

The following proclamations and regulations are referred to for all the information under the tax section.

- Proclamation No. 1097/2018 Definition of Powers and Duties of the Executive Organs of the Federal Democratic Republic of Ethiopia Proclamation.
- Proclamation No. 979/2016 Federal Income Tax Proclamation.
- Proclamation No. 983/2016 Federal Tax Administration Proclamation.
- Proclamation No. 715/2011 Private Organizations Employees' Pension Proclamation as amended by Proclamation No. 908/2015.
- Proclamation No. 285/2002 Value Added Tax Proclamation, as amended by Proclamation Nos. 609/2009 and 1157/2019.
- Excise Tax Proclamation No. 1186/2020 Proclamation No. 308/2002 Turnover Tax Proclamation, as amended by 611/2008.
- Proclamation No. 110/1998 Stamp Duty Proclamation, as amended by 612/2008.
- Investment Proclamation No. 1180/2020.
- Proclamation 768/2012 Export Trade Duty Incentive Schemes Proclamation.
- Proclamation No. 859/2014 Customs Proclamation, as amended by Proclamation 1160/2019.
- Regulations No. 410/2017 Federal Income Tax Regulations;
- Regulations No. 407/2017 Federal Tax Administration Regulations;
- Regulations No. 270/2012 Investment as amended by Regulations No. 370/2014 (a new regulation is at draft stage);
- Regulations No. 154/2008 Higher Education Cost Sharing Regulations;
- Regulations No. 79/2002 Value Added Tax Regulations.

The Ethiopian Taxation system has two major categories: direct and indirect taxes. All tax types in the Ethiopian tax system are described and explained as follows.

Direct Taxes

These are one type of **taxes** a company or individual pays directly to the government. The following are the tax categories under the income tax proclamation No. 979/2016. Tax payers are categorized according to their income levels.

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:

- 1) Schedule A, income from employment;
- 2) Schedule B, income from rental of buildings;
- 3) Schedule C, income from business;
- 4) Schedule D, other income;
- 5) Schedule E, exempt income.

Schedule A employment Income Tax

| Employment income per month (I) (birr) | Employment income tax rate | Deduction | Tax computation $I = \text{Employment income}$ $EIT = \text{Employment income tax}$ |
|--|----------------------------|-----------|---|
| 0–600 | 0% | 0 | |
| 601–1 650 | 10% | 60.00 | $EIT = I \times 10\% - 60$ |
| 1 651–3 200 | 15% | 142.50 | $EIT = I \times 15\% - 142.50$ |
| 3 201–5 250 | 20% | 302.50 | $EIT = I \times 20\% - 302.50$ |
| 5 251–7 800 | 25% | 565.00 | $EIT = I \times 25\% - 565$ |
| 7 801–10 900 | 30% | 955.00 | $EIT = I \times 30\% - 955$ |
| More than 10 900 | 35% | 1 500.00 | $EIT = I \times 35\% - 1 500$ |

Schedule B Rental Income Tax

Corporations are taxed 30% flat rate.

| Rental income per year (I) | Rental Income tax rate | Deduction | Tax computation $I = \text{Rental income}$ $RIT = \text{Rental income tax}$ |
|----------------------------|------------------------|-----------|---|
| 0–to 7 200 | 0% | 0 | |
| 7 201–19 800 | 10% | 720.00 | $RIT = I \times 10\% - 720$ |
| 19 801–38 400 | 15% | 1 710.00 | $RIT = I \times 15\% - 1 710$ |

| | | | |
|-------------------|-----|-----------|------------------------|
| 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.

| Business income per year (I) | Business Income tax rate | Deduction | Tax computation I = Business income BIT = Business income tax |
|------------------------------|--------------------------|-----------|---|
|------------------------------|--------------------------|-----------|---|

Schedule C Income Tax

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%.

| | | | |
|-------------------|-----|-----------|------------------------|
| 0–7 200 | 0% | 0 | |
| 7 201–19 800 | 10% | 720.00 | BIT = I 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 = I 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.

Schedule D tax rates

This is the last and residuary Schedule of income. Any income which is taxable under them Income Tax Proclamation but does not find place under any of the remaining three Schedules of income (i.e., Schedules A, B and C) will be taxable under this residuary.

| Tax item | Description | Rate |
|------------------|---|------|
| Royalties | A payment of any kind received as a consideration for the use of ,or the right to use, any copyright of literary, artistic or scientific work, including cinematography films and films or tapes for radio or television broadcasting, any patent, trade work, design or model, plan secret | 5% |

| | | |
|--|---|-----|
| | formula or process, or for the use or for the right to use of any industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience | |
| Income from Rendering of Technical Services | The term “technical service” means any kind of expert advice or technological service rendered. | 10% |
| Income from Games of Chance | Every person deriving income from winning at games of chance (for example, lotteries, tom bolas, and other similar activities) shall be subject to this tax | 15% |
| Dividends | Every person deriving income from dividends from a share company or withdrawals of profits from a private limited company shall be subject to this tax | 10% |
| Income from Rental of Property | Every person deriving income from the casual rental of property (including any land, building, or moveable asset) not related to a business activity taxable under Schedule B shall pay tax on the annual gross income. | 15% |
| Interest Income on Deposits | every person deriving income from interest on deposits shall pay tax | 5% |

Schedule E

This schedule contains income items that are exempted from taxation. 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

The main types of **indirect taxes** are VAT, customs duty, **excise** and turn over **taxes**.

1) VAT

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 exceed the threshold.

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 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 do not meet the VAT registration threshold of turnover of ETB 1,000,000 per year.

Turnover tax rates

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.

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.

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%.
- Other taxes like VAT and excise tax are levied on imports at the same rate as domestic transactions.

Sur tax

It is an additional 10% tax that is applicable on imported goods except for fertilizers, petroleum and lubricants, motor vehicles for freight, passengers 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.

Pension contribution

It 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 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 year. The term "private organization" 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%.

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 license 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 refund excess withholding tax, paid over and above the tax payable for the year, to the supplier.

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.