



Ethiopia

Fiscal Guide 2015/2016

Tax





INTRODUCTION

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Income tax

Business income

Income tax is charged on all the income of an entity having a permanent establishment in Ethiopia. An administrative branch, factory, workshop, mine, quarry or any other place for the exploitation of natural resources, and a building site or place where construction and/or assembly works are carried out, is considered to be a permanent establishment.

Income tax applies to residents with respect to their worldwide income, and non-residents with respect to their Ethiopian-sourced income.

Residency rules

An individual is considered resident if the person has a domicile, has a habitual abode or stays continuously or intermittently in Ethiopia for a period of more than 183 days in a period of twelve calendar months¹.

In the case of a corporate person, a person is considered a resident when any of the three tests below is in the affirmative;

- If the principal office is located in Ethiopia;
- If the effective management of the company is in Ethiopia; or
- If the company is registered by the Ministry of Trade and Industry.

The income tax system follows a scheduler approach. As a result, income from different sources is taxed and treated separately. Accordingly, the income tax proclamation has introduced four kinds of schedules.

Schedule A

All income from employment shall be taxed based on this schedule.

Resident individuals	
Individual (employment) tax	
Taxable income (ETB)	Rate of tax
0 – 150	Exempt threshold
151 - 650	10%
651 – 1400	15%
1 401 – 2 350	20%
2 351 – 3500	25%
3 501 – 5 000	30%
Above 5000	35%

¹For individuals, the tax year is the government's fiscal year which runs from July 8 to July 7.



Schedule B

All income from rental of buildings is taxed in accordance with this schedule.

Resident individuals	
Individual (employment) tax	
Taxable income (ETB) from rental (per year)	Rate of income tax payable
0 -1800	Exempt threshold
1 801 – 7 801	10%
7 801 – 16 800	15%
16 801 – 28 000	20%
28 201 – 42 600	25%
42 601 – 60 000	30%
Over 60 000	35%

The above rates only apply in respect of individuals. Corporates are taxed at 30% of their profits.

Schedule C

Income from business shall be taxed based on schedule C. Business is any industrial, commercial, professional or vocational activity or any other activity recognised as trade by the Commercial Code of Ethiopia and carried on by any person for profit.

Consequently business income of individuals is taxed under a schedule similar to schedule B above. On the other hand, business income from body corporates is taxed at a flat rate of 30%.

Schedule D

All income which cannot be subject to either schedule A, B or C shall be subject to this schedule.

Other rates

Resident companies	
Corporate tax	30%
Corporate tax paid by holders of large- scale mining licenses	25%
Dividends	10%
Interest on deposits (local)	5%
Royalties	5%
Rental of property	15%
Supply of goods (exceeding ETB 10,000)	2%
Supply of technical & professional services (exceeding ETB 500)	2%
Payment to a person without a Tax Identification Number (TIN)	30%
Imported goods for local consumption	3%

Non-resident companies	
Interest on borrowings-foreign	10%
Technical services from abroad	10%
Royalties	5%
Imported goods for local consumption	3%

Withholding tax (WHT) on royalties	
Royalties for the right to use artistic works	5%
Royalties paid by holders of large- scale mining licenses	10%
Precious minerals	8%
Semi-precious minerals	6%
Metallic minerals	5%
Industrial minerals	4%
Construction minerals	3%
Salt	4%
Geothermal	2%

Capital gains tax

Certain gains of a capital nature are subject to capital gains tax (CGT), such as:

- Building held for business, factory or office - 15%
- Shares of companies - 30%

Treatment of losses

Business enterprises (registered investments) that suffer losses during a tax holiday period can carry forward such losses for a period equivalent to half of the income tax holiday period. However, this period of carrying forward of losses is capped to 5 years.

In addition, a loss incurred in a tax period may be set off against taxable income in the next five tax periods, provided that ownership of a body does not change by more than 25% in that tax period.

Net operating losses may be carried forward and deducted only for two periods of three years.

For companies in the mining sector, they can carry forward losses for a period of 10 years.

Transfer pricing and thin capitalisation rules

The Income Tax Proclamation provides that, where conditions are made or imposed between persons carrying on business in their commercial or financial relations, which differ from those which would be made between independent persons, the tax authority may direct that the income of one or more of those related persons is to be adjusted to include profits that would have ordinarily accrued to such person in an arm's length transaction.

The tax authority may make agreements in advance with persons carrying on entrepreneurial activities, subject to conditions, if necessary, that specified conditions between related persons do not differ from those which would be made between independent persons.

