOT)	13
	3.3	.8	Excise tax	13
	3.3	.9	Customs duty	15
	3.3	.10	Pension contribution	15
	3.3	.11	Withholding tax	16
	3.3	.12	Stamp duty	16
	3.3	.13	Higher education cost sharing	17
4.			thority – Ministry of Revenues	
5.		_	ılatory bodies	
	5.1	Min	istry of Trade and Industry	18
	5.2	Eth	iopian Investment Commission	18
	5.3	Nat	ional Bank of Ethiopia	18
PA	RT II: T	AXI	LAWS AND TAX-RELATED LEGISLATION IN FORCE	
6.	The Fe	eder	al Income Tax Proclamation	20
	6.1	Fed	deral Income Tax Regulations	20
	6.2	Inco	ome tax directives	20



1.	mer	ederal Tax Administration Proclamation	ZL
	7.1	The federal tax administration regulations	21
	7.2	Tax administration directives	21
8.	The V	alue Added Tax Proclamation	21
	8.1	Value-added tax regulations	21
	8.2	Value-added tax directives	21
9.	The E	xcise Tax Proclamation	21
10.	The T	urnover Tax Proclamation	2]
11.	Privat	e Organization Employees Pension Proclamation	21
12.	Stam	o duty	21
13.	Highe	er education cost sharing	22
14.	Invest	ment Proclamation	22
15.	Cutor	ns Proclamation	22
16.	Ехроі	t Trade Duty Incentive Schemes Proclamation	22
PAI	RT III:	TAX COMPLIANCE	
17.	Proce	dures and requirements for tax registration and cancellation of registration	24
	17.1	Documentation required for registration	24
	17.2	Place of registration	25
	17.3	Issuance of TIN	25
	17.4	Usage of TIN	25
	17.5	Cancellation of taxpayer registration	25
	17.6	Documentary evidence required to obtain a business licence	25
	17.7	VAT registration	26
	17.8	Notification of change	26
18.	Practi	cal tax filing and payment procedures	26
	18.1	eFiling	26
	18.2	ePayment	26
	18.3	Manual filing	26
19.	Invest	ment incentives	27
	19.1	Exemption from income tax.	27
	19.2	Exemption from employment tax	28
	19.3	Loss carry forward	28
	19.4	Exemption from customs duty	28
	19.5	Export trade duty incentive schemes	28



20.	Intern	ational tax	30
	20.1	Foreign tax credit for foreign business income	30
	20.2	Foreign business loss	30
	20.3	Thin capitalization	30
	20.4	Tax treaties	31
	20.5	Transfer pricing	32
21.	Tax au	32	
	21.1	Self-assessment	32
	21.2	Estimated assessment	32
	21.3	Jeopardy assessment	33
	21.4	Amended assessment	33
	21.5	Tax invoices	33
22.	Gene	ral principles regarding tax refunds	34
	22.1	Withholding tax or advance tax payment	34
	22.2	Overpaid tax	34
	22.3	VAT refund	34
	22.4	Special	34
23.	Tax cl	earance	35
	23.1	Requirements	35
	23.2	Validity of tax clearance	35
24.	Dedu	ctible expenditures.	36
	24.1	Depreciation rate	36
	24.2	Interest	36
	24.3	Charitable donation	36
	24.4	Head office expenses.	37
	24.5	Foreign currency exchange gains and losses	37
25.	Loss	carry forward	37
	25.1	Tax loss	37
	25.2	Change in control of a body	37
	25.3	Long-term contracts and loss carry backward	38
26.	Penal	ty and interest	38
	26.1	Administrative penalties	38
	26.2	Late payment interest	42
	26.3	Tax offences	42



26.4	Tax withholding from domestic payments	42
26.5	VAT withholding	42
27. Tax c	ispute resolution procedures	43
27.1	Review department	43
27.2	Appeal to Tax Appeal Commission	44
27.3	Appeal to the Federal High Court	44
27.4	Appeal to the Federal Supreme Court	44
LIST OF	'TABLES	
TABLE 1:	Employment income tax rates	5
TABLE 2:	Taxable fringe benefits	6
TABLE 3:	Rental income tax rates applicable to an individual	7
TABLE 4:	Business income tax rates applicable to an individual	8
TABLE 5:	Schedule D tax rate and payment period	10
TABLE 6:	Summary of taxes other than those summarized in Table 5	14
TABLE 7:	The stamp duty on each instrument that shall be charged, levied and collected	16
TABLE 8:	Treaties signed by the Government of Ethiopia	31
TABLE 9:	Depreciation rates	36

ACRONYMS AND ABBREVIATIONS

CIF Cost, insurance and freight value

EFY Ethiopian fiscal year (8 July to 7 July of the following year)

ETB Ethiopian birr

HPR House of Peoples' Representatives (parliament)

ITC International Trade Centre

PIGA Partnership for Investment and Growth in Africa

TIN Tax identification number

VAT Value-added tax



1. RATIONALE AND OBJECTIVES

This guide is intended to provide information about the Ethiopian domestic tax system to both new investors and those already operating in the economy so that they have better clarity on their compliance requirements as taxpayers.

The guide starts with an introduction of how it is initiated, attempts to address the legal framework and laws in force, and proceeds to tax compliance. The type of taxes, their respective rates and due dates for payment are also discussed. Detailed compliance requirements are presented in Part III. This part starts by introducing bodies responsible for issuing tax laws in the form proclamation, regulations and directives. Attempt has been made to structure compliance requirements along with the life cycle that a typical taxpayers passes through, starting with registration requirements.

Information provided in Part III is obtained from federal laws; i.e. the proclamations enacted by the House of Peoples' Representatives (HPR), regulations issued by the Council of Ministers and directives issued by the Ministry of Finance and Ministry of Revenues (the tax authority). Even if regional governments issue their own tax laws, such laws follow the same principles as the federal laws. In addition, users of this guide are expected to be bodies whose tax compliance is under the federal government in most cases. Even if the investors appear to be sole proprietorship businesses, they are subject to the same requirements as bodies for tax purposes as Category A taxpayers. Accordingly, detailed requirements are discussed under each section with focus on what is required of the taxpayer.

The information provided herein is based on proclamations, regulations and directives issued as of the date of this guide. A few directives still remain to be issued by the Ministry of Finance and Ministry of Revenues.

Reference to the masculine gender in this guide shall also apply to the feminine gender.



2. PROJECT OVERVIEW AND COMMISSIONING OF WORK

The Partnership for Investment and Growth in Africa (PIGA) is part of Manufacturing Africa (MA), a flagship programme of the United Kingdom of Great Britain and Northern Ireland's Foreign, Commonwealth and Development Office (FCDO) facilitating foreign direct investment with high development impact into selected African countries.

Under MA, PIGA aims to contribute to job creation and sustainable growth in Ethiopia, Kenya, Mozambique and Zambia by supporting these countries to attract foreign direct investment, specifically Chinese investment, in the agroprocessing and light manufacturing sectors. PIGA is also designed to enhance the capacity of these countries for effective investment promotion.

PIGA is implemented by the International Trade Centre (ITC) in cooperation with the China Council for the Promotion of International Trade (CCPIT) and the China–Africa Development Fund (CADFund).

3. LEGAL AND INSTITUTIONAL FRAMEWORK

3.1 LEGAL FRAMEWORK – RESPONSIBLE BODIES

The Constitution of the Federal Democratic Republic of Ethiopia empowers the HPR to enact laws that are referred to as proclamations. Accordingly, the HPR issued proclamations discussed in this guide to levy taxes and duties on revenue sources reserved to the federal government. The Council of Ministers is, in turn, authorized to issue regulations pursuant to powers vested in it by the HPR in the respective proclamations and its establishment proclamation. The proclamation or regulation shall, as the case may be, authorize the concerned minister to issue implementation directives. In some cases, the Ministry of Finance or Ministry of Revenues issue letters, referred to as circulars, dealing with tax treatment of specific issues that are normally taken as directives.

Accordingly, the following proclamations issued by the HPR and currently in force are referred to in this guide:

- Proclamation No. 1097/2018 Definition of Powers and Duties of the Executive Organs of the Federal Democratic Republic of Ethiopia Proclamation;
- ii. Proclamation No. 979/2016 Federal Income Tax Proclamation:
- **iii.** Proclamation No. 983/2016 Federal Tax Administration Proclamation;
- iv. Proclamation No. 715/2011 Private Organizations Employees' Pension Proclamation as amended by Proclamation No. 908/2015:
- v. Proclamation No. 285/2002 Value Added Tax Proclamation, as amended by Proclamation Nos. 609/2009 and 1157/2019;
- vi. Excise Tax Proclamation No. 1186/2020 Proclamation No. 308/2002 Turnover Tax Proclamation, as amended by 611/2008;
- vii. Proclamation No. 110/1998 Stamp Duty Proclamation, as amended by 612/2008;
- viii. Investment Proclamation No. 1180/2020;
- **ix.** Proclamation 768/2012 Export Trade Duty Incentive Schemes Proclamation;
- **x.** Proclamation No. 859/2014 Customs Proclamation, as amended by Proclamation 1160/2019.

The following regulations, issued by the Council of Ministers and also in force, are referred to:

- i. Regulations No. 410/2017 Federal Income Tax Regulations;
- **ii.** Regulations No. 407/2017 Federal Tax Administration Regulations;
- iii. Regulations No. 270/2012 Investment as amended by Regulations No. 370/2014 (a new regulation is at draft stage);

- iv. Regulations No. 154/2008 Higher Education Cost Sharing Regulations;
- v. Regulations No. 79/2002 Value Added Tax Regulations.

The Ministry of Finance and Ministry of Revenues have also issued several directives that address different tax-related issues. These directives are used as reference in relevant sections of this guide.

3.2 LEGAL FRAMEWORK – TAX REVENUE ASSIGNMENT AND ADMINISTRATION RESPONSIBILITIES

Ethiopia adopts the federal system of government, which consists of the federal government, nine regional states (a 10th one to be added soon following the referendum held recently) and two city administrations. The federal government and the states shall share revenue, taking the federal arrangement into account in accordance with the constitution. Accordingly, the constitution sets power of taxation as follows.

3.2.1 Federal power of taxation

The federal government shall levy and collect:

- Duties on revenue sources reserved to the federal government; draw up, approve and adminster the federal government's budget;
- Customs duties, tax and other charges on imports and exports;
- Income tax on federal government employees and international organizations;
- Income, profit and sales excise taxes on enterprises owned by the federal government;
- Tax on income and winnings of national lotteries and other games of chance;
- Taxes on the income of air, rail and sea transport services:
- Taxes on income of houses and properties owned by the federal government and fixed rents;
- Taxes on monopolies;
- Federal stamp duties;
- The federal government shall also determine and collect fees and charges relating to licences issued and services rendered by organs of the federal government.





3.2.2 State powers of taxation

States shall levy and collect:

- Taxes and duties on revenue sources reserved to the states, and draw up and adminster the state budget;
- Income taxes on state employees and private enterprises;
- Fees for land usufractuary rights;
- Taxes on the income of private farmers and farmers incorporated in cooperative associations;
- Profit and sales tax on individual traders carrying out a business within their territory;
- Taxes on income derived from transport services rendered on waters within their territory;
- Taxes on income derived from private houses and other properties within their state;
- Profit, sales, excise and personal income taxes on income of state-owned enterprises;
- Royalty for use of forest resources.

3.2.3 Concurrent power of taxation

The federal government and states shall jointly levy and collect:

- Profit, sales, excise and personal income taxes on enterprises they jointly establish;
- Taxes on the profit of companies, sales tax and tax on dividends due to shareholders;
- Taxes on income derived from large-scale mining and/ or petroleum and gas operations and royalties on such operations.

The federal government is responsible for collection and administration of the joint taxes.

3.3 TAX HEADS AND THEIR RESPECTIVE TAX RATES

Income taxes/direct taxes

Imposition of income tax has a long history in Ethiopia, with the first income tax proclamation issued in 1961 (Proclamation No. 173/1961). That law remained in force, with several amendments, until 2002, when a new Income Tax Proclamation No. 286/2002 was issued, repealing the previous proclamation. Proclamation No. 286/2002 also saw several amendments until it was finally repealed and replaced by Federal Income Tax Proclamation No. 979/2016, issued by the HPR to appy to income derived as of 8 July 2016 and signed into law by the President of the Fedral Democratic Republic of Ethiopia on 18 August 2016.

