



Ethiopia Fiscal Guide 2019

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Income tax

Residents are subject to tax on their worldwide income. Non-residents are subject to tax on their Ethiopian-source income only.

An individual is considered to be resident in Ethiopia if any of the following circumstances exist:

- He or she has a domicile in Ethiopia and a habitual abode in Ethiopia.
- He or she is a citizen of Ethiopia who serves abroad as a consular, diplomatic or similar official of Ethiopia.
- He or she is physically present in Ethiopia for more than 183 days in a period of 12 calendar months¹, either continuously or intermittently.

In the case of a body corporate, residency crystallizes when;

- a. It is incorporated or formed in Ethiopia; or
- b. Has its place of effective management in Ethiopia.

Income tax is also charged on all the income of an entity having a permanent establishment in Ethiopia. A permanent establishment is a fixed place of business through which the business of a person is wholly or partly carried on.

A place of management, branch, factory, warehouse, 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.

Additionally, the following are also treated as a permanent establishment:

- a. the furnishing of services, including consultancy services, by a person, including through employees or other personnel engaged by the person for such purpose, but only when activities of that nature continue for the same or a connected project for a period or periods aggregating to one hundred and eighty three days in any one-year period.
- b. A building site, or a construction, assembly, or installation project, or supervisory activities connected with such site or project shall be a permanent establishment only when the site, project, or activities continue for more than one hundred and eighty-three days.
- c. Dependant agent (a person other than an agent of independent status acting in the ordinary course of business on behalf of another by negotiating contracts or maintaining a stock of goods for delivery on behalf of the principal)

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

Categories of Income tax

The income tax system follows a scheduler approach. These schedules are split into: employment income, rental income, business income, other income and exempt income.

Employment Income – Schedule A

Employment income includes any payments in cash or in kind received by an individual as a result of employment, including income from former employment or prospective employment.

Employment income is subject to tax at progressive rates ranging from 10% to 35%.

All income from employment is taxed in accordance with the rates below:

Taxable income per month (ETB)	Rate of tax
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%
over 10,900	35%

Social security

Over and above employment taxes, the employer must contribute to the social security scheme on behalf of the employee at a rate of 7% of the basic salary. The employer's contribution is 11%.

Rental income from buildings – Schedule B

Rental income from buildings derived by individuals is subject to tax at progressive rates ranging from 10% to 35% as per the table below:

Taxable income (ETB) from rental (per year)	Rate of income tax payable
0 -7,200	exempt threshold
7,201 – 19,800	10%
19,801 – 38,400	15%
38,402 – 63,000	20%
63,001 – 93,600	25%
93,601 – 130,800	30%
Over 130,800	35%

The above rates only apply in respect of individuals on their net rental income. Corporates are taxed at 30% of net rental income.

Business income – Schedule C

Income from business shall be taxed based on **Schedule C** of the Income Tax Proclamation. Business is any industrial, commercial, professional or vocational activity conducted for profit and whether conducted continuously or short term. Business does not include the rendering of services as an employee or the rental of buildings.

Business income of individuals is taxed as per the rates provided below:

Taxable income (ETB) from rental (per year)	Rate of income tax payable
0 -7,200	exempt threshold
7,201 – 19,800	10%
19,801 – 38,400	15%
38,402 – 63,000	20%
63,001 – 93,600	25%
93,601 – 130,800	30%
Over 130,800	35%

On the other hand, business income attributable to body corporates is taxed at a flat rate of 30%.

Other Income – Schedule D

All income which cannot be subject to either schedule A, B or C shall be subject to tax according to **Schedule D** of the Income Tax Proclamation.