The debt to equity ratio for thin capitalisation purposes is 4:1.

Transaction taxes

Value-Added Tax

Value-Added Tax (VAT) is charged, under the Value-Added Tax Proclamation on the supply of goods and services by registered persons, and on the importation of goods and services into Ethiopia and services performed by a non-resident person (not registered for VAT in Ethiopia) who performs services for a resident in Ethiopia. The rate of VAT is 15%.

Registration for VAT is required for persons making taxable transactions greater than ETB 500,000 at the end of any period of 12 calendar months.

Turnover tax

Turnover tax is charged under the Turnover Tax Proclamation at a rate of 2% on the supply of goods and services relating to contractors, grain mills, tractors and combine harvesters and at a rate of 10% on other services. Turnover tax is payable on goods and services supplied by persons who are not registered for VAT.

Excise tax

Excise tax is payable on certain goods specified under the Schedule to the Excise Tax Proclamation, when imported and when produced locally. The excise tax rate varies from 10% to 100% on the cost of production, or CIF ("cost- insurance-freight") as the case may be.

Customs duty

Customs duty is payable on imports by all persons and entities without duty-free privileges. The main regulation on customs duty is Proclamation No. 38/1993, which introduced a harmonised system of classification of goods. The rate of customs duty ranges from 0% to 35%.

Stamp and transfer duty

Stamp duty is payable on a broad class of legal instruments, including:

- Memoranda and Articles of Association:
 - upon first execution - a flat ETB 350; and
 - upon any subsequent execution - a flat ETB 100.
- Contracts and agreements and memoranda - a flat ETB 5;
- Security deeds - 1% on the value of the deed;
- Contract of employment - 1% of a month's salary;
- Register of title to property - 2% of the value;
- Lease and sub-lease thereof – 0.5% of the value; and
- Bonds including warehouse bonds – 1% of the value.

Double tax treaties and reduced rates

Ethiopia has signed double tax agreements (DTAs) with several countries such as United Kingdom, China, India, Netherlands, South Africa, Czech Republic, Egypt, Turkey, Tunisia, Iran, Algeria and Seychelles.

Country	Dividends (%)	Interest (%)	Royalties (%)
Domestic WHT rate	10	10	5
China	5	7	5
France	10	5	7.5
India	7.5	10	5
Israel	5	5	5
Kuwait	5	5	5
Romania	10	10	5

Double tax treaties and reduced rates (continued)

Country	Dividends (%)	Interest (%)	Royalties (%)
Russia	5	5	5
South Africa	10	8	5
Tunisia	5	10	5
Turkey	10	10	5
United Kingdom	10	5	7.5
Netherlands (not yet in force)	5*	5	5

* Upon holding at least 10% shareholding

Investment information

Investment rules

Ethiopia has a longstanding, stable and positive attitude towards foreign private investment with sound macro-economic policies and a stable foreign exchange environment. Investment opportunities exist in:

- Agriculture²;
- Agro-processing;
- Manufacturing;
- Mining; and
- Tourism.

Incentives

Income tax holiday

Any income derived from an approved new manufacturing and agro-industry investment or investment made in agriculture, is exempt from the payment of income tax for a specified number of years, depending on the volume of exports and the location in which the investment is undertaken.

Customs import duty

- A 100% exemption from the payment of import customs duties and other taxes levied on imports is granted to all investment capital goods, such as plant, machinery and equipment, as well as spare parts worth up to 15% of the value of the imported investment capital goods, provided that the goods are not produced and not available locally in comparable quantity, quality and price.
- Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to other investors enjoying similar privileges.
- Exemptions from customs duties or other taxes levied on imports are granted for raw materials necessary for the production of export goods.

Export custom duties

Products and services developed in Ethiopia are exempt from customs duty and other taxes. The export trade incentive schemes that can be utilised by manufacturers include:

- Duty draw-back scheme;
- Voucher scheme; and

Bonded manufacturing warehouse scheme.

Exchange control

Exchange and remitting funds

The National Bank of Ethiopia (NBE) regulates the inflow and remittance of foreign currencies through specific directives applicable to both Ethiopians and foreigners. Virtually all outgoing and some incoming foreign currencies (such as foreign loans) are regulated. Foreign investors may, with NBE's prior approval, open foreign exchange accounts in commercial banks in Ethiopia.

²Agriculture contributes about 47% of the economy, while industry and services contribute 10.8% and 42.4% respectively.