Federal Income Tax Proclamation No. 979/2016 was issued to introduce a modern and efficient tax system that supports economic development and that is in accord with the level of economic development achieved. It was further intended to make the tax system fair and bring income into the tax net that was not subject to tax thus far. The proclamation is divided into 11 parts and 102 Articles.

The proclamation levies income tax on every person deriving income; i.e. individual, body, government, local government or international organization. The following are categories of taxpayers for the purpose of the proclamation:

Category A taxpayers:

 A body or any other person having annual gross income of ETB 1,000,000 or more.

Category B taxpayer:

 A person, other than a body, having an annual gross income of ETB 500,000 or more, but less than ETB 1,000,000.

Category C taxpayer:

 A person, other than a body, having an annual gross income of less than ETB 500,000. The proclamation provides for the taxation of income in accordance with the following schedules:

- a. Schedule A, income from employment;
- **b.** Schedule B, income from rental of buildings;
- c. Schedule C, income from business;
- d. Schedule D, other income;
- **e.** Schedule E, exempt income.

The following taxes are applicable to a taxpayer registered in Ethiopia.

3.3.1 Schedule A - income from employment

Tax on income from employment (Schedule A) has always been in place as personal income tax and emploment income tax. Employment income tax is imposed for each claendar month or part thereof on an employee who receives emploment income. Employment income means:

- Salary, wages, an allowance, bonus, commission, gratuity or other remuneration received by an employee in respect of past, current or future employment;
- The value of fringe benefits received by an employee in respect of past, current or future employment;
- An amount received by an employee on termination of employment, whether paid voluntarily, under an agreement or as a result of legal proceedings, including any compensation for redundancy or loss of employment or a golden handshake payment.

TABLE 1 Employment income tax rates

Monthly employment income (birr)	Employment income tax rate
0–600	0%
601–1 650	10%
1 651–3 200	15%
3 201–5 250	20%
5 251–7 800	25%
7 801–10 900	30%
More than 10 900	35%

Employment income per month (I) (birr)	Employment income tax rate	Deduction	Tax computation I = Employment income EIT = Employment income tax
0–600	0%	0	
601–1 650	10%	60.00	EIT = I x 10% - 60
1 651–3 200	15%	142.50	EIT = I x 15% - 142.50
3 201–5 250	20%	302.50	EIT = I x 20% - 302.50
5 251–7 800	25%	565.00	EIT = I x 25% - 565
7 801–10 900	30%	955,00	EIT = I x 30% - 955
More than 10 900	35%	1 500.00	EIT = I x 35% - 1 500



Fringe benefits provided to employees are part of taxable employment income. Types of fringe benefits and valuation of the taxable income, on the basis of the income tax regulations, is presented below.

TABLE 2 Taxable fringe benefits

No.	Fringe benefit	Value
1.	Debt waiver	The amount waived.
2.	Household personnel	Total salary paid to household personnel in a month less any payment made by the employee.
3.	Housing	Fair market rent for a house owned by the employer; or rent paid by the employer where the house is leased less any payment by the employee.
4.	Discounted interest loan	The difference between the interest paid by the employee in a month, if any, and the market lending rate for the month.
5.	Meal or refreshment	The total cost to the employer for providing a meal less any payment by the employee.
6.	Private expenditure	The payment of an expenditure by the employer to the extent that it gives rise to a private benefit to the employee.
7.	Property or services Arises from transfer of property or provision of service. Where the employer supplies to customers in the ordinary course of business 75 normal selling price. In any other case, the cost to the employer of acquiring the property or service.	
8.	Employee share scheme	The fair market value of the shares at the date of allotment less the employee's contribution.
9.	Vehicle	A vehicle fringe benefit for a month shall be (Ax5%)/12, where A is the cost to the employer to acquire the vehicle. The cost of vehicles imported duty free includes the tax that would have been paid; or The fair market of the vehicle at the commencement of the lease, for a leased vehicle; Reduced by: Any payment made by the employee for use or maintenance and running cost of the vehicle; The proportion of the use of the vehicle, if any, in the conduct of employment; The proportion of the month, if any, in which the vehicle was not provided to the employee for private use. For vehicles held for more than five years, the value of A shall be 50% of the amount determined as above.
10.	Residual	Any benefit not covered in the above list. Fair value of the benefit at the time it is provided less any payment made by the employee.





3.3.2 Schedule B – income from rental of buildings

Rental income tax (Schedule B) is imposed for each tax year on a person renting out a building or buildings who has taxable income for the year. Rental income tax payable by a taxpayer for a tax year shall be calculated using the rates below.

Rental income tax rates

The rental income tax rate applicable to a body is 30%.

 TABLE 3
 Rental income tax rates applicable to an individual

Taxable rental income per year (birr)	Employment income tax rate
0–7 200	0%
7 201–19 800	10%
19 801–38 400	15%
38 401–63 000	20%
63 001–93 600	25%
93 601–130 800	30%
More than 130 800	35%

Rental income per year (I)	Rental Income tax rate	Deduction	Tax computation I = Rental income RIT = Rental income tax
0-to 7 200	0%	0	
7 201–19 800	10%	720.00	RIT = I x 10% - 720
19 801–38 400	15%	1 710.00	RIT = I x 15% – 1 710
38 401–63 000	20%	3 630.00	RIT = I x 20% - 3 630
63 001–93 600	25%	6 780.00	RIT = I x 25% - 6 780
93 601–130 800	30%	11 460.00	RIT = I x 30% - 11 460
More than 130 800	35%	18 000	RIT = I x 35% - 18 000

A taxpayer's taxable rental income for a tax year is the gross amount of income that a taxpayer derives from rental of a building reduced by the total amount of deductions allowed.





3.3.3 Schedule C – income from business

Business income tax shall be imposed on a person who has taxable income for the year and is conducting a business.

Business income tax rates

The business income tax rate applicable to a body is 30%.

 TABLE 4
 Business income tax rates applicable to an individual

Taxable business income per year (birr)	Business income tax rate
0–7 200	0%
7 201–19 800	10%
19 801–38 400	15%
38 401–63 000	20%
63 001–93 600	25%
93 601–130 800	30%
More than 130 800	35%

Business income per year (I)	Business Income tax rate	Deduction	Tax computation I = Business income BIT = Business income tax
0–7 200	0%	0	
7 201–19 800	10%	720.00	BIT = 1 x 10% - 720
19 801–38 400	15%	1 710.00	BIT = I x 15% - 1,710
38 401–63 000	20%	3 630.00	BIT = I x 20% - 3,630
63 001–93 600	25%	6 780.00	BIT = 1 x 25% - 6,780
93 601–130 800	30%	11 460.00	BIT = I x 30% - 11,460
More than 130 800	35%	18 000	BIT = I x 35% - 18,000

The same business income tax rate applies to resident bodies and permanent establishments of non-resident bodies.

Allowable deductions (deductible expenses):

- Any expenditure to the extent necessarily incurred by the taxpayer during the year in deriving, securing and maintaining amounts included in the business income;
- The cost of trading stock disposed of by the taxpayer during the year as determined in accordance with financial reporting standards;
- The total amount by which depreciable assets and business intangibles have declined in value during the year;
- Loss on disposal of a business asset (other than trading stock) disposed of by the taxpayer during the year.

Payment period

 Business income tax of Category A, B and C taxpayers is due to be paid within four, two and one months respectively of the end of the fiscal year.
 In determining the business income tax liability, withholding tax paid at source is deducted.

Installment payment of tax

■ A Schedule C taxpayer may pay an installment of business income tax for a tax year on the last day of the month following the end of the 6th month of the year. The amount of the installment of tax may be one-half of the amount of the taxpayer's business income tax payable for the previous tax year or the most recent year in which the taxpayer had a business income tax liability. The installment tax paid shall be credited against the taxpayer's business income tax liability for the tax year.

Advance payment of tax in relation to imports

 A taxpayer under Schedule C importing goods for commercial use shall make an advance payment of business income tax equal to 3% of the cost, insurance and freight (CIF) value of the goods. Any excess is settled in accordance with tax refund procedures.

Mining and petoleum operations

Tax on mining and petroleum operations, which used to be governed by their own respective proclamations, has become part of Schedule C tax upon enactment of the Federal Inome Tax Proclamation No. 979/2016. Hence, the following provisions apply to mining and petroleum operations, including the separate tax rate.

A tax rate of 25% applies to bodies engaged in mining and petroleum operations. A deduction for expenditure to the extent incurred by a licensee in undertaking mining operations in a licence area during a tax year shall be allowed only against the business income derived by the licensee from the mining operations in the licence area during the year.

Expenditures

"Exploration expenditure" means capital expenditure incurred by a licensee or contractor in undertaking exploration operations, other than expenditure incurred in acquiring a depreciable asset, and includes the following:

- Expenditure incurred in acquiring:
 - An interest in an exploration right from the government or under a farm-out agreement; or
 - Exploration information from the government or under a farm-out agreement;
- Social infrastructure expenditure incurred in relation to exploration operations under a mining exploration right or petroleum agreement;
- Exploration expenditure incurred by a licensee or contractor shall be treated as a business intangible with a useful life of one year; i.e. a depreciation rate of 100% is applicable.

"Development operations" means:

- For mining operations, authorized operations under a mining licence;
- For petroleum operations, authorized operations relating to development and production under a petroleum agreement;
- Development expenditure of a licensee or contractor shall be treated as a business intangible with a useful life of four years;
- If a licensee or contractor incurs development expenditure before the commencement of commercial production, depreciation shall apply on the basis that the expenditure was incurred at the time of commencement of commercial production. The same provision applies to depreciable assets for use in development operations that are acquired or constructed by a licensee or contractor before the commencement of commercial production.

Loss carry forward

If a licensee has a loss in respect of mining operations in a licence area for a tax year, the loss amount shall be carried forward and allowed as a deduction against the licensee's business income derived from mining operations in the licence area in the licensee's next tax year. However, the licensee can't carry forward a loss sustained in a tax year beyond 10 years from the end of the tax year in which the loss was sustained.

This above provision shall apply, with the necessary changes made, to a contractor in relation to a contract area under a petroleum agreement.

3.3.4 Schedule D - other income

In accordance with the Federal Income Tax Proclamation No. 979/2016, there are five income schedules. This section of the guide deals with Schedule D – other income. General provisions of this schedule are presented first, followed by a table showing type of income, tax rate and payment period.

General provisions relating to Schedule D income:

- Tax under Schedule D shall not apply to an amount liable to tax under another schedule or an exempt income;
- Tax imposed on income under Schedule D shall be a final tax on the income;
- If a royalty, dividend, interest, gain disposal or other income derived by a resident is a foreign income, the resident is allowed to reduce, not below zero, the tax payable under this schedule by the amount of any foreign tax paid in respect of the income;

- There shall be no carry forward of any unused foreign tax:
- The liability of a person shall be discharged if a withholding agent has withheld tax from the income in advance, for:
 - Income of non-residents;
 - Taxation of recharged technical fees and royalties;
 - Taxation of non-resident entertainers;
 - Royalties;
 - Dividends;
 - Interest;
 - Income from games of chance.

As its name implies, several types of income are included under this schedule and, as such, a different tax rate and payment period is provided for each type of income. Table 5 provides a summary of the types of income, the tax rate applicable, the frequency of payment and the due date.

