

Ethiopia Amendments on Income Tax Regulations No. 410/2017

Allowable deductions under capital lease agreement

The previous provision stated that lease payment for a business asset under the lease agreement is tax deductible business expenditure from the gross business income.

The amendment has now segregated capital lease agreements as Financial Lease, Operating Lease, and Hire Purchase Agreement.

The treatment of lease payments for Financial Lease and Operating lease are still tax-deductible business expenditures from the gross business income as per the amendment, whereas the lessee will have depreciation allowance in the case of Hire Purchase agreement.

Depreciation calculation on partially used buildings

Article 40 of the Regulation about depreciation calculation on building partially used as a business asset is replaced by “depreciation on a fully completed building used partially as a business asset” as this was confusing that a non-completed building used partially can also be considered for a depreciation of the partially used businesses.

Loss carry-forward

The amendment added that the loss carry forward cannot be carried forward beyond the prescribed period by the Income Tax Proclamation, which is a maximum of five years.

Additional statement on the amendment is that the Ministry of Revenue may allow a third loss carried forward for manufacturing sectors.

Foreign currency loss

Under the income tax regulation, the loss that was incurred due to foreign exchange rate fluctuation was to be used by the taxpayer as it shall be offset against foreign currency gain derived by the taxpayer during the year. The fact that the unused amount of the foreign currency loss can be carried forward indefinitely to be offset against foreign currency gain created a problem to the companies who do not hold foreign currencies and incurred a foreign currency loss from foreign loan taken for capital goods purchase. The amendment permits the foreign currency loss resulting from the purchase of the capital goods to be included as part of the cost of capital goods. In addition, the amendment allowed the foreign currency loss because of foreign currency transactions // other than purchase of capital goods to be considered as the company’s tax-deductible expenses in the financial period in which the loss is incurred. The amendment also requires that all those foreign currency losses are to be supported by the appropriate documents.

Inflation adjustment applications

The income tax proclamation 979/2016 states that at the time of transfer; shares, bonds, and immovable assets are to be subjected to capital gain tax and the income tax regulation allowed an inflation adjustment in calculating the taxable amount of immovable assets only. Now the amendment has permitted inflation adjustments for shares and bonds too.

Though the amendment is to become in force after it will be published on Negarit Gazeta, those cases of taxpayers related with these amendments, for which the payments of have not been settled yet, shall be governed with the amendment.