Exchange and remitting funds (continued)

Eligible exporters of goods and recipients of inward remittances may also open foreign-exchange accounts without the prior approval of the NBE. Subject to the exchange regulations of the NBE, a person with a foreign exchange account can remit foreign currency abroad.

A foreign investor has the right to make the following remittances out of Ethiopia in convertible foreign currency:

- Profits and dividends accruing from investments;
- Principals and interest payments on external loans;
- Payments related to technology agreements;
- Proceeds from the sale or liquidation of an enterprise;
- Proceeds from the sale or transfer of shares or partial ownership of an enterprise to a domestic investor; and
- Compensation paid to a foreign investor.

Expatriates employed in an enterprise may remit, in convertible foreign currency, salaries and other payments accruing from their employment in accordance with the foreign exchange regulations or directives of the country.

Recent tax developments

Towards the end of 2015, the Government of Ethiopia through the Ministry of Finance and Economic Development introduced draft tax laws that are aimed to streamline the process of tax administration in Ethiopia. The tax laws which are expected to come into force any time in 2016 are a new Income Tax Proclamation and the Tax Administration Proclamation. These draft Proclamations are yet to be published to the public, but some of the changes that they propose include:

- Preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) as opposed to Generally Accepted Accounting Principles (GAAP). This is in line with the provisions of the recently proclaimed Financial Reporting Proclamation No. 847 of 2014;
- An elaborate provision on Transfer Pricing has been proposed. This provision has made reference to the issuance of a tax directive that will provide for among other things, penalty for failing to keep contemporaneous transfer pricing documentation;
- Provisions on prevention and punishment of deliberate schemes whose main purpose is deemed to be tax avoidance; and
- To exempt from tax registration, non-residents whose only income in Ethiopia is employment income. It also provides for the cancellation of tax registration for persons who are no longer required to obtain tax registration.

Annual budget announcement

The annual budget is announced by parliament through a proclamation before the beginning of the budget year. The fiscal year runs from 8 July to 7 July.

Trade and bilateral agreements

Trade and bilateral agreements are signed with countries such as South Africa, China, Turkey, and Sudan.

Ethiopia is a signatory to other trade bloc agreements such as the Common Market for Eastern and Southern Africa (COMESA) and Africa Free Trade Zone.

Guarantee against expropriation

The Constitution protects private property. The Investment Proclamation also provides investment guarantees against expropriation and nationalisation that may only occur for public interest and in compliance with the requirements of the law. Should expropriation arise, the government guarantees to provide adequate compensation corresponding to the prevailing market value of property and such payment shall be effected promptly.

Trade and bilateral agreements (continued)

Other guarantees

- Ethiopia is a member of the World Bank affiliated Multilateral Investment Guarantee Agency (MIGA).
- Ethiopia has concluded bilateral investment promotion and protection agreements with a number of European, Middle East and African countries
- Ethiopia has also signed the World Bank Treaty, The International Convention on Settlement of Investment Disputes between States and Nationals of Other States (ICSID).

Economic statistics³

Prime Interest Rate	The inter-bank lending rate is 7.5%
US\$ Exchange Rate (17 February 2016)	ETB 21.16
Inflation (January 2016)	9.1%
GDP (2015)	8.5%
GDP (2015)	US\$56 billion (2015 estimate)

Travel requirements

Visa requirements	Visas are available at the airport for foreigners coming from certain countries.
Flights	Numerous international carriers fly into the country and there are regular flights from regional and international hubs.
Inoculations	Inoculations are not mandatory but advisable. However, yellow fever immunisation certificates must be produced on arrival.

Currency

The Ethiopian Birr (ETB).

Languages

The official language is Amharic, although English is widely spoken. French, Italian and other local languages are also spoken.

Official holidays

- 7 January (Ethiopian Christmas Day)
- 13 January (The Prophet's Birthday)
- 20 January (Ethiopian Epiphany)
- 2 March (Adwa Victory Day)
- 18 April (Ethiopian Good Friday)
- 20 April (Ethiopian Easter Sunday)
- 1 May (International Labour Day)
- 5 May (Freedom day)
- 28 May (Derg Downfall Day)
- 28 July (Eid-al-Fitr)*
- 11 September (Ethiopian New Year's Day)
- 27 September (Finding of the True Cross)
- 4 October (Eid al-Adha)*

³<http://www.gfmag.com/global-data/country-data/ethiopia-gdp-country-report>

*To be confirmed depending on sighting of the moon.





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