TABLE 5 Schedule D tax rate and payment period

Type of income	Rate	Frequency of payment and due date
Income of non-residents	Insurance premium or royalty: 5% Dividend or interest: 10% Management or technical fee: 15%	As taxable transactions occur Within 30 days after the end of the month in which the withholding income was paid
Income of non-resident entertainers (musicians and sports persons)	10% on gross income	As taxable transactions occur Within 30 days after the end of the month in which the withholding income was paid
Royalty (derived by a resident)	5% on gross income	As taxable transactions occur Within 30 days after the end of the month in which the withholding income was paid
Dividend (derived by a resident)	10% on gross income	Within 12 months of the year end, unless capitalized Within 30 days after the end of the month in which the withholding income was paid
Interest (derived by a resident)	5% on gross income on savings deposit with a financial institution 10% on gross income in any other case	As taxable transactions occur Within 30 days after the end of the month in which the withholding income was paid



Income from games of chance	15% on gross amount of the winnings Not applicable to winnings less than ETB 1,000	As taxable transactions occur Within 30 days after the end of the month in which the withholding income was paid
Income from casual rentals (land, building or movable asset)	15% on the gross amount	As taxable transactions occur Within two months after the date of the transaction giving rise to the income
Gain on disposal of certain investment assets	For Class A taxable assets: 15% (immovable assets) For Class B taxable assets: 30% (shares and bonds)	As taxable transactions occur Within two months after the date of the transaction giving rise to the income
Windfall profit	100% tax imposed on profit made by banks following a recent devaluation. A comprhensive directive is yet to be issued by the Minister of Finance.	As taxable transactions occur Within two months after the date of the transaction giving rise to the income
Undistributed profit	10% on the undistributed profit not reinvested	Within two months after the end of the 12-month period following the year end of the body
Repatriated profit	10% on the repatriated profit of a permanent establishment of a non-resident	As taxable transactions occur Within 30 days after the end of the month in which the withholding income was paid
Other income	15% on gross amount of any income that is not taxable under any other schedule or other Articles of Schedule D	As taxable transactions occur Within two months after the date of the transaction giving rise to the income

3.3.5 Schedule E - exempt income

The other income schedule provided for in Proclamation 979/2016 is Exempt income. Income items included under this schedule are exempt from income tax and are a new addition to the income schedules introduced by Proclamation No. 979/2016. Following is a list that includes some of the exempted income items under Schedule E:

- Pension contribution, provident fund and all forms of retirement benefit contributed by the employers in an amount that does not exceed 15% of the employee's monthly salary;
- Payments made to a person as compensation or gratitude in relation to personal injuries suffered by the person or the death of another person;
- Amounts paid to employers to cover the actual cost of medical treatment of employees;
- Allowance in lieu of means of transportation granted to employees under contract of employment to the extent of the amount to be determined by the tax authority. Currently, transportation allowance is the lower of ETB 2,200 or 25% of the employee's salary;
- Hardship allowance;
- Reimbursement of travelling expenses incurred on duty to the extent of the amount to be determined by the tax authority;
- Travelling expenses paid to employees recruited from elsewhere than the place of employment;
- Food and beverages provided for free to an employee by an employer conducting a mining, manufacturing or agricultural business;
- Salary paid to domestic servants;
- Maintenance or child support payments.

INDIRECT TAXES

3.3.6 Value-added tax (VAT)

Value-added tax was introduced by Proclamation No. 285/2002 starting from 1 January 2003. VAT is levied at the standard rate of 15% on all taxable transactions other than exempted ones. Taxable transactions are supply of goods or rendition of services other than exempt transactions. Exempt transactions include education, electricity, water, medical services and transportation. Transactions like international air transport, export and supply of gold to the National Bank of Ethiopia are zero rated.

A person who carries out a taxable activity is required to file an application for VAT registration if the total value of taxable transactions, at the end of any 12 calendar months period, exceeds ETB 1 million or there are reasonable grounds to believe that the taxable transactions of the coming 12 months exceeds the threshold. A person regularly supplying at least 75% of his goods



and services to registered persons may voluntarily apply for VAT registration even if the values of taxable transactions don't meet the threshold. The registered person is required to file a VAT return for a tax period within 30 days after the end of the accounting period. The accounting period, as per the original proclamation, is one month. However, a recent amendment to the VAT proclamation (Proclamation No. 1157/2019, effective from 13 August 2019) allowed taxpayers whose turnover in any 12-month period is less than ETB 70 million to submit VAT declarations and make payment of tax due on a quarterly basis. The accounting period of those taxpayers with turnover of ETB 70 million and more is still one month.

Net VAT payable to the tax authority has to be settled at the time of filing the VAT declaration and the taxpayer is expected to compute the VAT payable or receivable by deducting VAT paid on inputs from VAT collected on outputs at the end of each tax period.

Reverse tax

If a non-resident person who is not registered for VAT in Ethiopia renders services in Ethiopia for any person registered for VAT or any resident legal person, unless the service is exempt from tax, the customer shall withhold the tax from the amount payable to the non-resident.

VAT withholding

Federal government agencies and public enterprises such as state-owned enterprises engaged in business activities are required to withhold 50% of the VAT payable to suppliers and remit to the tax authority. The registered person can then claim any excess withholding over what is collected on output from the tax authority.

VAT invoice

All registered persons are required to purchase and install a sales register machine from providers approved by the tax authority and also get manual VAT invoices under permission of the authority at approved printing presses for use when the sales register machine is out of use. Registered persons are required to issue a VAT invoice for all transactions and also claim one when they make purchases.



3.3.7 Turnover tax (TOT)

Turnover tax is an equalization tax imposed on persons not registered for value-added tax to allow them to fulfil their obligations and also enhance fairness in commercial relations and complete the coverage of the tax system, among other objectives. This tax is, therefore, applicable to small taxpayers who don't meet the VAT registration threshold of turnover of ETB 1,000,000 per year.

Turnover tax rate

The turnover tax shall be:

- 2% on goods sold locally;
- For services rendered locally:
 - 2% on contractors, grain mills, tractors and combine harvesters;
 - 10% on others.

3.3.8 Excise tax

Excise tax is imposed on selected goods that are:

- Luxury goods and basic goods that are in inelastic demand;
- Hazardous to health and that are a cause of social problems.

Excise tax will be applicable on 19 groups of items and 378 goods. The tax rate ranges from 5% to 500%.

- Excisable value In respect of goods produced locally, ex-factory selling price excluding VAT, cost of excise stamps and the cost of returnable containers;
- The customs value of the goods plus the amount of customs duty payable (whether paid or not).

Time of payment

Excise tax on excisable goods shall be payable:

- When imported at the time of clearing the goods from the customs area;
- When produced locally, not later than 30 days from the date of production.

Relief for raw materials

The excise tax paid on the raw materials shall be offset against the excise tax payable on the finished goods except for tax paid on alcohol, tobacco and sugar.

Table 6 summarizes all taxes applicable to a taxpayer in addition to taxes on other income explained under Table 5.





 TABLE 6
 Summary of taxes other than those summarized in Table 5

Tax type	Rate	Frequency of payment
Business income tax	30% for bodies Progressive rate of 10%–35% for individuals	Annual
Employment income tax	At a progressive rate of 10%–35%	Monthly
Rental income tax	30% for bodies At a progressive rate of 10%–35%	Annual
Mining and petroleum tax	25% of taxable income	Annual
Value-added tax	15%	Monthly for taxpayers with annual transactions of more than ETB 70 million Quarterly for taxpayers with annual transactions of more than ETB 70 million
Turnover tax	2% on goods 10% on services	Annual, quarterly
Excise tax	From 5%%–500%, depending on type of goods. The lowest and highest tax rates are applicable to: 5% tax is applicable on rubber tyres, various types of new completely built-up cars and cars assembled by domestic industry, while 500% tax is applicable on various types of used cars of age exceeding seven years.	Monthly and on import
Withholding tax	2% on domestic transactions 30% on suppliers without a tax identification number (TIN) and business licence	Monthly

3.3.9 Customs duty

Duty means a charge levied and collected on any imported and exported goods in accordance with the Customs Tariff Regulations and the International Convention on the Harmonized Commodity Description and Coding System:

- Regular customs tariff ranges from 10%–35% depending on nature of goods imported.
- Special customs tariff applicable to goods produced in and imported from the Common Market for Eastern and Southern Africa (COMESA) member countries is 10% less; i.e. 4.5% to 31.5%.
- COMESA is a regional organization of African countries currently operating with a strategy of "economic prosperity through regional integration". COMESA has 21 member countries, namely Burundi, Comoros, Djibouti, the Democratic Republic of the Congo, Egypt, Eritrea, Ethiopia, Eswatimi, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Somalia, Tunisia, Uganda, Zambia and Zimbabwe. Out of these, 10 countries, namely Djibouti, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, Zimbabwe, Burundi and Rwanda, are Free Trade Area (FTA) members who have eliminated tariffs on COMESA-originating products. Ethiopia is non-FTA member of COMESA.
- Other taxes like VAT and excise tax are levied on imports at the same rate as domestic transactions.
- Sur tax is an additional 10% tax that is applicable on imported goods with the exception of fertilizers, petroleum and lubricants, motor vehicles for freight, passangers and special purpose motor vehicles, aircraft, spacecraft and parts thereof, and capital (investment) goods. The Ministry of Finance is authorized to increase or decrease the list of goods exempt from sur tax.
- "Capital good" means an asset with a lifetime of more than one year, used directly or indirectly in the manufacture of goods and in the rendition of services, and includes building, vehicle, machinery, equipment and other similar tangible assets.
- The basis of computation of sur tax is CIF value plus customs duty, VAT and excise tax payable on the goods.
- No duty is charged on all exported goods except semi-processed hides and skins.

OTHER LEVIES

3.3.10 Pension contribution

Organization Employees' Private Pension Proclamation entered into force on 24 June 2011 and payment of pension contribution started from 8 July 2011. The proclamation is applicable to private organizations' employees who are salaried persons employed in a private organization for not less than 45 days for a definite or indefinite period of time or a piece of work, including managerial employees. However, it does not include employees engaged in cotton collection, sugar cane cutting and such other similar works regularly repeated in the course of the year. The term "private organizations" means an organization established to engage in commerce, industry, agriculture, construction, social service or in any other lawful activity and that has salaried employees and includes charities and associations.

The contributions payable to the Private Organizations Pension Fund shall, based on the employee's salary, be:

- By the employer, 11%;
- By the employee, 7%.

The contributions that shall be paid to the pension fund is administered by the Private Organizations and Employees' Pension Agency, and should be paid within 30 days from the last day of the month in which payment of salary has been effected. The employer is responsible to withhold pension from the employee's salary and settle along with his own contribution. The tax authority acknowledges the payment by issuing a receipt for the payment transferred to the fund's bank account by the employer.

In general, the benefits available under the proclamation are the retirement pension, invalidity pension, incapacity pension or survivors' pension and gratuity. Employees with service of more than 10 years who leave work due to attainment of retirement age or invalidity are entitled to pension benefit for life. Pension under the above circumstances shall be 30% of average salary for the last three years preceding retirement and shall be increased by 1.25% for each year of service beyond 10 years, with maximum amount of pension benefit being 70% of the average salary.

Where an employee who has not completed 10 years of service retires on attaining retirement age, he receives retirement gratuity computed as salary for 1.25 month preceding retirement multiplied by the years of service.



3.3.11 Withholding tax

All bodies and specified sole proprietor businesses are required to deduct withholding tax on domestic transactions at a rate of 2% of the value of the transaction and remit to the tax authority monthly. The threshold subject to withholding tax is ETB 3,000 for purchase of services and ETB 10,000 for purchase of goods. The withholding tax rate on suppliers that fail to provide a TIN and valid trade licence is 30%. The amount of tax withheld is deductible from the tax payable by the supplier at the end of the year. The tax authority refunds excess withholding tax, paid over and above the tax payable for the year, to the supplier.

3.3.12 Stamp duty

Twelve types of documents are chargeable with stamp duty at varying rates based on the nature of the documents. No instrument chargeable shall be admitted in evidence for any purpose by any person unless such instrument is stamped.

The beneficiary of an instrument shall be liable to pay the stamp duty thereon. The lessee or the borrower shall be liable for payment of stamp duty on the relevant instruments , while parties to an award and employers and employees respectively are liable for payment of stamp duty on award and collective agreement.

 TABLE 7
 The stamp duty on each instrument that shall be charged, levied and collected

No.	Instruments chargeable with stamp duty	Basis of valuation	Stamp duty
1.	Memorandum and articles of association of any business organization or any association:		
	(a) Upon 1st execution	Flat	ETB 350
	(b) Upon any subsequent execution	Flat	ETB 100
2.	Memorandum and articles of association of cooperatives:		
	(a) Upon 1 st execution	Flat	ETB 35
	(b) Upon any subsequent execution	Flat	ETB 10
3.	Award	On value	a) With determinable value: 1%
			b) With undeterminable value: ETB 35
4.	Bonds	On value	1%
5.	Warehouse bond	On value	1%
6.	Contracts and agreements and memoranda thereof	Flat	ETB 5
7.	Security deeds	On value	1%
8.	Collective agreement:		
	(a) On 1 st execution	Flat	ETB 350
	(b) On any subsequent executon	Flat	ETB 100
9.	Contract of employment	Salary	1%
10.	Lease, including sub-lease, and transfer thereof	On value	0.5%
11.	Notarial Act	Flat	ETB 5
12.	Register title to property	On value	2%





3.3.13 Higher education cost sharing

"Cost sharing" means a scheme by which all beneficiaries of public higher education institutions and the government share the cost incurred for the purposes of education and other services. All beneficiaries of public institutions of higher learning shall share full costs related to boarding and lodging and a minimum of 15% of tuition-related costs.