Particular of income	Resident	Non- resident
Insurance premium or royalty	5%	5%
Dividends	10%	10%
Interest	5%* and 10%**	5%* and 10%**
Management or technical fees	2%	15%
Entertainment	-	10%
Income from casual rentals of property	15%	15%
Supply of goods (exceeding ETB 10,000)	2%	2%
Supply of services (exceeding ETB 3,000)	2%	2%
Payment to a person without a Tax Identification Number (TIN)	30%	30%
Imported goods for local consumption	3%	3%
Income from games of chance (exceeding ETB 1000)	15%	15%

*interest from saving deposits from a financial institution

**any other interest

Other Income Taxes

a. Capital gains tax

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

b. Deemed distribution of profits

Where a body has undistributed profits to the extent that it is not reinvested, a tax shall be paid at 10% of the net undistributed profits.

c. Repatriation of profits by a non-resident company

Any profits repatriated out of Ethiopia by a non-resident company carrying out business through a permanent establishment shall be liable to tax at 10%.

d. Mining and Petroleum operations

Business income at 25% shall be applicable to licensee and contractors. Payments made by licensee to non-resident subcontractors shall be subject to WHT at 10%.

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.

If there has been two tax years in which a taxpayer has incurred and each of those losses has been carried forward the, taxpayer shall not be permitted to carry forward any further losses.

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

Anti-Avoidance Provisions

Transfer pricing

The Income Tax Proclamation provides that the Authority may, in respect of any transaction that is not an arm's length transaction, distribute, apportion, or allocate income, gains, deductions, losses, or tax credits between the parties to the transaction in accordance with the Directive issued by the Minister to reflect the income, gains, deductions, losses, or credits that would have been realised in an arm's length transaction.

The transfer pricing guidelines may also apply to in-country transactions.

Thin capitalisation rules

If a foreign-controlled resident company, other than a financial institution has an average debt to equity ratio in excess of 2:1 for a tax year, a deduction shall be disallowed for the interest paid by the company during that year.

Indirect taxes

Value-Added Tax

VAT is levied on the supply of goods and services in Ethiopia and on imports. NGOs are exempt from charging VAT on services, but are not exempt from paying VAT on services or goods purchased. The standard rate of VAT is 15%. However, exports are zero rated.

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.

Customs and Import duties

Ethiopia is a member of the Customs Cooperation Council. The rate of customs duty ranges from 0% to 35%.

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.

Import duties

All importers and exporters must be registered with the Ministry of Trade and obtain a trading licence. Foreign exchange permits are required for all importers. Highly protective tariffs are applied on certain items such as textile products, leather goods among others to protect local industries.

Miscellaneous Taxes

Stamp and transfer duty

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

- Memoranda and Articles of Association of any business organization:
 - upon first execution a flat ETB 350; and
 - upon any subsequent execution a flat ETB 100.
- Memoranda and Articles of Association of a cooperative
 - upon first execution – a flat ETB 35; and
 - upon any subsequent execution – a flat ETB 10
- 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
Russia	5	5	5
South Africa	10	8	5
Tunisia	5	10	5
Turkey	10	10	5
United Kingdom	10	5	7.5
Netherlands	5*	5	5
Saudi Arabia	5	5	7.5
Ireland	5	5	5
Cyprus	5	5	5
Italy	10	10	10
United Arab Emirates (Not yet in force)	5	5	5

* Upon holding at least 10% shareholding

General Investment Information

Investment 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 regulations

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. 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.

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.

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 statistics²

Prime Interest Rate	The inter-bank lending rate is 7.5%
US\$ Exchange Rate (28 May 2019)	ETB 28.74
Inflation (2017)	8.2%
Inflation (2018)	7.7%
GDP estimate (2017)	US\$ 80.561 Billion
GDP estimate (2018)	USD 76.2 billion

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)
- 25 June (Eid-al-Fitr)*
- 1 September (Eid al-Adha)
- 11 September (Ethiopian New Year's Day)
- 27 September (Finding of the True Cross)
- 1 December Moulid

*To be confirmed depending on sighting of the moon.

² <http://pubdocs.worldbank.org/en/471041492188157207/mpo-eth.pdf>

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