

ETHIOPIA TAX UPDATE

INTRODUCTION

In accordance with article 65(2) of the Federal Income Tax Proclamation No.979/2016, which gives the Council of Ministers the power to exempt any income from income tax due to economic, administrative, and social reasons, the Council has passed a regulation to amend the Federal Income Tax Regulation No. 410/2017.

The purpose of the amendment is to address issues regarding the income tax charged on share premiums.

The amendment regulation has been approved by the Council of Ministers in 2022 and will be effective following its publication on Federal Negarit Gazeta, the gazette where all federal government laws are published.



AMENDMENT ON FEDERAL INCOME TAX REGULATION

When companies seeking to sustain or grow their businesses issue new shares, there arises a difference between the par value and selling price of shares. This difference is called share premium. The Federal Income Tax Regulation No. 410/2017 specifies that a 30% tax be charged on the share premium, which has been applicable since.

This has had an adverse effect particularly on existing companies with going concern who issue new shares to improve their financial state. Foreign investors stray away from them due to the reduced benefit from buying their shares as the foreign direct investment (FDI) made on these shares would effectively result in only 70% of the premium going to the company's financial betterment.

Additionally, the Ethiopian government is working to attract more FDI into the country and has established Ethiopian Investment Holding (EIH) to meet this end. EIH is a strategic development wealth fund that aims to maximize the value of state-owned assets. The income tax on share premiums has been proved to hinder this goal as well.

Because of the growing need of addressing this issue and achieving the government's goal in attracting FDI, the Council of Ministers has exercised its power to lift the income tax levied on the share premium paid by non-resident investors in existing companies in Ethiopia considering its economic, governance and social implications. As such, a new proclamation amending the previous Federal Income Tax Regulation No. 410/2017 has been approved by the Council of Ministers.

The Amendment

The amended Regulation includes additional item under Article 54 of Regulation No.410/2017 that deals with exempt income. The inclusion states that the premium income obtained by going concern from the issuance of new shares to non-residents of Ethiopia shall be exempt from income tax.