"Graduate tax" means a scheme by which an amount is deducted from income in the form of a tax to be paid by a beneficiary who has been obliged to share the costs of his higher education.

Any employer employing a graduate of public universities shall:

- Request the employee to present a written document issued by the higher learning institute specifying the amount owed by the graduate and the amount to be deducted from monthly salary;
- Deduct and transfer the graduate tax every month at the rate stated below along with monthly employment income tax payment;
- Forward the list of graduates employed within a period of three months;
- Upon termination of employment, state the amount of cost-sharing payments made.

Tax rate:

- The amount of graduate tax shall be at least 10% of the employee's monthly income;
- The graduate shall start paying the tax within six months after graduation if earning income or within a maximum of one year after graduation.

An employer who fails to discharge all obligations shall be liable for the amount not collected and for the unpaid months in accordance with the Income Tax Proclamation.

4. THE TAX AUTHORITY – MINISTRY OF REVENUES

The Ministry of Revenues, established under Proclamation No. 1097/2018, took over the powers and duties of the Ethiopian Revenues and Customs Authority. Pursuant to the establishment of Proclamation No. 587/2008, the authority shall have the following objectives:

- To establish a modern revenue assessment and collection system, and provide customers with equitable, efficient and quality service;
- **2.** To cause taxpayers to voluntarily fulfil their tax obligations;
- **3.** To enforce tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion;
- **4.** To timely and effectively collect the tax revenues generated by the economy;
- **5.** To provide the necessary support to regions with a view to harmonizing federal and regional tax administration systems.

The Ministry of Revenues has 11 branches that administer federal revenues and joint revenues in different parts of the country, out of which four are located in the capital city, Addis Ababa. Taxpayers are registered at the nearest branch to their principal place of business and submit their periodic and annual tax declarations to the branch. The branch is also responsible for tax audit and handling of taxpayer objections to tax decisions at their review departments.

The Customs Commission also reports to the Ministry of Revenues.





5. OTHER REGULATORY BODIES

5.1 MINISTRY OF TRADE AND INDUSTRY

The Ministry of Trade and Industry is the responsible body to regulate business activities in Ethiopia and the main user of tax clearance as requirement for issuance of business licences. It also acts as a company registry and registers trade names. A process is underway to couple tax registration and business registration; i.e. to issue a TIN, commercial registration and business licence at the same time and place.

5.2 ETHIOPIAN INVESTMENT COMMISSION

The Ethiopian Investment Commission is responsible for issuance of investment permits and granting of tax exemptions, among other things. It also provides one-stop shop services to investors whereby a TIN is issued to new investors along with the investment permit at the commission.

5.3 NATIONAL BANK OF ETHIOPIA

The National Bank of Ethiopia is responsible for maintaining a stable rate of price and exchange, fostering a healthy financial system and undertaking such other related activities as are conducive to Ethiopia's rapid economic development, with one of its objectives being to formulate and implement exchange rate policy.

The terms and conditions for transfer of foreign exchange to and from Ethiopia, and the export or import of valuable goods or the transfer of other valuable goods across the customs boundaries or frontiers of Ethiopia in any manner, the return of such goods and the settlement of any foreign exchange that results, or that will result, from such export or import or transfer shall be determined by directive to be issued by the National Bank.

Accordingly, the National Bank of Ethiopia has issued several directives that deal with foreign currency transactions.





6. THE FEDERAL INCOME TAX PROCLAMATION

The Federal Income Tax Proclamation No. 979/2016 is enacted by the HPR and was signed into law by the president on 18 August 2016 to apply on income derived as of 8 July 2016, EFY 2009.

The proclamation is divided into 11 parts and 102 Articles. The proclamation replaced the previous one, Income Tax Proclamation No. 286/2002, which was in force since 2002. A number of changes are introduced in the new proclamation. To mention some:

- More elaborate definitions;
- The tax rates remained the same except for the increase in exempt threshold for individual taxpayers;
- Incorporation of mining and petroleum income;
- Introduction of a new schedule, Schedule E exempt income:
- Alignment of tax and financial reporting requirements;
- Relatively wider coverage of international tax and transfer pricing;
- Issuance of a separate Tax Administration Proclamation.

New income tax regulations are also issued by the Council of Ministers to provide for detailed implementation of the proclamation followed by directives.

6.1 FEDERAL INCOME TAX REGULATIONS

The Council of Ministers issued Federal Income Tax Regulation No. 410/2017 on 17 August 2017. The regulation was issued pursuant to the power vested in the Council of Ministers by the proclamation and applies on income as of 8 July 2016, EFY 2009. The regulations provide extensive rules for implementation of the proclamation. The main issues addressed can be summarized as:

- Employment income tax, especially regarding taxation of fringe benefits;
- Depreciation methods and rates.

6.2 INCOME TAX DIRECTIVES

The Ministry of Finance and Ministry of Revenues are authorized to issue directives by the proclamation and regulations. In addition, directives issued under the repealed law shall continue to apply to the extent that they are not inconsistent with the new proclamation and regulations and until they are replaced.

Accordingly, the Ministry of Finance has issued nine directives to date following enactment of the Federal Income Tax and the Federal Tax Administration Proclamations and Regulations. The Ministry of Revenues has also issued amendments to former directives, along with 11 new ones, while older directives that are not amended or cancelled continue to apply. The directives in force on the date of this guide are cited as necessary in the tax compliance part.

7. THE FEDERAL TAX ADMINISTRATION PROCLAMATION

The Federal Tax Administration Proclamation No. 983/2016 is a new addition to the Ethiopian tax laws. The proclamation, divided into 16 parts and 139 Articles, is enacted with a view to rendering the domestic taxes administration system more efficient, effective and measurable. It also introduced a system of advance tax ruling to help address the problem of prolonged pendency of taxpayers' cases resulting from divergent interpretations of tax laws within the tax administration. The proclamation entered into force on the date of its publication in the Federal Negarit Gazette of 20 August 2016, other than Part 11 (Private Ruling) and Part 14 (Licensing of Tax Agents), which shall begin to apply on a date to be specified by the Minister of Finance.

The Federal Tax Administration Proclamation applies to income taxes under the Federal Income Tax Proclamation, value-added tax, turnover tax, excise tax and stamp duty.

The proclamation introduced:

- Guidance that serves for the administration of all taxes in terms of declaration time, declaration forms, tax assessment, penalty and interest, appeal and other matters;
- Advance ruling;
- Tax agents;
- Tax offence handling;
- Other items.



7.1 THE FEDERAL TAX ADMINISTRATION REGULATIONS

Pursuant to the Tax Administration Proclamation, the Council of Ministers issued Regulations No. 407/2017, which became effective as of 9 August 2017. The regulation elaborates provisions of the proclamation.

7.2 TAX ADMINISTRATION DIRECTIVES

The Ministry of Finance and Ministry of Revenues are authorized to issue directives on cases specified by the proclamation and regulations. In addition, directives issued under the repealed law that relate to tax administration shall continue to apply to the extent that they are not inconsistent with the proclamation and regulations and until they are replaced.

Accordingly, old directives that continue to apply and new directives issued are discussed in the relevant sections of the tax compliance part.

8. THE VALUE ADDED TAX PROCLAMATION

Value-added tax (VAT) was first introduced in Ethiopia by Proclamation No. 285/2002. The VAT Proclamation is divided into 13 sections and 66 Articles. It deals with taxable and exempt transactions, value, time and place of supply, registration and other administrative matters. The proclamation is in force with some amendments. The recent amendment is Proclamation No. 1157/2019 that introduced an accounting period of three months for taxpayers with annual turnover of less than ETB 70 million. Currently, a new VAT proclamation is under preparation.

8.1 VALUE-ADDED TAX REGULATIONS

The Council of Ministers Regulations No. 79/2002 was issued pursuant to the Value Added Tax Proclamation No. 285/2002 and provides further guidance as to operations of the VAT system. It is an important legislation that elaborates provisions of the proclamation regarding taxable and exempt transactions, among other things.

8.2 VALUE-ADDED TAX DIRECTIVES

The Ministry of Revenues and Ministry of Finance have issued various directives that deal with registration, VAT withholding, refunds and other matters. Reference is made to those directives in the compliance section of this guide.

9. THE EXCISE TAX PROCLAMATION

Proclamation No. 1186/2020 was approved by the HPR on 13 February 2020 and is currently in force. The objective, on the basis of the draft proclamation, is to impose tax on goods and services that are believed to be luxury, hazardous to health andr causing social problems, as well as on basic goods that are demand inelastic. The new proclamation introduced changes on the excise tax base of locally produced items with a view to alleviate the problem encountered by taxpayers due to lack of predictability on the amount of tax they are liable to pay in the previous system of levying excise tax on production cost.

Excise tax is levied on excisable goods manufactured in Ethiopia by a licensed manufacturer and excisable goods imported into Ethiopia. Schedules for excisable goods with the rates of the tax and exempt goods are also annexed to the proclamation. Accordingly, the excisable value of locally manufactured goods shall be the ex-factory selling price (excluding price of containers/packaging, VAT and cost of excise stamp), while that of imported goods shall be the customs value of the goods.

10. THE TURNOVER TAX PROCLAMATION

The Turnover Tax Proclamation No. 308/2002 is enacted with the objective of having an equalization effect on taxpayers registered for VAT and those who do not meet the threshold.

11. PRIVATE ORGANIZATION EMPLOYEES PENSION PROCLAMATION

Private Organization Employees Pension Proclamation No. 715/2011 is enacted with the objective of expanding the social security system and reaching citizens step by step as part of the country's social policy.

12. STAMP DUTY

Stamp duty is a tax levied on various types of documents.



13. HIGHER EDUCATION COST SHARING

In accordance with Higher Education Cost Sharing Council of Ministers Regulation No. 154/2008, graduate tax is defined as a scheme by which an amount is deducted from monthly income in the form of tax to be paid by a beneficiary (graduate) who has been obliged to share the cost of his higher education.

14. INVESTMENT PROCLAMATION

A new investment proclamation, Proclamation No. 1180/2020, was approved by the HPR and entered into force on 2 April 2020. The new Investment Proclamation is issued with the broad objective of ensuring rapid and sustainable economic growth and recognizes the crucial role of investment made by the private sector to achive this objective. In addition, it has also maintained the minimum capital requirement set in the previous proclamation, among other things.

15. CUTOMS PROCLAMATION

The Customs Proclamation 859/2014, as amended by Proclamation No. 1160/2019, is enacted to have an expedient and modern customs legal framework that encourages the development of manufacturing industries and investment compatible with the level of international trade practice and in line with international, continental and regional trade agreements.

16. EXPORT TRADE DUTY INCENTIVE SCHEMES PROCLAMATION

The Export Trade Duty Incentive Schemes Proclamation No. 768/2012 provides for duty incentives to taxpayers engaged in export trade. Accordingly, the proclamation establishes six types of schemes that exporters can use to benefit from the incentives. The Ministry of Finance is authorized to issue directives regarding conditions to be fulfilled in order to be entitled to a refund. The Ministry of Trade and Industry is authorized to issue and implement a directive concerning input—output coefficient. The Ministry of Revenues shall effect the refund to eligible exporters who meet the requirements.





17. PROCEDURES AND REQUIREMENTS FOR TAX REGISTRATION AND CANCELLATION OF REGISTRATION

The following are required to register as taxpayers and obtain a TIN:

- **a.** An individual engaged in business or vocational service other than an employee;
- **b.** A person renting out a building;
- c. Employee;
- d. Bodies;
- e. Public enterprise;
- f. Public body (government departments);
- g. Non-governmental organizations;
- h. Religious organizations;
- i. Permanent establishment of a non-resident body;
- j. Beneficiaries of the higher education cost-sharing scheme;
- k. Privileged organizations;
- I. Core diplomatic;
- m. Bilateral organizations;
- n. Shareholder in a company.

17.1 DOCUMENTATION REQUIRED FOR REGISTRATION

A person applying for registration as a trader or vocational service provider should submit the following at the time of appearing for registration:

Trader or vocational service provider

- Completion of the registration form and provision of biometric data;
- ii. Valid local residence ID, passport or driving licence;
- iii. A passport-sized photo taken within the last six months;
- iv. Guardian in case of a minor applying for a TIN;
- v. A person renting out a building, as well as the above, is required to present the title deed to the building or a rental contract in case of sub-leasing;
- **vi.** An employee is required to provide, in addition to i to iii above, an employment contract.

Bodies

Body, in accordance with the Tax Administration Proclamation No. 983/2016, means a company, partnership, public enterprise or public financial agency, or other body of persons, whether formed in Ethiopia or elsewhere.

- i. Completion of the registration form;
- ii. A notarized memorandum and articles of association;
- iii. In a case where the premises of the business address is owned by the taxpayer, title deed to the building; where the premises are rented, a notarized rent contract;
- iv. Valid local residence ID, passport or driving licence, a passport-sized photo taken within the last six months and manager's personal TIN;
- v. Power of attorney notarized with the appropriate body or, in case of a company under formation, a power of attorney signed by all the founders;
- **vi.** Where there is a foreign national among the share-holders, his original passport, along with evidence from the Ethiopian Investment Commission;
- vii. In case of a joint venture, requirement ii above is not applicable.

Permanent establishment of non-resident bodies

- i. Completion of the registration form;
- ii. Certificate of incorporation of the non-resident body;
- iii. Address of the permanent establishment in Ethiopia;
- iv. A passport-sized photo taken within the last six months and manager's TIN;
- v. The applicant's power of attorney.

Privileged organizations

- i. Completion of the registration form and provision of biometric data;
- Valid local residence ID, Ethiopian or foreign passport or driving licence, or the representative's authenticated birth cetificate;
- iii. A passport-sized photo taken within the last six months;
- iv. In case of core diplomatic, evidence from the Ministry of Foreign Affairs to confirm the status as such, in addition to requirements i to iii.

"Privileged organization" is a term used to refer to organizations that have special status, like UN bodies and embassies.





17.2 PLACE OF REGISTRATION

- i. The registration can be done at the nearest tax office from where the taxpayer lives or conducts his business as the case may be.
- ii. Bodies shall be registered in the nearest tax office from their place of business unless permitted otherwise under special circumstances.

17.3 ISSUANCE OF TIN

- i. The tax authority shall, upon completion of registration, issue a unique TIN to each taxpayer. A taxpayer shall not have more than one TIN.
- ii. A taxpayer shall not engage in business without obtaining a business licence merely because he has been issued a TIN. However, any person who earns a taxable income has the obligation to pay taxes thereon even if he doesn't have a TIN and/or business licence.
- **iii.** A taxpayer who conducts business or leases buildings in more than one region or city administration shall be issued a sub-TIN for each location.

17.4 USAGE OF TIN

The taxpayer shall indicate his TIN on all tax-related documents. The tax authority may not recognize documents presented for tax purposes unless the taxpayer indicates his TIN thereon.

17.5 CANCELLATION OF TAXPAYER REGISTRATION

A taxpayer who is no longer required to be registered shall apply to the tax authority for cancellation of his registration within 30 days or any other time granted by the tax authority. The authority may conduct a tax audit within 90 days of the taxpayer's submission of the request for cancellation.

The TIN of a taxpayer whose registration has been cancelled shall also be cancelled. Where it is confirmed by the tax authority that a taxpayer is in possession of more than one TIN, the tax authority shall cancel the TIN based on fraudulent evidence after transferring all data therein to the TIN obtained on the basis of the taxpayer's true identity and serving a notice in writing.

17.6 DOCUMENTARY EVIDENCE REQUIRED TO OBTAIN A BUSINESS LICENCE

Application for a certificate of business licence shall be submitted by attaching the following documents o the application form:

- Original and necessary copies of manager's valid identity card or passport;
- Two passport-sized photographs that show clear identity of the applicant taken within the last six months;
- Certificate of commercial registration; investment permit, in case of a foreign investor;
- Memorandum and articles of association in case of bodies;
- Statement of address if the applicant has principal business address and branch offices, and:
 - The title deed, if the house used for business is owned by the applicant; or
 - A valid and authenticated lease agreement, if the house used for business is leased;
 - Certificate of competence issued by appropriate sector, if certificate of competence is required for the category.

17.7 VAT REGISTRATION

Obligatory registration

A person is required to file an application for VAT registration if:

- The person is expected to make taxable transactions, the total value of which exceeds ETB 1,000,000 at the end of any period of 12 calendar months;
- At the beginning of any 12-month period, there are reasonable grounds to believe that the total value of taxable transactions to be made by the person exceeds ETB 1,000,000.

Voluntary registration

If a person carries on a taxable activity and is not required to register for VAT, he may voluntarily apply to the tax authority for such registration if the person is regularly supplying or rendering at least 75% of its goods and services to registered persons.

Divisional registration

A registered person may apply for a divisional registration if a single registration requiring a single VAT return imposes an onerous compliance burden. The tax authority requires evidence of such burden and the distance between the branches or divisions should be more than 100 kilometres.

Registration process

VAT registration is effected by completion of the registration form and expression that the sales are expected to be above the threshold of ETB 1 million in the coming 12-month period or 75% of the transactions are going to be with registered persons.

17.8 NOTIFICATION OF CHANGE

A taxpayer shall notify the authority in writing within 30 days of a change occuring to its trade name, physical (including residence), postal or electronic address, constitution or principal activity, activities or banking details.

18. PRACTICAL TAX FILING AND PAYMENT PROCEDURES

The Ministry of Revenues is working hard towards modernization of the tax administration with focus on its manpower development and systems. As part of this effort, taxpayers are encouraged to use the eFiling platform. Currently, this service is available at the large and medium taxpayers' offices.

18.1 eFILING

Taxpayers making use of the eFiling facility significantly reduce their compliance time, as they upload their monthly and annual tax declarations online. In this manner, time required for review of declarations and supporting documents is reduced and the taxpayers visit the tax centre for payment only.

The eFiling platform enables taxpayers to complete their declaration online and upload or enter details supporting their declaration for the relevant taxes, like list of employees, along with earnings and tax deducted, procurements during the period, withholding tax collected and the like, and obtain confirmation of submission with document number and details of the amount to be paid.

On the basis of the confirmation, the taxpayer completes the Domestic Electronic Payment Instruction and takes it to his bank. The taxpayer then visits the tax centre with the advice of transfer from the bank and directly goes to collectors to submit the advice and obtain a cash receipt for the payment without any need for review of hardcopy evidence.

18.2 ePAYMENT

The tax authority has recently introduced a system of ePayment whereby the need for visiting the tax authority is totally avoided for large and medium taxpayers. The plan is to devolve the system for small taxpayers as well, as seen from the tax authority's notices. Under this system, taxpayers are not required to visit the tax authority's offices for monthly tax compliance, as they get receipts for tax payments via e-mail.

However, eFiling is currently only being implemented and ePayment is not operational.

18.3 MANUAL FILING

In case of manual filing, the taxpayer prepares the periodic tax declaration and supporting schedules and takes it to the tax centre along with supporting documents like supplier invoice, payroll, sales summary report generated out of the sales register machine, and transfer advice for the amount of tax payable from his bank. The tax officers then review the declaration against the supporting documents and enter the data into the system. Once the data is successfully entered, the taxpayer is issued a document number and proceeds to making the payment and completing the declaration process.

All other services like payment of tax assessed or installment payment of tax, clearance request and others are obtained by personally visiting the tax authority with request letters and provision of all required documents in hardcopy.



19. INVESTMENT INCENTIVES

19.1 EXEMPTION FROM INCOME TAX

According to the Investment Regulations No. 270/2012, as amended by Regulations No. 312/2014, exemption from income tax is provided to an investor who invests to establish a new enterprise or undertake expansion of an existing business. The tax exemption is given on the basis of investment areas/sectors and location of the investment projects. Projects in Addis Ababa and the Special Zone of Oromia Surrounding Addis Ababa attract a relatively shorter tax exemption by one or two years and, in some cases, more in relation to investments in other areas.

Investors shall be entitled to an income tax deduction of 30% for three consecutive years after expiry of the income tax exemption period specified in the schedule if they invest to establish a new enterprise in:

- a. The State of Gambela Peoples;
- **b.** The State of Benishangul/Gumuz;
- **c.** The State of Afar (except in areas within 15 kilometres right and left of the Awash River);
- d. The State of Somali;
- e. Guji and Borena Zones of the State of Oromia; or
- f. South Omo Zone, Segen (Derashe, Amaro, Konso and Burji) Area Peoples Zone, Kaffa Zone or Konta and Basketo Special Woredas of the State of Southern Nations, Nationalities and Peoples.

Additional income tax exemption is available for investors exporting products or services. Accordingly, an investor who exports or supplies to an exporter at least 60% of his products or services shall be entitled to income tax exemption for two years in addition to the exemption period provided for in the schedule.

An investor who has invested in an industrial zone shall be entitled, in addition to what is provided above, to two years' income tax exemption if the investment is made in



an industrial zone located in Addis Ababa or the Special Zone of Oromia Surrounding Addis Ababa. If the investment is made in other areas, these investors are entitled to four years' income tax exemption, provided that the investor exports 80% or more of the products from the manufacturing industry or supplies as production input to an investor who exports its products. Industrial development zones (including private industrial zone investment) established in Addis Ababa and the Special Zone of Oromia Surrounding Addis Ababa attract 10 years' exemption from income tax, while those in other areas attract 15 years' income tax exemption.

A new investment regulation focusing on investment incentives is being drafted by the Ministry of Finance. However, details of the investment incentives to be granted under the regulations are not yet known.

Currently, there are 12 public industrial parks across the country under the Industrial Parks Development Corporation (IPDC). Out of the below-listed industrial parks, 6 are operational, 3 are under construstion, 2 are inaugrated and 1 was ready for inaugeration as of May 2019. There are also private industrial parks operating in the country.

NAME	SPECIALITY

Hawassa Industrial Park Phase I Cycle I	Textile and apparel
Hawassa Industrial Park Phase I Cycle II	Textile and apparel
Bole Lemi Industrial Park I	Textile and apparel, leather and leather products
Bole Lemi Industrial Park II	Textile and apparel, leather and leather products
Mekelle Industrial Park	Textile and apparel, footwear and leather products
Komobolcha Industrial Park	Textile and apparel, footwear and leather products
Adama Industrial Park	Textile and apparel, footwear and machinery fabrication
Dire Dawa Industrial Park	Open for multiple sectors
Debre Berhan Industrial Park	Agroprocessing
Arerti Industrial Park	Building materials and furniture
Jimma Industrial Park	Apparel and textile
Bahir Dar Industrial Park	Garments and apparel

There are also 10 privately owned industrial parks located in different parts of the country according to the Industrial Parks Development Corporation (IPDC).

An investor who is entitled to income tax exemption shall declare his income to the appropriate tax authority; i.e. tax exemption doesn't relieve the investor of annual tax declaration requirement.

19.2 EXEMPTION FROM EMPLOYMENT TAX

The Federal Income Tax Regulations provide exemption from income tax of not exceeding five years on employment income paid to expatriate professionals recruited for narrowing of skill gaps and transfer of knowledge by investors engaged in export business on the basis of a directive to be issued by the Minister of Finance. This is so that the government contributes its share towards the cost of such initiatives. The minister accordingly issued a directive as to the requirements to be entitled to the exemption, timeline and reporting requirements, among other things. The directive (Directive No. 52/2018 - Directive issued to exempt income paid to expatriate professionals recruited for transfer of knowledge by investors engaged in export business) delegates the Ministry of Trade and Industry to evaluate and follow up contribtion of the expatriate professionals and knowledge transfer to Ethiopian staff. The tax exemption period, including the project phase, is:

- Up to five years for investors who export 100% of their products;
- Up to three years for investors who export 50% or more of their products;
- Up to two years for investors who export more than 20%, but less than 50% of the products, with a one-year extension if the export exceeds 50% of the products at the end of the second year.

19.3 LOSS CARRY FORWARD

Loss incurred within the period of income tax exemption shall be carried forward for half of the income tax exemption period after expiry of such period. However, the investor is not allowed to carry forward such losses for more than five income tax periods. For the purpose of loss carry forward, a half-year period shall be considered as a full income tax period.

19.4 EXEMPTION FROM CUSTOMS DUTY

Exemption of capital goods and construction materials from customs duty

Any investor engaged in one of the areas of investment specified in the schedule, except for those engaged in real estate development, publishing, export trade (other than specified products) and wholesale trade (supply of petroleum and wholesale of own products), may import duty-free capital goods and construction materials necessary for the establishment of a new enterprise or the expansion or upgrading of an existing enterprise.

If an investor entitled to a duty-free incentive buys capital goods or construction materials from local manufacturing industries, he shall be refunded with the customs duty paid for the raw materials or components used as inputs for the production of such goods.

An investor entitled to a duty-free incentive shall be allowed to import spare parts, the value of which is not greater than 15% of the total value of the capital goods, within five years from the date of commissioning of his project.

Any investor engaged in manufacturing or agriculture who has invested at least \$200,000 or the equivalent in birr and has created a permanent employment opportunity for at least 50 Ethiopian nationals shall be entitled to import,

at any time, duty-free capital goods necessary for his existing enterprise.

Those engaged in other areas of investment who invested at least \$200,000 or the equivalent in birr and have created a permanent employment opportunity for at least 50 Ethiopian nationals shall be entitled to import duty-free capital goods necessary for his existing enterprise up to five years from the date of acquiring a business licence or other appropriate licence.

19.5 EXPORT TRADE DUTY INCENTIVE SCHEMES

This scheme offers investors an exemption from the payment of customs duties and other taxes levied on imported and locally purchased raw materials used in the production of export goods. Duties and other taxes paid are drawn back 100% at the time of the export of the finished goods. The following schemes are provided to exporters for refund of customs duty and VAT paid on goods used to manufacture exported items.

The voucher scheme

This is based on a document (voucher) printed by the Ministry of Revenues to be used for recording the balance of duty payable on raw materials imported or bought from a bonded input supplies warehouse, for use in production of goods for the external market by persons availing themselves to the voucher scheme.

The duty drawback scheme

This scheme provides for refund of duty paid on raw materials and accessories used in the production of commodities to the payer upon exportation of the commodity processed.

Bonded export factory scheme

This is a scheme available for taxpayers engaged exclusively in the production of export commodities. Raw materials imported by the beneficiary of the scheme are (under the control of the Ministry of Revenues) transported to a factory that produces goods exclusively without being subject to payment of duty. The tax authority inspects incoming and outgoing goods.

The bonded manufacturing warehouse scheme

This means a warehouse under joint control of the Ministry of Revenues and the factory concerned, where raw materials imported duty free are stored if they are for use in the production of goods destined exclusively for export, or as goods produced using such raw materials.

The bonded input supplies warehouse scheme

This means a warehouse under the joint control of the Ministry of Revenues and supplier concerned, where raw materials and accesssories imported duty free by a licensed supplier are stored until such time as they are sold to producers.



The industry zone scheme

This means a scheme to be used by industries set up in an industry zone.

Common rules

- All voucher scheme users shall present the voucher book and evidence of input-output coefficient approved by the Ministry of Trade and Industry, except for raw material suppliers, who are required to present only the voucher book.
- Raw materials imported under the voucher scheme shall be used in production of export commodity and the commodity so produced shall be exported within one year from receipt of such raw materials.
- The Ministry of Revenues may extend this period by one additional year, taking into cosideration the nature of the raw materials, if the beneficiary applies for an extension of time one month before expiry of the one-year period.
- The tax authority may grant a time extension under the following circumstances:
 - Discontinuation of work for more than a month due to breakage of production machinery or labour strike;
 - Where it is proven by evidence that it takes more than a year to produce the final product due to the nature of the product and production process;
 - Where a large volume of the raw material is maintained in store as a result of shortage of the raw material in the world market or a large volume is ordered due to existing order for large volume of the output;
 - Where it is proven that the buyer cancelled the order and it needs a longer period of time to find another buyer:
 - Where there is force majeure, as defined in the Civil Code, to produce, export or locally sell the product;
 - When a support letter is presented from the Ministry of Trade and Industry.

A beneficiary of the voucher scheme who has not secured permission for an extension of time or to sell the raw materials imported under this scheme upon payment of duty chargeable on such raw materials shall, in addition to the duty payable on the unused amount of the raw material, be required to pay 50% of the duty.



20. INTERNATIONAL TAX

20.1 FOREIGN TAX CREDIT FOR FOREIGN BUSINESS INCOME

- Foreign income is any income that is not an Ethiopiansource income. Foreign income tax is principal tax, including withholding tax, levied by the government of a foreign country or its political subdivisions.
- Ethiopia adopts the credit system to allow deduction of foreign tax paid by its resident taxpayers.
- A resident who has paid foreign income tax on income taxable under Schedule C shall be allowed a foreign tax credit of an amount equal to the lesser of:
 - The foreign income tax paid; and
 - The business income tax payable under Schedule C in respect of the foreign income.
- The foreign tax credit shall be allowed only if:
 - The resident taxpayer has paid the foreign income tax within two years after the end of the tax year in which the foreign income was derived or within such further time that the authority allows;
 - The resident taxpayer has a receipt for the tax from the foreign tax authority.
- In computing business income tax payable for a tax year, the resident taxpayer shall apply the foreign tax credit before applying any other tax credits.
- If a foreign tax credit for a tax year is not fully credited for the year, the excess credit shall not be refunded, carried back to the preceding tax year or carried forward to the following year.

Foreign income tax means income tax, including withholding tax, imposed by a government of a foreign country or its political subdivision. It does not include a penalty, additional tax or interest.

The same procedures apply to foreign rental income (Schedule B).

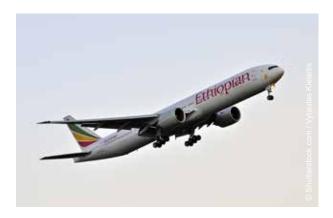
20.2 FOREIGN BUSINESS LOSS

- An amount allowed as a deduction under the income tax proclamation in deriving foreign income taxable under Schedule C shall be deductible only against that income.
- Foreign loss shall be carried forward and allowed as deduction from foreign income taxable under Schedule C of the following year until fully deducted, but a taxpayer shall not carry forward a loss for more than five tax years after the end of year in which the loss was incurred.
- The taxpayer shall not be permitted to carry forward any further losses if there have been tax losses of two years and each has been carried forward.

Foreign loss means the amount by which the deductible expenditures incurred in deriving the foreign income exceed the amount of that income for the year.

20.3 THIN CAPITALIZATION

Interest deduction is proportionately disallowed if a foreign-controlled entity, a resident company in which more than 50% of membership interest is held by non-residents, and a non-resident company with a permanent establishment in Ethiopia, other than a financial institution, has an average debt to equity ratio in excess of 2 to 1. However, interest shall be allowed if the average debt to average equity ratio exceeds 2 to 1 for the tax year, but doesn't exceed the arm's length debt amount.



20.4 TAX TREATIES

- Tax treaty means an international agreement for the avoidance of double taxation and the prevention of fiscal evasion signed between governments of two or more countries.
- The Minister of Finance may enter into a tax treaty with a foreign government or governments.
- If there is any conflict between the terms of a tax treaty having legal effect in Ethiopia and the proclamation, the tax treaty shall prevail over the proclamation, except:
 - When a tax treaty provides that Ethiopiansource income is exempt or excluded from tax, or the application of the tax treaty results in a reduction of Ethiopian tax, the benefit of that exemption, exclusion or reduction is not available to a body that, for the purposes of the tax treaty, is a resident of the other contracting state when 50% or more of the underlying ownership or control of that body

- is held by an individual or individuals who are not residents of that other contracting state for the purpose of the tax treaty.
- The above provision does not apply if a resident of the other contracting state is:
 - A company listed in a stock exchange in that other contracting state; or
 - A company carrying on active business in that other contracting state and the Ethiopian-source income derived by the company is attributable to that business.

Active business does not include the business of holding or managing shares, securities or other investments unless the company is a financial institution or insurance company.

Tax treaties signed between the Government of Ethiopia on the dates stated below and the governments of the listed countries are already effective after undergoing all legal procedures of ratification in both contracting states.

 TABLE 8
 Treaties signed by the Government of Ethiopia

No.	COUNTRY	SIGNATURE DATE	STATUS
1	The Republic of Italy	April 1997	Effective
2	The Arab Republic of Egypt	1 September 2011	Effective
3	The Republic of India	25 March 2011	Effective
4	The Republic of the Sudan	25 February 2006	Effective
5	The People's Republic of China	24 May 2009	Effective
6	The French Republic	15 June 2006	Effective
7	The Republic of Turkey	2 March 2005	Effective
8	The United Kingdom of Great Britain and Northern Ireland	9 June 2011	Effective
9	The State of Israel	2 June 2004	Effective
10	The Republic of Poland	13 July 2015	Effective

In addition, treaties with the State of Kuwait, the Russian Federation, the Republic of Yemen, the People's Democratic Republic of Algeria, the Republic of Tunisia, Romania, the Republic of South Africa, the Czech Republic and the Republic of Seychelles are ratified by the House of Peoples' Representatives (HPR) from the Ethiopian side.





20.5 TRANSFER PRICING

Transfer price is a price at which related parties transact with each other. Such prices may not necessarily reflect the market price at which independent parties transact under similar circumstances. Therefore, tax administrations issue rules to tackle attempts by taxpayers to reduce taxes through transfer pricing. The purpose of such rules is to make necessary adjustments to the transfer price to reflect the arm's length and levy taxes in cases of overstatement of costs or understatement of income.

Transactions between related parties are required to be at arm's length. The Minister of Finance is authorized to issue a directive for detail implementation. The minister has not yet issued directives in accordance with the Federal Income Tax Proclamation. However, there is a directive in place that was issued in 2015. The directive states that the Organization for Economic Cooperation and Development (OECD) Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations are a relevant source of interpretation for the directive; however, in case of any differences or conflicts with the Income Tax Proclamation or the directive, the Income Tax Proclamation and the directive will take precedence.

A taxpayer, with annual transaction of ETB 500,000 and more with related parties, both domestic and international, must have in place contemporaneous documentation that

verifies that the conditions in its controlled transactions for the relevant tax year are consistent with the arm's length principle as per the directive.

The directive requires preparation of transfer pricing documentation to verify that the conditions or dealings in transaction with related parties are consistent with the arm's length principle. To this end, it provides guidance on procedures to be followed and key issues to be addressed.

The arm's length principle requires that conditions of transactions between related parties do not differ from the conditions that would have applied between unrelated persons in comparable transactions carried out under comparable circumstances. In order to prove that the related party treansactions are at arm's length, the taxpayer is expected to give background information on conditions of transactions between related parties, compare the prices charged for transactions with related parties to those charged to independent parties using one of the five approved transfer pricing methods provided in the directive or another method, where none of the approved methods is reasonably applicable or the other method provides consistent result with the arm's length principle.



21. TAX AUDIT/TAX ASSESSMENT

A tax audit is a compliance check that seeks to assess the level of taxpayer compliance with the tax laws. Normally, the starting point for audit is the taxpayer's tax declaration/self-assessment, which is based on the taxpayer's financial statements. The financial statements are obviously the end result of the taxpayer's accounting system. The tax audit, therefore, ensures compliance with generally accepted accounting principles, which is being converted to International Financial Reporting Standards (IFRS). The major focus area, however, is compliance with the tax law in terms of treatment of revenue, expenses and other balance sheet items.

A tax audit can also be classified by the type of assessment as explained below and on the basis of the depth and coverage of the audit, like comprhensive audit, desk audit, investigation audit and others.

21.1 SELF-ASSESSMENT

A self-assessment is an assessment declaration filed by the taxpayer in the approved form for a tax period.

21.2 ESTIMATED ASSESSMENT

An assessment made by the authority when a taxpayer has failed to file a tax declaration for a tax period as required under tax law based on such evidences as may be available at any time.

21.3 JEOPARDY ASSESSMENT

- Is made in the following circumstances and when the taxpayer has not filed a tax declaration for the tax period:
 - When the taxpayer fails to notify ceasing of business activities;
 - When the authority believes that the collection of tax owed by a taxpayer is in jeopardy and there is urgency in the collection of tax.
- May be made before the date on which the taxpayer's tax declaration for the period is due.

The tax authority may specify in the notice of jeopardy assessment that the tax and penalty due are payable immediately.

21.4 AMENDED ASSESSMENT

- The authority may amend an original tax assessment (self-assessment) filed by the taxpayer by making such alterations, reductions or additions based on such evidence as may be available to ensure that:
 - In the case of loss, the taxpayer is assessed in respect of the correct amount of the loss;
 - In the case of an excess amount of input VAT, the taxpayer is assessed in respect of the correct amount of the excess input tax;
 - In any other case, the taxpayer is liable for the correct amount of tax payable, including a nil amount.
- The authority may amend a tax assessment:
 - In the case of fraud or gross wilful neglect by or on behalf of the taxpayer at any time; or
 - In any other case, within five years of the date of filing of the self-assessment declaration; or
 - For any other tax assessment, within five years of the date the authority served notice of the assessment.

21.5 TAX INVOICES

- A taxpayer who has the obligation to maintain accounting books shall register with the authority the type and quantity of receipts before having such receipts printed.
- Any printing press shall ensure that the type and quantity of receipts are registered with the authority before printing the receipts.
- A taxpayer who has an obligation to maintain accounting books shall issue a receipt for any transaction out of the mandatory sales register machine, or manual invoices where the machine is not available due to annual inspection, breakdown or power interruption.
- A legal invoice/receipt is one printed with the permission of the tax authority at a competent printing press and pre-numbered.



22. GENERAL PRINCIPLES REGARDING TAX REFUNDS

22.1 WITHHOLDING TAX OR ADVANCE TAX PAYMENT

Where the total amount of tax credits allowed to a taxpayer for withholding tax or advance tax payment for a tax year exceeds the income tax liability for the year, the authority shall apply the excess in the following order:

- First, in payment of any tax (other than withholding tax) owing under the Federal Income Tax
 Proclamation, then tax owed under any tax law;
- Then refund the remainder within 90 days of the date the taxpayer filed the tax declaration for the year to which the tax credits relate;
- With the written agreement of the taxpayer, the refundable amount may be carried forward for the payment of any future tax liability of the taxpayer under any tax law;
- If the authority fails to pay the refund within 90 days, the taxpayer shall be entitled to interest for the period commencing from the end of the 90-day period until the refund is paid at the highest commercial lending rate that prevailed in Ethiopia during the quarter before the commencement of the 90-day period.

22.2 OVERPAID TAX

- A taxpayer who has overpaid tax, other than withholding tax and advance payment of tax, may apply for a refund of the overpaid tax within three years after the date of payment.
- This provision applies where the refund of tax doesn't require an amended assessment and when the authority is satified that the taxpayer has overpaid tax.

22.3 VAT REFUND

- Where the authority is satisfied that a person who made an application for a refund has overpaid tax, the authority shall:
 - First apply the amount of the excess in reduction of any interest, levy or penalty payable under the VAT Proclamation, Customs Proclamation, Income Tax Proclamation and Excise Tax Proclamation;
 - Then repay any remaining amount to the person.
- If the authority fails to pay the refund within two months, the taxpayer shall be entitled to interest for the period commencing from the end of the two-month period until the refund is paid at 25% over and above the highest commercial lending rate that prevailed in Ethiopia during the quarter before the commencement of the two-month period.

22.4 SPECIAL

- VAT withheld by the supplier that is in excess of input VAT paid during the period;
- Mining and petroleum exploration companies;
- VAT on construction in progress, upon confirmation that the building is completed and put to use, which is in excess of output VAT collected during the first accounting period.



23. TAX CLEARANCE

Tax clearance is written evidence issued by the tax authority confirming that the taxpayer has discharged or is discharging its tax obligations. Tax clearance is required for the following purposes:

- a. Renewal of business or professional licences;
- **b.** Participation in public tender;
- Annual registration and inspection of motor vehicles and construction machineries;
- d. Obtaining of bank loan;
- **e.** For sale and title transfer of motor vehicle, obtaining insurance compensation and change of plate/use;
- f. Change of trade name or business address;
- **g.** Transfer of certain investment assets subject to capital gains tax;
- **h.** For full or partial closure of a business or change of sector of business;
- For sale or transfer of assets that are subject to title deed registration requirements, like bulidings, motor vehicles and construction machinery;
- j. Reorganization or merger;
- **k.** Where a business person or body wants to sell residential houses and business premises, shares, give as donation, inheritance or transfer ownership through other similar means;
- **I.** Issuance of certificate of employment income tax payment;
- **m.** Issuance of certificate of higher education costsharing payment or provision of mandatory service;
- n. Renewal of vouchers for beneficiaries of the duty drawback scheme;
- o. Other similar services.

23.1 REQUIREMENTS

- Written application;
- ii. Filing of monthly and annual tax returns and payment of resultant tax or provision of satisfactory evidence that there was no business activity giving rise to tax obligation;
- iii. In case of tax liability, evidence of entrance into payment terms with the authority and settlement of tax accordingly;
- iv. Where the taxpayer is served with a tax assessment notification, evidence of submission of objection or appeal to the concerned tax review department, appeal commission or court as the case may be.

The tax authority may subject a taxpayer applying for tax clearance to desk audit or comprehensive audit on the basis of the nature of the transaction the taxpayer requests clearance to execute and/or its own risk assessment.

23.2 VALIDITY OF TAX CLEARANCE

- For participation in public tender or bank loan, six months from the date of issuance;
- For licence renewal, vehicle inspection and registration for the tax year; i.e. EFY 7 July or the body's tax year;
- Partial or full closure of business, ownership title change or transfer of business assets, three months from the date of issuance.



24. DEDUCTIBLE EXPENDITURES

The basic principle regarding deductibility of expenditures is that deduction is allowed to the extent that the expenses are necessarily incurred in deriving, securing and maintaining busness income to the extent proved by evidence.

24.1 DEPRECIATION RATE

Two depreciation methods, namely the straight line and declining balance depreciation methods, are recognized by the tax law and rates of depreciation under each method are as hereunder.

TABLE 9 Depreciation rates

Depreciable asset	Straight line depreciation rate	Declining balance depreciation rate
Computer, software and data storage equipment	20%	25%
Greenhouses	10%	-
Structural improvement on immovable property other than greenhouse (building)	5%	-
Any other depreciable asset	15%	20%
Depreciable asset used in mining and petroleum development operations	25%	30%

24.2 INTEREST

- Interest shall be allowed as deduction only to the extent of use of loan proceeds for business purposes;
- Interest paid to a foreign lender shall be deducted only if the borrower has provided a National Bank letter authorizing the foreign lender to provide a loan in Ethiopia;
- Interest paid or payable by a taxpayer to a related person who is an Ethiopian resident is allowed only when the interest is included in Schedule D income of the related person.

24.3 CHARITABLE DONATION

- Means a donation made in support of education, health or environmental protection, or provided in the form of humanitarian aid other than for the taxpayer's employees, which are allowed as deduction when made:
 - To Ethiopian charities and Ethiopian socities;
 - In response to an emergency call issued by the federal and regional governments to defend the sovereignty and integrity of the country, to prevent or provide relief in relation to man-made or natural disasters or an epidemic, or for any other similar cause.
- Deduction shall be allowed for charitable donations up to 10% of taxable income before deduction of charitable contributions.
- This provision shall apply to expenses incurred by the taxpayer in the management of his own charitable activities.



24.4 HEAD OFFICE EXPENSES

Payment made by a permanent establishment doing business in Ethiopia to its parent non-resident body in reimbursement of actual expenses incurred by the parent shall be deducted to the extent that such expense was incurred in deriving, securing or maintaining business income.

24.5 FOREIGN CURRENCY EXCHANGE GAINS AND LOSSES

- Foreign currency exchange gain derived by a taxpayer shall be included in business income.
- If a taxpayer incurred a foreign currency exchange loss during a tax year, the loss shall be offfset against a foreign currency exchange gain derived by the taxpayer during the year:
 - The unused amount of loss can be carried forward indefinitely for offset against foreign currency exchange gains until fully offset, where the taxpayer has substantiated the amount of the loss to the satisfaction of the authority;
 - This shall not apply to foreign currency exchange loss incurred by a financial institution.

A taxpayer derives a foreign currency exchange gain or incurs a foreign currency exchange loss when the gain or loss is realized.

25. LOSS CARRY FORWARD

- A loss may be carried forward only if the taxpayer's books of account are audited and acceptable to the authority. However, the taxpayer may carry forward the loss if:
 - The taxpayer has submitted books of account showing the loss audited by external auditors;
 - The authority has failed to audit the taxpayer's books before the due date for filing the tax declaration for the next tax year.

25.1 TAX LOSS

- If a taxpayer has a loss for a tax year, he shall carry forward the loss and the loss shall be allowed as deduction in computing his taxable income for the following year; the taxpayer shall do so until the loss is fully deducted, but a loss shall not be carried forward for more than five tax years after the end of the year in which the loss was incurred.
- If there have been for two tax years in which the taxpayer has incurred a loss and those losses have been carried forward, the taxpayer shall not be permitted to carry forward any further losses.
- If a taxpayer has a loss carried forward for more than one tax year, the loss of the earliest shall be deducted first.

25.2 CHANGE IN CONTROL OF A BODY

A limitation on the carry forward of losses is imposed when there has been a change in the underlying ownership of a body as follows:

- A body shall carry forward a loss only when the same person holds more than 50% of the underlying ownership of the body in the loss year, carry forward year and all intervening tax years.
- The above provision shall not prevent the carry forward of a loss by a body when the body:
 - Conducts the same business in the loss year, the carry forward year and all intervening tax years;
 - Does not, until the loss has been fully deducted, engage in any new business activity after the change in underlying ownership.

25.3 LONG-TERM CONTRACTS AND LOSS CARRY BACKWARD

Long-term contract means contract for manufacture, installation or construction and related services not completed within the tax year in which work under the contract commenced, or not expected to be completed within 12 months of the date of commencement of work. A taxpayer engaged in long-term contract and accounting for business income tax on accrual basis is required account for income and expenses based on the percentage of contract completed for tax purposes.

When a taxpayer has a final year loss at the end of the long-term contract and is unable to carry forward the loss for the reason that the taxpayer ceases to carry on business in Ethiopia at the end of the contract, the taxpayer

may carry back the loss to the preceding year and the loss shall be allowed as a deduction in that year. If the taxpayer is not able to deduct in the preceding year, the amount not deducted may be carried back to the next year and continue to be done until the loss is fully deducted.

A taxpayer has a final year loss under a long-term contract if both of the following conditions are satisfied:

- The taxable income estimated for the purpose of percentage of completion exceeds the actual taxable income, if any, under the contract; and
- The amount of the excess exceeds the difference between the business income and deductible expenditures computed on the basis of percentage of completion for the tax year in which the contract was completed.

26. PENALTY AND INTEREST

26.1 ADMINISTRATIVE PENALTIES

Type of penalties	Rate or amount		
Penalties relating to registration and cancellation	25% of the tax payable for the period commencing on the due date of registration up to		
of registration	date of filing application for registration; Where there is no tax payable:		
	ETB 1,000 for each month or part thereof;		
	 Where the 25% penalty is less than the monthly penalty, the monthly penalty applies; 		
	ETB 1,000 for each month or part thereof commencing on the due date of application for cancellation up to date of filing the application.		
Penalty for failing to maintain documents	20% of the tax payable for the tax period to which the failure relates;		
documents	If no tax is payable:		
	 ETB 20,000 for each tax year for the purpose of income tax; 		
	 ETB 2,000 for each tax period for the purpose of any other tax; 		
	Where the 20% penalty is less than the monthly penalty, the yearly or periodic penalty applies;		
	 The licensing authority responsible for issuing the business licence shall cancel the business licence of a taxpayer who fails to maintain documents for more than two years, upon notification of the tax authority; 		
	Failure to retain documents for 10 years shall be liable to a penalty of ETB 50,000;		
	 Documents shall be retained until proceedings are completed where any proceedings are commenced before the end of the period; 		
	 Document means underlying source documents like sales and purchase invoices and records supporting a tax declaration acceptable to the tax authority. 		
Penalty in relation to TIN	 Failure to state TIN on invoices, declarations, tax debit or credit note or any other document: ETB 3,000 for each failure; 		
	■ ETB 10,000 if the taxpayer:		
	Provides their TIN for use by another person;		
	Use of another person's TIN;		
	 Where the monetary advantage obtained exceeds ETB 10,000, the penalty shall be equal the monetary advantage obtained. 		



Late filing penalty	 5% of the unpaid tax for each tax period or part thereof, but not exceeding 25% of the unpaid tax;
	The penalty for non-filing of the first period or part thereof shall not exceed ETB 50,000;
	 The penalty to be imposed shall under no circumstances be less than the lowest of the following:
	ETB 10,000; 1000/ of the amount of toy that should have been entered in the toy declaration.
	100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of the amount of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declaration; 100% of tax that should have been entered in the tax declarati
	 Where the taxpayer has no tax to pay for the tax period, the penalty shall be ETB 10,000 for each tax period.
Late payment penalty	5% of the unpaid tax at the expiration of one month or part thereof after the due date;
	 An additional 2% of the unpaid tax for each month or part of a month thereafter to the extent that the tax remains unpaid;
	The amount of penalty shall not exceed the amount of tax liability to which it relates;
	This penalty is not applicable to withholding tax.
Withholding tax penalties	10% of the tax to be withheld or actually withheld, but not transferred to the authority;
	Where the above applies to a body, in addition to the above, the manager, the chief accountant or any other responsible officer shall be liable for a penalty of ETB 2,000 each, for each period the failure relates to;
	 In case of withholding of tax from domestic payments, ETB 20,000 each on the supplier and purchaser;
	 ETB 10,000 on a supplier who refuses to supply goods or services with the intention of avoiding withholding tax on domestic payments.
Value-added tax penalties	 ETB 2,000 for each month or part thereof commencing on the due date of registration up to date of filing application for registration or the person is registered on the authority's own motion;
	 100% of the amount of value-added tax payable on taxable transactions during the period registration is not made, in addition to the above;
	■ ETB 50,000 in case of deliberate issuance of an incorrect tax invoice resulting in a decrease in the value-added tax payable or an increase in the creditable value-added tax.
Failure to issue tax invoice	ETB 50,000 for each transaction to which the failure relates.

Tax understatement penalty	 10% of the tax shortfall; 30% for the 2nd application; 40% for the 3rd or subsequent application; No penalty is applicable where the taxpayer takes a reasonably arguable position on application of a tax law on which the ministry has not issued a ruling prior to filing of self-assessment declaration. 		
Tax avoidance penalty	Where a tax avoidance is detected by the tax authority through application of anti-tax avoidance measures in assessing the taxpayer, a penalty equal to double the tax amount that would have been avoided is levied.		
Penalties relating to failure to comply with electronic tax system	■ ETB 50,000 in case of failure to provide a satisfactory reason for failure to file a tax declaration or pay tax electronically within 14 days of notice to do so.		
Penalties relating to sales register machines	 ETB 50,000 for: Usage of sales register machine or point of sales machine software not accredited or registered by the tax authority; For carrying out transaction without receipt or invoice or for using any other receipt not generated by a sales register machine except at the time the machine is under repair or for any other justifiable reason; ETB 100,000 if caused damage to or change of fiscal memory or attempts to cause damage or change of fiscal memory; ETB 25,000 for: Obstructing inspection of the audit system of a sales register machine by officer of the tax authority or for failure to have annual machine inspection at the service sector; Not having a valid service contract with an authorized service centre for a sales register machine in use, or for using sales register machine without connecting to the terminal, or for not keeping the inspection booklet beside the sales register machine, or for issuing refund receipts without properly recording the return of goods or customers' request for refund in the refund book; ETB 10,000 for failure to inform the tax authority and the machine service centre within three days of the termination of a sales register machine malfunction due to any other causes; ETB 50,000 for failure to notify the tax authority of the correct place of business the sales register machine is in use; ETB 25,000 for failure to notify the tax authority of change of name or address or failure to notify the tax authority and service centre three days in advance in case of termination of business; ETB 10,000 for failure to put a visible notice containing one or all the following information at a place where the machine is installed: Name of the machine user, trade name, location of trade, TIN, accreditation and permit numbers for the sales register machine; Text stating that "In case of machine failure, sales personnel must issue manual receipts authorized by the tax authority"		

- Any person who is accredited and permitted for the supply of sales register machine or software shall be liable for a penalty of:
 - ETB 100,000 for failure to notify change of business address to the tax authority;
 - ETB 500,000 for selling a sales register machine not accredited by the tax authority;
 - ETB 50,000 for failure to get a machine registration code for each sales register machine from the tax authority or for not affixing the machine code stickers to a visible part of the machine;
 - ETB 100,000 for failure to notify the tax authority in advance of any change made
 to the sales register machine in use or for inserting or adding incorrect information or for omitting the correct information from the manual that guides use of
 sales register machine;
 - ETB 50,000 for failure to notify the tax authority in advance or for not being able to replace, within three days of the request made by a service centre, sales register machine lost due to theft or sustained irreparable damage;
 - ETB 50,000 for failure to keep information about service centres with which it has signed agreements or for failure to notify the tax authority about contracts terminated or newly entered agreements with service centres;
- Any sales register machine service centre shall be liable for a penalty of:
 - ETB 20,000 for failure to report to the tax authority within two days of change of the fiscal memory of a sales register machine;
 - ETB 20,000 for failure to perform annual technical inspections on sales register machines that are under contract;
 - ETB 50,000 for deploying every person not certified by the supplier and not registered by the tax authority.

Miscellaneous penalties

- ETB 20,000 for failure to notify the tax authority of changes of name, physical or postal
 address, constitution, or principal activity, banking details used for transactions with the
 authority, and such other details as may be specified in a directive issued by the authority;
- ETB 10,000 on a body that fails to file a copy of its memorandum of association, articles of association statute, partnership agreement, or other document of formation or registration or any amendment to such document within 30 days;
- ETB 10,000 on a public auditor who fails to file an audit report with the authority within three months;
- ETB 1,000 for each day of default for failure to notify service contract with non-residents;
- ETB 100,000 for failure to provide details of transactions with related persons;
- ETB 5,000 for failure to give any information requested by the authority on any person having an obligation to supply information.

Up to 90% of the penalties may be waived for taxpayers who meet criteria set by the tax authority. Payment of the assessed tax within 30 days of receipt of the notice attracts the highest waiver, while payment of the tax in accordance with the payment schedule agreed on with the tax authority entitles the taxpayer to waiver of penalty at relatively lower rates, the lowest waiver being 20% of the penalties assessed.



26.2 LATE PAYMENT INTEREST

- A taxpayer who fails to pay tax on or before the due date shall be liable for late payment interest.
- The interest rate shall be the highest commercial lending interest rate that prevailed in Ethiopia during the quarter immediately before the commencement of the tax payment period increased by 15%.
- The late payment interest shall be in addition to any late payment penalty imposed.
- The late payment interest shall be calculated as simple interest on a daily basis.
- The total amount of late payment interest shall not exceed the amount of the unpaid tax liability and is also not subject to any waiver.

26.3 TAX OFFENCES

There is a chapter dedicated to tax offences in the Tax Administration Proclamation. Tax offence is defined as violation of the criminal law of Ethiopia that shall be charged, prosecuted and appealed in accordance with the Criminal Procedure Code of Ethiopia.

The withholding tax scheme is a system under which the withholding agent (the person required to withhold tax from the payment made by such person to employees and suppliers of goods and services) collects or withholds tax and remits to the tax authority.



26.4 TAX WITHHOLDING FROM DOMESTIC PAYMENTS

The following have legal duty to withhold tax on domestic transactions:

- Bodies having legal personality, like share companies, private limited companies, partnerships and cooperative societies, etc.:
 - Government agencies;
 - Non-governmental organizations;
 - On transactions made at the Ethiopia Commodity Exchange (ECX);
 - Individual taxpayers who had an average turnover of ETB 10 million and more over the previous three years;
 - Individual taxpayers engaged in the following sectors are required to withhold tax irrespective of their turnover:
 - Star hotels and resorts;
 - Contractors of Grades 1–4;
 - Real estate developers;
 - Food processing industries;
 - Trading on Ethiopia Commodity Exchange (ECX);
 - Hospitals and higher clinics;
 - Universities and colleges;
 - Whole sellers of industrial products;
- 2% tax shall be withheld from the gross payment made for the following:
 - The supply of goods made in Ethiopia involving more than ETB 10,000 in one transaction or supply contract;
 - The supply of service involving more than ETB 3,000 in one supply contract.

26.5 VAT WITHHOLDING

Organs of the federal government and public enterprises shall withhold VAT on purchases and remit to the tax authority. The VAT rate to be withheld is reduced to 50% of the VAT payable on the supply in accordance with a recent amendment to the VAT Proclamation.





27. TAX DISPUTE RESOLUTION PROCEDURES

Disputes arising out of tax assessment or other related decisions by the tax authority are first reviewed by the tax authority's review department on the basis of objection filed by the taxpayer. Review departments are organized in all branch offices and the head office of the Ministry of Revenues. A taxpayer not satisfied with the review decision can take his case to the Tax Appeal Commission and a party that objects to the appeal decision can appeal to the High Court and then Supreme Court.

27.1 REVIEW DEPARTMENT

The review department at head office shall review objections arising on tax asssessments made by branches with aggregate tax liability, including penalty and interest of the following amounts. In case of:

- Large taxpayer office customers: more than ETB 300,000,000;
- Medium taxpayer office customers: more than ETB 200,000,000;
- Small taxpayer offices customers: more than ETB 100,000,000.

Objections on tax assessments of less than the abovestated amounts shall be entertained by the review departments of the respective branch offices. A taxpayer who is dissatisfied with a tax decision may file a notice of objection to the tax authority in writing within 21 days after service of the notice of the decision. Such objection is treated as valid only when the following conditions are satisfied:

- i. The notice of objection precisely states the grounds of the taxpayer's objection, the amendments the taxpayer believes are required to be made to correct the decision and the reasons for making those amendments:
- After payment of any tax due under the tax assessment that is not disputed by the taxpayer in the objection;
- **iii.** Where a taxpayer prefers to pay the tax assessed and file a notice of objection upon payment of the tax assessed.

After having considered the review department's recommendations, the tax authority shall make a decision to allow the objection in whole or part, or disallow it. Where the review department is of the view that the tax assessed should be increased, it shall recommend to the tax authority that the tax assessment be referred to the tax officer for reconsideration.

When the authority has not made an objection decision within 180 days from the date that the taxpayer filed notice of the objection, the taxpayer may appeal to the Tax Appeal Commission within 30 days after the end of the 180-day period.



27.2 APPEAL TO TAX APPEAL COMMISSION

A taxpayer dissatisfied with an appealable decision may file a notice of appeal with the Tax Appeal Commission within 30 days of service of notice of the decision. The appeal notice shall be treated as validly filed by a taxpayer only if he has paid the authority 50% of the tax in dispute under the tax assessment, without penalty and interest.

The commission shall decide an appeal within 120 days after the notice of appeal was filed. Where there are complex cases, they may extend this period by 60 days by a written response to the parties.

If an appeal relates to a tax assessment, the commission may make a decision to:

- Affirm, reduce or otherwise amend the tax assessment; or
- Remit the tax assessment to the authority for reconsideration in accordance with the commission's instructions.

The commission shall serve a copy of the decision on an appeal on each party to the appeal within seven days of making the decision.

27.3 APPEAL TO THE FEDERAL HIGH COURT

A party to a proceeding before the commission who is dissatisfied with the commission's decision may, within 30 days after being served with notice of the decision, file a notice of appeal to the Federal High Court.

A taxpayer's notice of appeal to the Federal High Court shall be treated as validly filed only if the taxpayer has paid 75% of the tax in dispute (on the basis of decision of the appeal commission) under the assessment. An appeal to the Federal High Court shall be made on a question of law only.

27.4 APPEAL TO THE FEDERAL SUPREME COURT

A party to a proceeding before the Federal High Court who is dissatisfied with the decision of the Federal High Court may, within 30 days after being served with notice of the decision, file a notice of appeal to the Federal Supreme Court.

© International Trade Centre 2020

ITC encourages reprints and translations for wider dissemination. Short extracts may be freely reproduced, with due acknowledgement, using the suggested citation. For more extensive reprints or translations, please contact ITC, using the online permission request form. http://www.intracen.org/Reproduction-Permission-Request/

Partnership for Investment and Growth in Africa (PIGA)

PIGA project implemented by:

PIGA project funded by:



