TAX AND DOING BUSINESS IN ETHIOPIA

A BDO OVERVIEW

October 2021

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Glossary of Terms

Acronym	
CRO	Commercial Representative Office
ETB	Ethiopian Birr
IFRS	International Financial Reporting Standards
NBE	National Bank of Ethiopia
PLC	Private Limited Company
TIN	Taxpayer Identification Number
VAT	Value Added Tax
WHT	Withholding Tax
ECC	Ethiopian Customs Commission
EIC	Ethiopian Investment Commission
INVEA	Ethiopian Immigration & Vital Events Agency

Ethiopia At a Glance

Overview

The Federal Democratic Republic of Ethiopia is a landlocked country located in the horn of Africa. This strategic location gives it close access to the Middle East and European markets. Its neighbouring countries are Eritrea, Djibouti, Somalia, Sudan, South Sudan, and Kenya. Ethiopia has been using Djibouti's main port for its international trade for over two decades. Access to the port is expected to be easier with the newly built Addis- Djibouti electric powered railway. Furthermore, following the peace agreement recently signed between the two countries, Ethiopia is set to resume accessing the Eritrean ports of Assab and Massawa.

With an area of 1,104,300 km^2 and population of 114.96 million, Ethiopia ranks as the second most populous country in Africa following Nigeria. In 2020, 39.9% of the population was found to be under the age of 15 and over 56% were between the ages of 15 and 64 (World Bank, 2020). The country's youthful population is a great asset and resource for the growth of the country.

There are 10 regions in Ethiopia, namely Afar, Amhara, Benishangul-Gumuz, Gambela, Harari, Oromia, Sidama, Somalia, Southern Nations, Nationalities and Peoples (SNNP), and Tigray. Addis Ababa and Dire-Dawa are the two chartered cities. There are over 80 languages spoken in the country, Amharic being the official language of the state. English is also widely used in schools and business.

Ethiopia has an elevated central plateau, ranging from 2,000 to 3,000 meters above sea level. The climate is temperate in the highlands, ranging from 20° to 30°C, and hot in the lowlands, reaching 45°C. The months June, July, and August exhibit abundant rain, while the rest of the months are generally sunny.

Addis Ababa is the capital city of Ethiopia, as well as the country's commercial and cultural hub. It serves as the seat for the African Union and United Nations Economic Commission for Africa. The city is also the main aviation hub for Africa and home of Ethiopian Airlines, which has attained repeated recognition for its success in effectively navigating the challenges introduced by COVID 19 to the aviation services.

African Union, Addis Ababa

Key Highlights

Ethiopia has been facing great challenge in the previous years, the main once being the outbreak of COVID-19, devastating locust invasion, political instability, increasing unemployment, and high inflation. As the world tries to grapple with the emerging crisis, so is Ethiopia.

Among the ways it is doing so, the Country Partnership Framework (CPF) is a major highlight. The CPF is a result-based strategy, firmly anchored in the government's Second Growth and Transformation Plan (GTPII) (World Bank, 2018). Aiming to assist the country's sustainable growth, it sets out to leverage national programs to provide quality services in all areas through institutional accountability, improved governance, and transparency. Promoting productivity, inclusivity, basic education, access to markets and job opportunities for the youth are also some of the key areas CPF focuses on.

Upon the completion of its second phase, the year 2021 saw the second filling of the Grand Ethiopian Renaissance Dam (GERD) – the largest hydroelectric power dam in Africa being built on the Nile River. The Blue Nile River originates from Lake Tana and supplies the majority of the water in the Nile. The mega dam, which is expected to generate 5,000 megawatts of electricity completed its second filling, as heavy rains showered its area. The dam's construction is expected to generate much needed electricity, create up to 12,000 jobs locally, facilitate irrigation of around 500,000 ha of new agricultural lands, significantly reduce flooding in Ethiopia and neighbouring Sudan etc. Hence, GERD is an integral part of Ethiopia's economic development.

Source: Ethiopian Embassy

Macro-Economic Indicators

Ethiopia's Gross Domestic Product (GDP) was estimated at USD 67.3 billion in 2019/2020. Despite the country being one of the low-income countries, with a per capita income of USD 1080 (2019/2020) (PDC, 2021). it is the fastest growing economy in the region. Ethiopia's economy experienced a strong, broad-based economic growth averaging 9.4% a year from 2010/11 to 2019/20 (World Bank, 2021), compared to a regional average of 5.4%.

However, the growth slowed down to 6.1% in the year 2019/20 following the outbreak of COVID-19 and even further in the year after. While the share of the agriculture and services sector in the country's GDP declined, the industry sector's share of GDP increased from 22.7% in 2008 EC to 28% in 2012 EC.

The table below shows the trend in the percentage growth and projections of key macro-economic indicators:

Description	2019-20	2020-21
I. GDP Growth	6.1%	4.1%
Investment/GDP	30.8%	30.0%
Nominal GDP, Birr	3,374.3	4,141.9
Nominal GDP, USD bn	106.8	106.4
II. Bank deposits, Birr bn	1,043.0	1,303.7
Bank credit, Birr bn	1,068.8	1,325.2
Deposit growth, %	16.0%	25.0%
Credit growth, %	21.0%	24.0%
III. Fiscal balance, % GDP	-2.6%	-3.0%
Public debt, % GDP	51.6%	52.1%
IV. Exports, USD bn	3.0	3.4
Imports, USD bn	(13.9)	(13.2)

Description	2019-20	2020-21
Service exports, USD bn	4.7	4.9
Remittances, USD bn	4.7	5.1
Grants, USD bn	1.5	1.1
Current account, % GDP	-3.7%	-2.9%
FDI, USD bn	2.4	3.4
Net Loans, USD bn	1.7	0.6
FX reserves, USD bn	3.2	4.3

Source: NPC, NBE, IMF, and Cepheus projections

Ethiopia's inflation has drastically increased over the past months, eroding the purchasing power of the currency, and increasing the opportunity cost of holding money. Food inflation has been the biggest contributor to the overall inflation, dramatically increasing over the past months. The double-digit inflation in the country has caused a major strain on the livelihood of the people. The exchange rate has also seen a drastic increase over the past year, approximately doubling in value. These economic conditions will likely remain critical amid the persisting internal conflict.

The following table indicates the inflation and exchange rates for select months in the year 2020 and 2021:

Month	Inflation	Exchange rate
June 2020	21.5%	34.9
September 2020	18.7%	36.7
December 2020	18.2%	39.2
March 2021	16.5%	40.4
June 2021	13.4%	41.9
December 2021	10.0%	44.6

Source: CSA, CBE, and Cepheus projections

The consistent economic growth of Ethiopia has resulted in progress towards the achievement of the Millennium Development Goals. The share of the population living below the national poverty line declined to 19% in 2019/20 from 22% in 2018/19 (World Bank, 2021).

Moreover, the country's Foreign Direct Investment (FDI) inflow has grown considerably. The conductive investment climate, large market size, and the government's continued commitment towards FDI attraction are the contributors to the increase. Ethiopia is now the largest recipient of FDI in East Africa and the fourth largest in the continent of Africa (UNCTAD, 2019).

Business Opportunities/ Incentives

Business Opportunities

Business opportunities exist in multiple sectors of the country. Agriculture is known to be the backbone of Ethiopia's economy. The country's large land size, huge proportion of arable land, diverse topography and agro-climatic zones, fertile soils and water availability for irrigation makes the country ideal for agricultural investment. Ethiopia is Africa's largest producer and exporter of Arabica coffee (5th in the world) and is known for its world renown speciality coffee varieties, as the birthplace of coffee. The country is also the second largest flower exporter in Africa (4th in the world), and lead in honey and beeswax production in Africa.

In the manufacturing sector, Ethiopia offers remarkably competitive advantage to investors. Abundance of high-quality industrial raw materials, large pool of trainable workforce, cheap energy, and government facilitation of efficiency enhancing investment solutions are some of the advantages in the sector. Priority is given to investments in the areas of textile and apparel, leather and leather products, agro-processing, pharmaceuticals, chemical products, paper and paper products, and construction materials.

Processed leather

Energy is another sector the country encourages for private sector investment. According to the Ethiopian Investment Commission (EIC), Ethiopia has a tremendous potential for generating renewable energy. The country has hydropower generating capacity of 45,999 MW, wind power of 10,000 MW, and geothermal energy capacity of 5,000 MW.

Tourism is Ethiopia continues to have a huge potential for growth. Ethiopia has multiple cultural and historical heritage sites, of which nine of them are included in UNESCO list of world heritages. The government prioritizes areas of investment in tourism, tour operation, hotels and lodges, restaurants, construction and etc.

Incentives

Ethiopian products have duty-free and quota-free access to a wide market, including major markets such as the USA and the EU, large domestic market of over 100 million consumers, the Common Market for Eastern and Southern Africa (COMESA), which includes 19 member countries and over 400 million people, United States initiatives such as the African Growth and Opportunities Act (AGOA) and Generalized System of Preference (GSP), and Everything But Arms (EBA) of the European Union (EIC, 2021).

According to the EIC, Ethiopia offers a comprehensive set of incentives in the sectors it prioritizes. The incentives include:

- **Sectoral incentives**
  - Income tax exemption of up to 6 years for manufacturing and agro-processing sectors, up to 9 years for agriculture sector, 4 to 5 years for ICT and electric generation, transmission and distribution
- **Export – level incentives**
  - If investment is within industrial parks in Addis Ababa or special zones of Oromia surrounding the capital and exports 80% of its products, or supplies to producer exporter, there is an additional 2-year income tax exemption
  - Additional 4-year income tax exemption for industrial park enterprises with at least 80% export or input supply to exporters
  - Additional 2 years exemption for 60% exporters or input suppliers to exporters within or outside of industrial parks
- **Regional incentives**
  - If investment is located in the regions of Gambela, Benishangul-Gumuz, Afar (except within 15km right and left of Awash River), Oromia zones of Guji or Borena, SNNP Zones of South Omo, Segen area, Bench-Maji, Sheka, Dawro, Kaffa, and Basketo, there is an additional 30% income tax reduction for 3 consecutive years
- **Industrial Park incentives**
  - Income tax exemption of 10 to 15 years for development of industrial parks
  - Up to 5 years income tax exemption for expatriate employees of industrial enterprises
- **Other incentives**
  - Import duty exemption for capital goods, construction materials, and spare parts whose value is no greater than 15% of the imported capital goods' total value

Textile factory workers

Doing business in Ethiopia

Overview

Starting a Company

Ethiopia's parliament, the House of People's Representatives, has unanimously voted to approve the new Commercial Code of Ethiopia this year. The new code revises the Commercial Code of 1960, which had been in place for over 60 years. Among the many amendments the Commercial Code has made, one was regarding the definition of a trader. The 1960 code defines a trader as a person engaged in only the specific activities listed under the code. The new code has broadened the list of areas considered trade and includes the consideration of professionals doing an activity for a gain as traders, even if the activity is not listed in the code.

Furthermore, the code clarifies a business as mainly consisting of a goodwill. A goodwill is the value which arises from relations between a trader and third parties who may require goods and services, through the creation and operation of a business. Other elements a business may include are incorporeal elements, corporeal elements, assets, and liabilities.

Another major change the Commercial Code has made deals with the form and number of Business Organizations recognized in the country. While the former code recognizes six business organizations (three types of Partnerships, two types of companies and joint venture), the new code recognizes seven business organizations. The revised code has introduced a Limited Liability Partnership and One Person company to the list and removed Ordinary Partnership.

The following is the list of the seven business organizations recognized by the 2021 Commercial Code of Ethiopia:

1. General Partnership
2. Limited Partnership
3. Limited Liability Partnership
4. Joint Venture
5. Share Company
6. Private Limited Company
7. One Person Private Limited Company

General Partnership

A General Partnership is a business organization whereby each partner is jointly and severally liable with the partnership for the obligations of the partnership. Only the names of the partners can be included in the name of the partnership followed by the words "General Partnership." Each partner has the right to participate in meetings, share the profits, inquire about the state of the business, and obtain his share in the assets where the partnership has been dissolved. The partners also have obligations such as making their contributions in due time and being liable for the debts of the partnership.

Formation of General Partnership

A memorandum of association is an instrument drawn up to establish a business organization representing the charter of the company. It is a legal document prepared during the formation and registration process of a business organization.

Content of the memorandum of associations for General Partnership:
1) the firm-name;
2) the head office and branches, if any;
3) the name, address, and nationality of each partner;

Content of the memorandum of associations for General Partnership:
4) the amount of monetary contribution of each partner, in the case of in-kind contributions,
5) their value and method of valuation thereto;
6) where there is a partner who contributes skill, the services required from him;
7) the share of each partner in the profits and losses, and mode of allocation of profits;
8) the manager and agent, if any, of the partnership, and powers and duties of the manager;
9) the period for which the partnership has been established;
10) other particulars determined by the law or agreement of the partners.

Limited Partnership

A Limited Partnership is a partnership whereby partners have different types of liabilities. The partnership comprises general partners who are in full liable jointly and severally with the partnership for the obligation of the partnership, and limited partners who are liable only to the extent of their pledged contribution. The firm name shall only consist of the names of the general partners followed by the words "Limited Partnership." In the case where a Limited Partner allows his name to be included as part of the firm name, he shall be liable jointly and severally with the partnership, as the general partners.

The memorandum of association of the partnership shall include the names of general partners and limited partners, in addition to the general particulars listed above in the memorandum of association of General Partnership.

Limited Liability Partnership

According to the 2021 Commercial Code, a Limited Liability Partnership (LLP) is a business organization consisting of two or more persons engaged in rendering professional services and services complementary thereto. While the professional service refers to service in line with a professional license granted by the appropriate organ, complementary services are services that are related and necessary to provide the professional service. In this regard, the partners must be professionals licensed by an appropriate organ and their liability is limited to the extent of their contributions in the partnership.

An LLP has a legal personality distinct from its partners, and the death, bankruptcy or departure of a partner has no effect on the existence, right or obligation of the business organization. The partnership shall have a proper and agreed up on name, followed by the words "Limited Partnership."

In addition to the general particulars of the memorandum of association of a General Partnership, the memorandum of association of an LLP shall include the type of profession of each partner, together with the professional service provided and license number.

Joint Venture

A joint venture is a business organization without legal personality established by two or more persons through a memorandum of association. Hence, registration formalities required of other types of business organizations are not applicable to a joint venture. If a joint venture is made to be known by third parties, it is to be regarded as a general partnership to the extent that the parties are concerned. The provisions relating to general partnership generally apply to a joint venture but are to be altered when necessary.

Share Company

A share company is a business organization whose capital is fixed in advance and divided up into shares and whose liabilities are met only by the assets of the company. The minimum capital of a share company is ETB 50,000 and the amount of the par value of each share may not be less than ETB 10. A minimum of five shareholders is required to form a share company. In addition, a share company shall be given a proper and agreed up on name followed by the words "Share Company."

A promoter is a person engaged in the initiation of the formation of the share company by the issuance of shares to the public, invitation of persons to join the company or acting with the pursuit of establishing the company. In the case where a promoter fails to establish the company, she/he is liable to the damages incurred. A promoter is jointly and severally liable to shareholders, persons with whom they made commitments and third parties. On the other hands, persons who establish a share company amongst themselves without offering shares to the public are regarded as founders.

Formation of a Share Company

As a general requirement, a share company may not be formed until the capital has been fully subscribed and at least a quarter of the par value of shares sold in cash has been paid up and deposited in a block bank account under the company. The sums deposited in the account may not be withdrawn until the company is registered in the commercial register. The company shall obtain legal personality upon registration. If the company is not registered within one year from the bank deposit date, subscribers who no longer seek to continue as members may request their returns.

Content of the memorandum of association for a share company:	
1)	the name of the company;
2)	the head office, and the branches, if any;
3)	the names, nationality, and address of the shareholders, the number of shares which they have subscribed and paid-up;
4)	the business purpose and sector of the company;
5)	the amount of capital subscribed and paid-up;
6)	the par value, number, form, and classes of shares;
7)	the name of shareholder who made contributions in kind, the price at which they are accepted, and method of valuation, their object, and the number of shares allocated to him by way of exchange;
8)	the manner of distributing profits;
9)	the amount of special benefit allocated to the promoters and manner of distribution of such benefit;
10)	the number of directors and managers of the company and their powers;
11)	the number of supervising board members, if any, of the company and their powers;
12)	the number of auditors;
13)	the period for which the company is to be established;
14)	the manner and time in which the company will publish its performance report;
15)	the management of the company; matters related to the relations between the company and its shareholders, and the relations between shareholders;
16)	Other matters determined to be included by the law or the agreement of shareholders.

A share company may or may not be open to public subscription. In the case that it is, the following shall be prepared:

a) Prospectus of the company

A prospectus of the company is a document signed by all promoters. It shall show information such as the text of the memorandum of association, the summary of the expert valuation report (if any), the price at which shares are to be issued, the amount to be paid up on the shares until the general meeting of subscriber and more.

b) Application for shares

Application of shares are made in the form provided and deposited in the place of application. In it, the applicant for shares shall declare that he has read the prospectus, the draft memorandum of association, and expert valuation report (if any) by stating contact information and the number of shares he seeks to purchase.

c) Auditing formation procedure of the company

Auding formation procedure of the company refers to process of verification by external auditors. A company may not be registered until audit verification of compliance with the requirements have been met.

d) Meeting of subscribers

Once the audit of the company formation has been completed, the promoters shall call a meeting for the subscribers.

e) Powers and duties of meeting of subscribers

During the meeting of subscribers, approval of the final text of the memorandum of association, the report by auditors, contributions in kind, if any, the shares in the profits, verification of company formation requirements, and appointments of organs of the company shall take place.

f) Special rules regarding resolutions of subscribers' meetings

Resolutions of subscribers' meetings shall be drawn up and signed by all the promoters.

Private Limited Company

A Private Limited Company (PLC) is a business organization whose capital is fully paid-up in advance and divided up into shares. The members of a PLC are not liable for the debts and liabilities of the company as long as they have paid up their contributions. A PLC may not have less than two or more than fifty members. The minimum capital of a PLC is ETB 15,000 and the par value of each share must be equal and not less than ETB 10.

Shares of the company may not be made open to public subscription and the company shall not issue transferable securities. The company may issue only shares registered in the name of the members.

The firm name of a PLC should indicate the purpose of the business and be followed by the words "Private Limited Company."

Formation of a Private Limited Company

A PLC is officially instituted when its capital is paid-up fully and the memorandum of association is entered in the commercial register. Furthermore, the par value of shares sold in cash shall be deposited in a bank account opened under the company.

Content of the memorandum of association for PLC:
1) the names, nationality and addresses of the member or members;
2) the company name, head office, and branches if any;
3) the business purposes of the company;

Content of the memorandum of association for PLC:
4) the amount of the capital and a statement that such capital is fully paid;
5) the amount of capital paid-up by each member;
6) the value of contributions in kind, if any;
7) the number of shares held by each member;
8) the procedure for distribution of profits;
9) the number of directors and their powers, if any;
10) the number of managers and their powers;
11) the number of auditors, if any;
12) the period for which the company is established;
13) the period within which the company will publish its performance report;
14) matters relating to the relationship between management of the company, the company and its members or members;
15) other particulars as may be provided by the law or decision of members

One Person Private Limited Company

A One Person Private Limited Company is type of business organization incorporated by the unilateral declaration of a single person. The company has legal personality separate and distinct from that of the member and the member shall not be personally liable for the debts incurred by the company as long as he has fully made his contributions. The minimum capital required to establish a One Person PLC is ETB 15,000.

A Sole Proprietorship, previously recognized as a business organization, is no longer recognized as one under the new Commercial Code. An existing Sole Proprietorship may be converted into a One Person PLC, whereby the sole proprietor shall remain personally liable for all debts incurred prior to the conversion.

Formation of a One Person Private Limited Company

A unilateral declaration incorporating a One Person PLC shall be made before the authentication of documents to be entered into the commercial register.

Content of the Unilateral Declaration for One Person PLC:
1) that the company has only one member;
2) The name, nationality, and address of the member;
3) The name of the nominee of the company who will act on behalf of the member in the event of death, absence or judicial interdiction of the member;
4) the acceptance of the nominee his nomination;
5) the company name, head office, and branches, if any;
6) the business purpose of the company;
7) the amount of the capital of the company and a statement that the capital is fully paid;
8) the valuation of contributions in kind, if any;
9) the name and powers of the manager;

Content of the Unilateral Declaration for One Person PLC:	
10)	the name of the auditor, if any;
11)	the method and time within which performance report of the company is released;
12)	other particulars determined to be included by the law or the member.

Commercial Registration

According to the new Commercial Code of Ethiopia, the Ministry of Trade and Industry shall establish and administer a Federal Commercial Register to undertake the registration of traders and business organizations. Along with it, there will be a central commercial registration database which will be open and accessible to the public. Any Ethiopian or foreign person who is considered a trader, any business organization, any foreign public undertaking commercial activities and commercial representatives or agents of foreign states are required to be registered.

A trader is required to get registered before she/he begins to carry on the trade. A trader or business organization shall be registered only in one local register with one registration number, even if she/he carries out the trade in different regions. In the case where a business is sold or let out for hire, the purchaser or lessee cannot be registered so long as the former trader has not been canceled from the register.

The application for registration shall be made at the registry within whose jurisdiction the person seeking registration has her/his head office. The head office of the trade is to be determined by the trader. Unless otherwise prescribed by law where the head office of a trader or a business organization is abroad, the registration shall be carried out by the registry within whose jurisdiction the principal branch or agency is located. Online commercial registration has also been made available to the public.

Digitalization of Services for Businesses and Investments

According to the new addition of article 4(16) from the Commercial Registration and Licensing (Amendment) Proclamation No. 1150/2019, systems are to be put in place to make registration and licensing services by means of information and communication technology available. Thus, service recipients will not need to appear physically at the registering offices. Over the past few years, numerous agencies have been digitalizing their services to give customers an alternative to the regular services offered physically. Some of the agencies that offer online services are: The Ministry of Trade and Industry, the Ethiopian Customs Commission (ECC), the Ethiopian Investment Commission (EIC), and the Ethiopian Immigration Nationality and Vital Events Agency (INVEA).

Ministry of Trade and Industry

The Online Trade Registration and Licensing System (OTRLS) is an online service offered by the Ministry of Trade and Industry to make its services easily accessible to its customers. The site can be found at: *etrade.gov.et*. The main services offered on the site deal with commercial registration applications and acquiring trade licenses for business activities customers intend to engage in. Amendment, replacement, and cancellation of commercial registrations and trade licenses are some of the additional services offered on the site.

The commercial register is open to the public. Any person, upon payment of the required fee, can have a look at the information they entered in the register, or ask the appropriate registering office to deliver a copy of any extract from the register. The accuracy of statements and evidence supporting the statement is checked by the official in charge of the register. In the case where further documents or information is required, the official will contact the applicant.

The Ministry established and currently administers a central commercial registration database with national application. This database is open and accessible to the public through the Ministry's website. Hence, one can use the name clearance section to check if a proposed company name is already taken and find existing businesses using their TIN or Business License Number. The services provided on the website can be accessed by customers from anywhere in the country and abroad. Not only does the online portal eliminate the need to visit the Ministry premises and respective regional bureaus, it also drastically reduces the time required to register a business in Ethiopia.

Ethiopian Customs Commission (ECC)

As part of the government's goal to advance the trade and investment sector of the country, the ECC developed an electronic single window which connects 16 of the major cross-border regulatory agencies. The Ethiopian Electronic Single Window (ESW system) provides a one-stop service system which allows traders to submit all import/export related documents and acquire necessary permits. In this manner, the site consists of a trader portal for trading partners, which enables traders to submit trade documents, view processing procedures and useful statistical information, and pay taxes and fees electronically. The Cross-border Regulatory Agency (CRBA) portal is created for the authorized person in charge to process the verification, inspection and approval of documents received from the trader portals. Finally, the Messaging Gateway links the two portals together by handling their electronic document exchange. The site can be found at: https://esw.et/esw-trd/.

This link also provides customs declaration and tariff information, bank and electronic payment history and link internal and external system data with CBRA. Besides the services, the site also provides a multitude of important information for traders, making it possible to eliminate redundant input of information and collect various confirmation materials from designated authorities. Reducing process costs related with application, process delay and duplication of documents are some of the major pre-existing issues the ESW system has eradicated.

Ethiopian Investment Commission (EIC)

The Ethiopian Investment Commission (EIC) is an autonomous government institution responsible for the country's investment board, which is chaired by the Prime Minister. To improve the services provided to investors and effectively attract FDI, the EIC has recently rebuilt itself, including its online platform. The online site can be reached at: https://investethiopia.gov.et/. Through this platform, EIC can share content across a number of areas related to living and investing in Ethiopia. Customers can access in-depth analyses as to why to invest in Ethiopia, the wide range of investment opportunities available, and the investment process by featuring interactive maps, infographics, and online calculators. Investors can also access up to date information regarding services affected by COVID19, including Logistics and Cargo Services, flight information and latest government measures and support in response to the pandemic.

The main service of the website is performed through the eInvest portal, which allows customer to access commercial registrations, applications for investment permits, renewals and cancelations, incentive support request applications and more. The portal has enabled EIC to respond to the needs of investors virtually in a more effective and rapid manner.

Ethiopian Immigration Nationality and Vital Events Agency (INVEA)

For those seeking to enter the country, the Ethiopian Immigration Nationality and Vital Events Agency (INVEA) continues to provide its online services at: https://www.evisa.gov.et/. These services facilitate the application, follow up and payments of Tourist visas, Business visas, On-arrival visas, and Residence IDs. The Business Visa allows eligible visitors to enter the country for business purposes and includes visa types for all business-related interests. The online service also provides information regarding eligibility, requirements, processing time, duration and validity, extension, and fees for visas.

The modernization of the services listed above has numerous advantages for all parties involved in business and investment. E-Government and e-Business services have been proven to play a major role in improving work processes, increasing transparency and accountability, enhancing information flow, lowering costs of operation, and facilitating the proper allocation of time for all parties involved.

Foreign Investors

Ethiopia passed a new Investment Proclamation No 1180/2020. Among the goals of the proclamation, enhancing the country's economy by promoting investments in productive and enabling sectors, augmenting the role of the private sectors in the country's economic development, creating integrated economy by strengthening inter-sectoral and foreign-domestic investment linkages, and advancing the transfer of knowledge, skills, and technologies, are some of them. The proclamation introduces numerous changes to investment regulations, making Ethiopia much more suitable for Foreign Investment.

I. Areas of Investment

One of the major amendments the new investment proclamation made is the opening of sectors previously reserved for nationals only by changing the listing approach from only including sectors which foreign nationals can engage in to only listing the areas not allowed for foreign investors. Thus, foreign nationals can now engage in all areas of investments except those excluded under the proclamation. The exclusions indicate that a foreign investor cannot invest in sectors reserved for domestic investors and shall only invest jointly with the government and domestic investors in the specific sectors the proclamation identifies.

For investments undertaken jointly with the government, the private investor shall submit a proposal to the Public Enterprises Holding and Administration Agency (or an authority statutorily mandated). Upon approval, necessary procedures shall be followed for the joint investment to proceed. The Investment Regulation No 474/2020 provides the list of areas reserved for joint investment with the government. The list includes:

1. Manufacturing of weapons, ammunition, and explosives used as weapons or to make weapons;
2. Import and export of electrical energy;
3. International air transport services;
4. Bus rapid transit; and
5. Postal services excluding courier services.

Investment areas reserved for joint investment by foreign and domestic investors are:

1. Freight forwarding and shipping agency services;
2. Domestic air transport services;
3. Cross-country public transport service using buses with a seating capacity of more than 45 passengers;
4. Urban mass transport service with large carrying capacity;
5. Advertisement and promotion services;
6. Audio-visual services; motion picture and video recording, production, and distribution; and
7. Accounting and auditing services.

According to the investment proclamation, a foreign investor jointly investing with a domestic investor in areas listed above shall not hold more than 49% of the share capital of the enterprise.

The investment regulation provides a comprehensive list of areas that are exclusively reserved for domestic investors. The list is as follows:

1. Banking, insurance, and microfinance businesses, excluding capital goods finance businesses;
2. Transmission and distribution of electrical energy through integrated national grid system;
3. Primary and middle level health services;
4. Wholesale trade, petroleum, petroleum products, wholesale of own products produced in Ethiopia; excluding wholesale of electronic commerce
5. Retail trade, excluding retail or and electronic commerce provided under appropriate law, of own products produced in Ethiopia;
6. Import trade, excluding liquefied petroleum gas and bitumen;
7. Export trade of raw coffee, khat, oil seeds, pulses, minerals, hides and skins, products of natural forest, chicken, and livestock including pack animals bought on the market;
8. Construction and drilling services below Grade I;
9. Hotel, lodge, resort, motel, guesthouse, and pension services, excluding those that are star-designated;
10. Restaurant, tearoom, coffee shops, bars, nightclubs, and catering services, excluding star-designated national cuisine restaurant services;
11. Travel agency, travel ticket sales and trade auxiliary services;
12. Tour operation
13. Operating lease of equipment, machineries, and vehicles, excluding industry-specific heavy equipment, machineries and specialized vehicles;
14. Transport services, excluding the following areas:
    a. Railway transport;
    b. Cable-car transport;
    c. Cold-chain transport;
    d. Freight transport having a capacity of more than 25 tones; and
    e. Transport services reserved for joint investment with the Government or domestic investors
15. Making indigenous traditional medicines;
16. Producing bakery products and pastries for domestic market;
17. Grinding mills;
18. Barbershop and beauty salon services, smithery, and tailoring except by garment factories;
19. Maintenance and repair services, including aircraft maintenance repair and overhaul (MRO), but excluding repair and maintenance of heavy industry machineries and medical equipment;
20. Aircraft ground handling and other related services;
21. Saw milling, timber manufacturing, and assembling of semi-finished wood products;
22. Media services;
23. Customs clearance services;
24. Brick and block manufacturing;
25. Quarrying;
26. Lottery and sports betting;
27. Laundry services, excluding those provided on industrial scale;
28. Translation and secretarial services;
29. Security services;
30. Brokerage services;
31. Attorney and legal consultancy services; and
32. Private employment agency services, excluding such services for the employment of seafarers and other similar professionals that require high expertise and international experience and network.

II. Minimum capital requirements for foreign investors

a) Minimum capital of USD 200,000 for a single investment project;
b) USD 150,000 if jointly investing with domestic investor;
c) In architectural or engineering works or related technical consultancy services, technical testing and analysis or in publishing works

i. USD 100,000 if the investment is made by a foreigner;
ii. USD 50,000 if jointly investing with domestic investor;

d) The Minimum capital requirement shall not apply to:-
   i. Foreign investor re-investing profits or dividends generated from existing enterprise in any investment area open for foreign investors;
   ii. Persons elected as members of board of directors following change of PLC to S;
   iii. A foreign investor buying entirety or share of existing enterprise owned by a foreigner;

It is important to note that investment capital shall be registered by appropriate investment organ within 1 year and obtain a certificate.

III. Investment incentives

Investment areas eligible for investment incentives as well as the type and amount of investment incentives shall be determined by a Regulation to be enacted by the Council of Ministers.

IV. Remittance of Funds

a) Any foreign investor shall have the right, in respect of his investment, to remit the following payments and earnings out of Ethiopia in convertible foreign currency at the prevailing exchange rate on the date of transfer:

i. Profits and dividends accruing from his investment;
ii. Principal and interest payments on external loans;
iii. Payment related to technology transfer agreement, registered;
iv. Payments related to collaboration agreement, registered;
v. Proceeds from the transfer of shares or conferral of partial or total ownership of an enterprise to another investor;
vi. Proceeds from the sale, capital reduction or liquidation of an enterprise; and
vii. Compensation paid to an investor.

b) A domestic investor investing jointly with a foreign investor shall not be allowed to remit funds earned from the investment out of Ethiopia.

c) Expats employed for investments - whose permanent residence is outside of Ethiopia - may remit, salaries accruing from employment in convertible foreign currency.

V. External Loan and Foreign Currency Account

a) Any investor may acquire external loan for his investment as per the applicable Directive of the National Bank of Ethiopia.

b) Any investor may operate a foreign currency account in Banks in Ethiopia for the purpose of its investment as per the applicable Directive of the National Bank of Ethiopia.

VI. Employment of Expats and Work Permits

a) Any investor may employ duly qualified foreigners necessary for the operation of his investment in positions of higher management, supervision, trainers, and other technical professions. However, foreigners may be employed only when it can be ascertained that Ethiopians possessing similar qualification or experience required by the sector are not available.

b) Notwithstanding(a), an investor
- Free to employ foreigners for top management positions, including chief executive officer, chief operation officer and chief finance officer as necessary.
- Work permit of top management foreign workers renewed without conditions.

c) A work permit may be issued to a cohabiting spouse of any investor and a foreign worker employed.
d) An investor who employs foreigners responsible for replacing, within a limited period, such foreign workers by Ethiopians by arranging and providing the necessary training.
e) A work permit for employment in a certain position:
   - may be issued for up to three years,
   - Renewed every year subject to verification, the investor has ascertained the non-availability of Ethiopian workers with similar qualification, and of the concrete measures taken by the investor to train Ethiopian replacements.

VII. Visa Services

a) The Commission or a delegated investment organ facilitate the processing of visa applications of:
- Foreigners coming into Ethiopia for investment purposes and
- The families (spouses, children, and parents) of investors.

b) Visa in a country that is not his home country, visa may be issued to him in that third country.
c) An owner or shareholder of an investment may be issued a five-year multiple visa based on confirmation by the Commission.
d) The General Manager, Board Member and top Management of an Enterprise, and the top management of the parent or holding company of the enterprise may be issued a three-year multiple entry visa based on confirmation by the Commission.
e) No single stay of any foreigner entering Ethiopia using multiple entry visa may exceed ninety (90) days.

Foreign nationals working

Ethiopian Tax System

Overview

This section presents an overview of the relevant tax legislation and regulations. It will include the following:

I. **Administration related to compliance:** Application of tax, and bookkeeping
II. **Corporate Income tax**: Overview of corporate income tax regime in Ethiopia, including a description of how to determine domestic taxable income, non-deductible expenses and losses carried forward
III. **Employment Income tax**
IV. **Pension Contribution**
V. **Value Added Tax (VAT)**
VI. **Customs duty and taxes on import**
VII. **Stamp Duty Tax**

I. Administration related to compliance

Application of Tax

Ethiopian income tax law applies to both residents of Ethiopia with respect to their worldwide income and non-residents with respect to their Ethiopian source income. Resident refers to a resident individual, a resident body, the Government of the Federal Democratic Republic of Ethiopia, and any Regional State or City Government in Ethiopia. A non-resident is any person who is not a resident of Ethiopia. A resident individual:

a. Has a domicile in Ethiopia
b. Is a citizen of Ethiopia who is a consular, diplomatic, or similar official posted abroad
c. Is present in Ethiopia, continuously or intermittently, for more than 183 days in a one-year period

Whereas a resident body (company) is:

a. Is incorporated or formed in Ethiopia or
b. Has its place of effective management in Ethiopia

A resident individual for the current tax year but who was not a resident in the preceding tax year shall be treated as a resident individual in the current tax year only for the period starting on the day the individual was first present in Ethiopia. A resident who will not be resident for the following tax year shall be treated as a resident individual in the current year only until the period ending on the last day on which the individual was present in Ethiopia.

Ethiopian source income for a non-resident includes:

a. Business conducted through a permanent establishment in Ethiopia
b. Disposal of goods by the non-resident which are similar to those disposed via permanent establishment in Ethiopia
c. Any other business activity conducted by the non-resident are similar to those conducted via the permanent establishment in Ethiopia

Employment income derived by an employee would be considered Ethiopian source income if;

a. It is derived in respect of employment exercised in Ethiopia, wherever paid or
b. It is paid to the employee by, or on behalf of, the Government of Ethiopia wherever the employment is exercised

Business income derived by a resident of Ethiopia shall be Ethiopian source income unless the business is conducted through a permanent establishment outside of Ethiopia. Despite the previous statements, income derived shall be Ethiopian source if;

a. It is a dividend paid to the person by a resident body
b. Rental income from the lease of
    i. Immovable asset located in Ethiopia
    ii. Movable asset located in Ethiopia subject to tax under Article 58 of this proclamation
c. A gain arising from the disposal of the following
    i. Immovable asset located in Ethiopia
    ii. A membership interest in a body if more than 50% of the value of the interest is derived directly or indirectly through one or more interposed bodies, from immovable asset located in Ethiopia
    iii. Shares in, or bonds issued by a resident company

Permanent Establishment

A permanent establishment is a fixed place of business through which the business is wholly or partially conducted. The following are treated as a permanent establishment

a. A place of management, branch, office, factory, warehouse, and workshop but excluding a representative office
b. A mine site, oil, or gas well, quarry or other place of exploration for, or extraction of natural resources
c. The furnishing of services including consultancy provided continuously or a connected project for a period or periods aggregating more than 183 days in any one-year period.
d. A building site, construction, assembly, installation, or supervisory activities connected to such sites when the activities continue for more than 183 days
e. When a person, other than an agent of independent status acting in the ordinary course of business, acts on behalf of another person (principal), the first person shall be a permanent establishment of the principal if the person;
    i. Regularly negotiates contracts on behalf of the principal or
    ii. Maintains a stock of goods from which the person regularly delivers goods on behalf of the principal

Bookkeeping

As per the Ethiopian Income tax proclamation 979/2016, the following recording and bookkeeping procedures are to be applied by a Company.

The Company, being a body, is required to keep the following books and records:

- A record of the business assets and liabilities, including a register of fixed assets showing the date of acquisition, the cost of acquisition, any costs of improvement in relation to the asset, and the current net book value of the asset;
- Record of all daily income and expenses related to the business activity and the matter to which they relate;
- Record of all purchases and sales of goods and services related to the business activity showing:
    i. The particular goods and services sold;
    ii. The name of the buyers and sellers or providers in such a manner that they can be identified by the tax authorities;
    iii. And using pre numbered invoices containing the vendor's tax identification number.
- A record of trading stock on hand at the end of the taxpayer's tax year, including the type, quantity, and cost of the stock, and the method of valuation used;
- Yearly corporate income tax declaration and settlement which should be reported and paid within 4 (four) months after the financial year end of the company.

- The accounting period is per the company's policy. It should be clearly stated on Article of Association and memorandum as the accounting period of the company. If it is different from July 7 Ethiopian closing period, it should be communicated to Ministry of revenue.

- The Company should record its transactions using International Financial Reporting Standards, as currently required by regulations in Ethiopia.

The following are the primary financial documents that should be printed & maintained by the Company after registration but before it starts generating income:

a. **Withholding Tax Invoices** - a pre-numbered document used for collection of withholding taxes from purchases of goods or services above Birr 10,000.00 (ten thousand) and exceeding Birr 3,000.00 (three thousand) respectively.
b. **Cash Receipts Vouchers** - a pre-numbered document used for collection of money, which is not income by its nature.
c. **Check Payment Vouchers** - a pre-numbered document used for recording, authorization and approval of payments made by bank checks.
d. **Petty Cash Payment Vouchers** - a pre-numbered document used for recording, authorization, and approval of payments from petty cash fund.
e. **Purchase Voucher** – a pre-numbered document used for payment of purchase of services from informal suppliers with no valid tax invoices.

The following documents/ items are to be procured once the company started production and selling:

f. **Value Added Tax Invoice (Cash/ credit Sales Invoice)** - a pre-numbered document used for collection of advance payments & income.
g. **Statutory sales register machine**: In addition to the printed Tax Invoices, companies with business license are required to procure statutory sales register machines from vendors approved by the Tax Authority. Companies shall use the printed invoices only when the statutory sales register machines are not operational, after notifying these instances to the Tax Authority.

Accordingly, the Company should get prior approval from the Tax Authority before printing the vouchers indicated above from (a) to (f), except for check payment vouchers and petty cash payment vouchers, for which prior approval of the Tax Authority is not required.

International Financial Reporting Standards (IFRS)

The Accounting and Audit Board of Ethiopia ("AABE") mandated the adoption of IFRS standards in replacing the previous accounting standards (GAAP) in 2016 E.C. Though some companies are still transitioning to IFRS, full IFRS compliance was made applicable to those companies who met two of the following three conditions:

- Turnover 50 million
- Staff 100
- Asset/ Liability: 100 million

Although some companies have already started the implementation of the standard according to the above criteria, currently, the revised IFRS implementations schedule according to ABBE recent road map is concerned with those who haven't yet started implementations of the standards. The following road map is to be applicable to those companies who haven't started implementations of IFRS. (Others who have started implementing IFRS will not be required to follow this implementation road map.)

1. From 2013-2015
   1.1. Significant Public interest entities which apply full IFRS

1.2. Other Public interest entities who apply full IFRS

Entities who can fulfil two of the four criterial below will apply full IFRS

Turnover >= 300 million
Total Asset >= 200 million
Total number of employees >= 200
Total liabilities >= 200 million

2. End of 2016 SME's which apply IFRS for SME's

Entitles fulfilling two of the four criteria below will apply IFRS for SME's

Turnover >= 20 million – 300 million
Total Asset >=20 million – 200 million
Total # of employees >= 20 - 200
Total liabilities >= 20 million – 200 million

3. End of 2016 charities and societies which apply accrual IPSAS'

Those reporting entities that have started the implementation process are encouraged to finalize as soon as possible.

Companies that aspire to be listed on the upcoming stock exchange should start preparing their financial statements based on Full IFRS.

These companies must present financial statements prepared in the IFRS format to the tax authorities. Companies may keep two sets of accounting books to track for differences that exist between IFRS accounting and tax reporting standards.

II. Corporate Income tax

The Company will be subject to 30% business profit tax as per the income tax proclamation 979/2016. A company's taxable net income for a tax year is calculated as the company's total income for the year net of deductions. Taxable income is determined in accordance with IFRS adjusted by Ethiopian tax laws.

If a company incurs costs before it has received a business license, it must classify its preoperational costs as research and development expenditures. These expenditures are capitalized and become assets which are depreciated at a rate of 25% after receiving business license.

Businesses can submit their corporate income tax return in four months after the closing of their accounting period.

a) Deductible and Non-deductible expenditure

The Income Tax Proclamation defines which expenses are deductible and non-deductible for the purpose of calculating corporate income tax. The Proclamation does not limit amount of any expenses as long as they are supported by documents which clearly shows the expenses.

Deductible expenses include:

- Any expenditure to the extent necessarily incurred by the taxpayer during the year in deriving, securing, and maintaining amounts included in business income;
- The cost of trading stock disposed of by the taxpayer during the year as determined in accordance with the financial reporting standards;
- The total amount by which the depreciable assets and business intangibles of the taxpayer have declined in value during the year from use in deriving business income
- A loss on disposal of a business asset (other than trading stock) disposed of by the taxpayer during the year;
- Interest expenditure
- Donation allowed only if provided for Ethiopian Charities and Ethiopian Societies and in response to a call for development or an emergency issued by the Government, but it should not exceed 10% of taxable income in both cases.

- Lease Payment made for business asset held under a capital goods lease agreement is deductible business expenditure from gross business income but shall not be entitled to depreciation on the asset.

Non-deductible expenditure is:

- An increase in the share capital of a company or the basic capital of a registered partnership;
- An expenditure of a capital nature except for those stated under deductible expenditure
- Voluntary pension or provident fund contributions in respect of an employee in excess of 15% of the monthly employment income of the employee;
- Dividends and paid-out profit shares;
- Expenditure or loss to the extent recovered or recoverable under a policy of insurance, or a contract of indemnity, guarantee, or surety;
- Fine or penalty imposed, or punitive damages awarded, for violation of any law, regulation, or contract;
- An amount that a person has transferred, in its financial accounts, to a reserve or provision for expenditures or losses not yet incurred but expected to be incurred in a future tax year;
- Income tax paid under this Proclamation or under a foreign tax law, or recoverable value added tax;
- Representation expenditures (hospitality expenditure) of an employee in excess of 10% of the employment income of the employee;
- Expenditure incurred in the provision of entertainment except when the person's business involves the provision of entertainment or to the extent that the expenditure is allowed as a deduction under a Directive issued by the minister relating to food provided for free to employees by an employer conducting a mining, manufacturing, or agricultural business;
- A donation or gift except as provided for in Article 24 of the proclamation that sates the case to consider it as a deduction;
  - To Ethiopian Charities and Ethiopian Societies (shall not exceed 10% of the taxable income of the taxable income of the taxpayer for the year)
  - In response to a call for development or an emergency call issued by the government to defend the sovereignty and integrity of the country, or to prevent or provide relief in relation to man-made or natural disasters or an epidemic, or for any other similar causes.
- Personal consumption expenditure
- Loss on the disposal of a business asset by a taxpayer to a related person;

b) Interest Expense

Companies can deduct interest incurred in a tax year from their taxable income to the extent that the taxpayer has used the proceeds or benefit of the debt or other instrument or agreement that gives rise to the interest to derive business income.

Any interest expense incurred by the Company to conduct its operation is tax deductible. Nonetheless, no deduction is allowed for the following;

a. Interest paid or payable by The Company in excess of the rate used between NBE and commercial banks plus 2% unless the interest paid or is payable to
   i. A financial institution recognized by the National Bank of Ethiopia; or
   ii. A foreign bank permitted to lend to persons in Ethiopia;

b. Interest paid or payable by a company to a related person who is a resident of Ethiopia except when the interest is included in the schedule 'D' (other income) of the related person

Thin Capitalization

There is an average debt to average equity ratio of 2 to 1 for foreign-controlled resident company other than a financial institution and any amount in excess of this ratio is not tax deductible for the interest paid by the Company for the tax year calculated as per the following formula;

A*B/C

"A" - is the total amount of deductible interest for the year

"B"- is excess debt for the year

"C"- is average debt for the year

Average debt for a tax year is A/12 where A is a sum of the amount of debt at the end of each calendar month in the tax year

Average equity for a tax year is A/12 where A is the sum of the amount of equity at the end of each calendar month in the tax year

c) Depreciation

Depreciation and amortization are tax-deductible expenses in Ethiopia. The table below shows the depreciation rates that would otherwise apply for various assets. Companies may choose either a straight line or diminishing value method for depreciation calculations.

Differences between a company's internal accounting practices and the calculations used for tax purposes may give rise to deferred tax assets or liabilities. Losses or valuation surpluses incurred through IFRS revaluation practices (for fixed assets) are not allowed for tax purposes.

Depreciation rates

Depreciable Asset	Straight line rate	Diminishing value rate
Computers, Software, and Data Storage Equipment	20%	25%
Green houses	10%	
Structural Improvements Other than Greenhouses	5%	
Any Other Depreciable Asset	15%	20%
Depreciable Asset Used in Mining and Petroleum Development Operations	25%	30%

Depreciation on a building used partially as a business asset must be in proportion to the portion of the property used as a business asset.

According to the Income Tax Proclamation, "Depreciable asset" is defined as tangible movable property or a structural improvement to immovable property that has a useful life exceeding one year, is likely to lose value from normal wear and tear, or obsolescence; and is used wholly or partly to generate business income.

d) Repair and Improvements

The cost of a repair or improvement made to a depreciable asset during the year is tax deductible. However, the deduction must not exceed 20% of the net book value of the asset at the end of the year.

If the cost of repair or improvement made to depreciable asset during the year exceeds 20% of the net book value of the asset, the whole cost of repair and improvement must be added to the asset's net book value.

e) Tax loss carry forward

If a company's total deductions for a tax year exceed its total income for the year, the excess is the companies' loss for the year. If a company has a loss for a tax year, it can carry the amount of the loss forward to the next following tax year and the loss shall be allowed as a deduction in computing the taxable income for that following year. The tax authority allows businesses to carry forward tax losses for two accounting period for five years. Tax loss carry-forwards follow a first in, first out ("FIFO") method. If a company carries forward a loss for more than one tax year, the loss of the earliest year is deducted first. A loss may be carried forward only if the company's book is audited and acceptable by the tax Authority.

A company cannot carry forward losses in certain cases where there is a change in control of the company. In a case where a company undergoes reorganization through a merger or acquisition of 50% or more of the voting shares 50% of its assets, the tax authority would disallow any losses carried forward from previous periods due to the change in control.

f) Foreign Exchange

For tax purposes, foreign currency amounts must be translated into Birr at the NBE's prevailing exchange rate on the date the amount is considered. Companies must account for all gains and losses arising from foreign exchange ("FX") transactions as additions or deductions to taxable income in the tax year when they are realized.

The tax regime recognizes FX gains as business income. If a company incurs an FX loss during a tax year, the loss must be offset against any FX gain during the year subject to the following:

a. The unused amount of a loss can be carried forward indefinitely or offset against FX gains until fully offset; and
b. The taxpayer has substantiated the amount of the loss to the satisfaction of the tax authority.

If a company has incurred exchange losses with no gain, it will not be a deductible expense for tax purpose.

III. Employment Income tax

As per the income tax proclamation No 979/2016, an individual who earns income from employment in Ethiopia is liable to pay tax at the rates specified below.

Employment income tax rate

Employment Income (per month)	Employment Income Tax Rate	Deduction
0 – 600	0%	0
601 - 1,650	10%	60
1,651 - 3,200	15%	142.5
3,201 - 5,250	20%	302.5
5,251 - 7,800	25%	565
7,801 - 10,900	30%	955
Over 10,900	35%	1,500

Employment income includes the following:

a. Salary, wages, allowance, bonus, commission, gratuity, or other remuneration received by an employee in respect of a past, current, or future employment
b. The value of fringe benefits received by an employee in respect of a past, current or future employment
c. An amount received by an employee on termination of employment, whether paid voluntarily, under an agreement, or as a result of legal proceedings, including any compensation for redundancy or loss of employment, or a golden handshake payment.

The Company has the obligation to withhold the tax from each payment to an employee and pay to the Tax Authority the amount withheld within thirty days of the end of each calendar month. Each payment shall be accompanied by a statement with respect to each employee, as follows:

- The name, address, and TIN of each employee;
- The amount of taxable income derived by each employee from the employment
- The amount of the tax withheld from that income and
- The amount of any tax-exempt income derived by the employee.

For resident employees, income will be paid from salary paid in cash and benefit in kind, which is also subject to employment income tax. Expats are considered as resident if they remain for more than 183 days in 12-month period. The implication of tax residence is that Ethiopian-tax applies to global income of tax resident persons in addition to their Ethiopian-source income. For Non-resident employees (Expats) tax is based on their Ethiopian source income including salary paid in cash and benefit in kind.
Probation Period: - A worker probation period shall not exceed 60 working days beginning from the date of the employment.

Foreign employment income

Foreign employment income means foreign income that is taxable under Schedule A (Employment income). Foreign income tax means tax imposed by a foreign government, excluding penalty, additional tax, or interest payable.

If a resident employee has derived foreign employment income for a calendar month on which the employee has paid foreign income tax, the employee shall be allowed a tax credit of an amount equal to the lesser of:

a. The foreign income tax paid or;
b. The employment income tax payable in respect of the foreign employment income calculated by applying the average rate of employment income tax applicable to the resident employee to the foreign employment income of the employee for the month

If any of the employee's salary is denominated in foreign currency, income tax will be paid based on the Birr (Local currency) equivalent converted by the exchange rate of Commercial Banks on the date of payment. In such cases the amount of the employees' monthly salary may fluctuate in local currency due to exchange rate fluctuations.

For Company's employees working in Addis Ababa, the reporting and payment of employee income tax will be to the federal government income. Those employees who are hired and working at the regions outside of Addis Ababa, then the reporting and payment of employee income tax will be to the regional state. Irrespective of the place of reporting, the employee income tax rate and time period of reporting are the same throughout the country.

Any late payment will result in interest and penalty. Interest is calculated using the tax authority automated system based on the prevailing commercial bank rate. Late payment in tax will result in 5% of the unpaid tax amount at the expiration of one month after due date and additional 2% of the unpaid tax amount for each unpaid month.

Benefit in kind (Fringe benefits)

According to income tax regulation No 410/2017, taxable income includes salary paid in cash and benefit in-kind. There are 10 Fringe benefits**, including** debt waiver, Household personnel, Private Expenditure, Property or service, an employee share scheme and Residual fringe benefit, which are subjected to income tax as per the income tax regulation. Out of which, the following selected 4 (four) are most common. The aggregate tax liability on fringe benefits must not exceed 10% of the salary income of the employee.

1) Housing (Accommodation) Fringe Benefit

The value of a housing fringe benefit provided by an employer to an employee for a month when the employer owns the accommodation or housing shall be the fair market rent of the accommodation or housing for the month reduced by any payment made by the employee for the accommodation or housing. This applies to both expats and local employees.

2) Discounted interest loan fringe benefit

A loan provided by an employer to an employee is a discounted interest loan fringe benefit if the interest rate under the loan is less than the market lending rate.

The value of the discounted interest loan fringe benefit for a month shall be the difference between the interest paid by the employee on the loan for the month, if any, and the interest that would have been paid by the employee on the loan for the month if the loan had been made at the market lending rate for that month.

3) Meal (Refreshment) Fringe benefit

The value of meal or refreshment fringe benefit shall be the total cost to the employer for providing meal or refreshment reduced by any amount paid to the employee for meal or refreshment.

4) Vehicle fringe benefit

A vehicle provided wholly or partially for private use by the employee will be considered as vehicle fringe benefit and subjected to employee income tax. The amount is calculated as:

$$\frac{(A*5\%)}{12}$$

"A"- Is the cost to the employer of acquiring the vehicle or, if the vehicle is leased by the employer, the fair market value of the vehicle at the commencement of the lease. However, in the case of a vehicle imported free of duty and taxes that would otherwise have been paid on the vehicle.

The value of a vehicle fringe benefit calculated can be reduced by the following items:

a. Any payment made by the employee for the use of the vehicle or for maintenance and running costs;
b. The proportion of the use of the vehicle (if any) by the employee in the conduct of employment;
c. The proportion of the month (if any) that the vehicle was not provided to the employee for private use.

If a company uses a car for more than 5 years, the cost calculated under "A" will be 50% of the total cost.

A vehicle being provided to an employee for "private use" includes a vehicle that is made available to an employee for private use even if the employee did not actually use the vehicle for a private use at any time.

Income exempted from employment income tax

The following benefits provided to an employee are exempt from employment income tax:

- Payment by an employer to cover the actual cost of medical treatment of an employee
- Food and beverage provided for free to an employee by an employer conducting a mining, manufacturing, or agricultural business
- Compensation for personal injury or the death of another person
- A scholarship or bursary for attendance at an educational institution paid by an employer for its employee
- Transport expenses and per diem payments for an employee travelling on a tour of duty (Per diem is limited to higher of 4% of basic salary or ETB 500 per day). Excess amount is subject to income tax. For a company manager or deputy manager the per diem amount is higher of 5% of basic salary or ETB 1000 per day.
- An allowance in lieu of means of transportation granted under an employment contract subject to maximum limit of 1/4 of basic salary or ETB 2,200 per month. This transportation allowance is only deductible for an employee traveling from place to place for the purpose of work. For employee traveling from home to work place the exemption for transportation is ETB 600
- A hardship allowances
- Travelling expenses paid to an employee recruited from a place other than the place of employment on joining or completion of employment, including, in the case of a foreign employee, travel expenses from and to their country of origin, only if the travel expenses have been paid pursuant to specific provisions of the employee's contract of employment. Travel expenses are allowed only for two trips going in and out an employee's home country (for both for foreign and local employees) and must be clearly stated in employment contracts.

IV. Pension Contribution

In addition to withholding employment of income tax, a Company is required to register its local employees with The Private Organization Employee's Social Security Agency if the employees are Ethiopian nationals and comply with social security obligations for employees of private organization in Ethiopia.

According to pension of private organization employees' proclamation no 715/2011, any private organization, for registration should submit to the agency personal data of its employees taken at the time of first employment, letter of employment issued to the employee and other particulars determined by the agency.

Pension Registration and Contribution

According to Private Organization Employees' Pension Proclamation No. 715/2011, both the employees and the employer should be registered with the Agency. This proclamation does not apply to domestic workers or employees of government, international organizations & foreign diplomatic missions.

The contribution payable to private organization pension fund is 11% by the employer and 7% by the Ethiopian employees. This is mandatory by both parties. The pension contribution is to be collected and paid by the employer within thirty (30) days after the end of each calendar month along with the employment income tax. The Tax Authority is given mandate to collect pension contributions along with income tax from employment.

Contributions by an employer to a pension, provident or other retirement fund for the benefit of an employee provided the monthly total of contributions does not exceed 15% of the monthly employment income of the employee; can be contributed by the employer. The obligated amount to contribute for pension contribution is 11% but up to 15% is allowable. Any contribution beyond 15% would be subject to Employment income tax as it is considered benefit.

As stipulated on Private Organization Employees' Pension (Amendment) Proclamation 908/2015, an employee of a private organization who has served for at least 10 years terminates his contract of employment, he shall receive retirement pension benefit for life upon attaining retirement age.

In the case where it is ascertained that an employee of a private organization has separated from service die to health problems which prevent him from work prior to attaining retirement age, he shall receive retirement pension for life starting the month following such ascertainment. In the case of death, his survivors shall receive the benefits.

Amount of Retirement Pension

The retirement pension due for any employee of private organization shall be 30% of her/his average salary of the last three years preceding retirement and shall be increased by 1.25% for each year of service beyond 10 years. The pension to be paid pursuant to sub-article (1) of this Article may not exceed 70% of the average salary of the employee of private organization for the last three years preceding retirement.

No tax shall be payable on benefits received, pension contribution collected, and profits earned from investment of the Pension Fund, in accordance with this Proclamation.

V. Withholding tax

As per Proclamation no. 286/2016, businesses are required to withhold tax as per the directive of the tax authority. Except small and medium enterprises all organizations, government offices, non-profit organizations, category A taxpayer above an average of three years sales of 10 million birr and all obligated under directive No.145/2011 Article 3 sub article 3 are mandated to withhold. Businesses must withhold taxes regardless of whether it or its counterparty has a valid VAT registration. The withholding agent is required to have a certificate issued by the tax authority.

The following are person/bodies who are not responsible to be a withholding agent:

- Small and medium enterprises
- Inputs used to produce outputs for goods to be exported
- Organizations established by diplomatic and international agreements, foreign diplomatic consular Misiones, embassies, bodies of United Nation, and others with diplomatic rights
- Individual taxpayers who are not obligated to pay by directives of ministry of revenue

Transactions that withholding tax is not applied to are listed in Directive No 2/2011 Article 12.

Companies must transfer the taxes withheld to the government within 30 days from the last day of each month. Companies' monthly transfers of WHT collections must be accompanied by a statement detailing the counterparty; the counterparty's TIN, the monthly total payment made to that party, and the amount of tax withheld. A company that fails to withhold tax or submits a late payment to the tax authority (30 days after the end of the month) will receive a fine of 10% of the tax to be withheld from the tax authority and further late filling and late payment penalties associated with the original tax payment.

Suppliers

The following table outlines withholding tax rates for domestic payments to suppliers.

Withholding Tax from Domestic Payments

Item (Single Transaction)	Amount (ETB)	% Withheld
Good Purchased	>10,000	2%
Services Provided	>3,000	2%
Imported Goods[1]	No limitation of amount exempted for duty-free imports	3%
Good Purchased from Supplier with no TIN and Business License	No limitation of amount	30%

As described in the table above, resident companies[6] must withhold 2% from payments for goods and services purchased procured from locally registered suppliers. This rate increases to 30% when a supplier does not have or has failed to provide a Tax Identification Number and business license to the withholding agent. This 30% withholding tax ("WHT") is a final tax on the supplier's income and cannot be waived by a Directive or administrative decision. Suppliers from whom 2% WHT is applied can deduct the total amount of WHT during the accounting period from their annual profit tax.

As per Income tax proclamation 979/2016, unless items are imported duty-free, a 3% withholding tax applies on the cost, insurance, and freight ("CIF") value of the import. These withholdings (if any) on the imported goods are deducted from the company's annual Business profit tax prepared in each accounting period.

Capital Considerations and Other Withholding Taxes

A non-resident who receives a dividend, interest payment, royalty, management fee, technical fee, or insurance premium from an Ethiopian source is subject to the non-resident tax rate specified below.

Non-resident Withholding Tax Rates

Type of Income	Income tax Percentage (%)
Insurance Premiums and Royalties	5%
Dividend	10%
Interest	10%
Management and Technical Fees or leased equipment	15%
Undistributed Profit and Repatriated Permanent Establishment Profit	10%
Gain on Disposal of Property	15% (immovable assets) and 30% (shares and bonds)

Ethiopian residents and non-residents who earn interest income in Ethiopia attributable to a permanent establishment of a non-resident in Ethiopia are liable for income tax on this income. The WHT on this interest income is

10%, unless the interest is from a savings deposit account with an Ethiopian-domiciled financial institution, in which case tax will apply at the rate of 5%.

Withholding on insurance premium is related to the insurance premium paid for a risk in Ethiopia. Resident of Ethiopia or non-resident who derives Ethiopian source royalty is liable for 5% tax on the gross amount of the royalty. The paying entities shall withhold tax from the gross amount of the royalty.

Both Ethiopian residents and non-residents are subject to withholding tax on dividends, whether they are paid to a resident or a non-resident. Undistributed profits are also subject to WHT. If the Company's undistributed profits are capitalized through minutes of shareholders' meetings, which shall be submitted to Ministry of Trade to reflect the increased capital on licenses of the Company, WHT from undistributed profits will not be applicable to the extent of the increased capital.

The signing of shareholders' minutes shall be registered by Documents Authentication and Registration Agency to capitalize profit after tax within 12 months after the end of the accounting period of the Company. Copy of the signed minutes and the Company's licenses with increased capital shall be submitted to the Tax Authority in 2 months following the 12 months after the end of the accounting period of the Company. Tax payment on undistributed profit, which is not capitalized shall be done in these two months period. Once tax has been paid on undistributed profit, there will not be additional tax if it is distributed as dividend.

A company that pays for management and technical services or leased equipment from a non-resident body (other than through a permanent establishment in Ethiopia) must withhold a Management or Technical Service fee at the rate provided in the above table. The proclamation has defined "Management Fee" as an amount as consideration for the rendering of any managerial or administrative service but does not include employment income. A "Technical Fee" is a fee for technical, professional, or consultancy services, including fees for the provision of services of technical or other personnel.

If a company books a gain on the disposal of immovable property, it is liable to pay income tax at the rate of 15% on the immovable property (land and buildings). Gain on shares and bonds is taxable at the rate of 30%.

Repatriated profit of a permanent establishment

A non-resident body conducting business in Ethiopia through a permanent establishment is liable for tax at the rate of 10% on the repatriated profit of the permanent establishment. Repatriated profit for a fiscal period is calculated as follows:

$$A + (B - C) - D$$

Where:

A- Total cost of assets, net of liabilities at the beginning of the tax year
B- Net profit for the tax year, calculated in accordance with financial reporting standards
C- Business income tax payable on the taxable income for the tax year
D- Total cost of assets, net of liabilities, at the end of the tax year

Withholding from Revenue

A 2% Withholding tax is deducted on sales from a company by the supplier. Companies must record the transaction as WHT receivable until the end of the accounting period. The WHT receivable is to be deducted from Business profit tax at the end of the year. If a company incurs a loss, it can claim the amount of WHT from Ministry of Revenue for refund.

VI. Value Added Tax

The VAT proclamation no 285-2002 defines a "supply of goods" as:

- The sale of goods, or a grant of the use or right to use goods, whether with or without a driver, pilot, crew, or operator, under a rental agreement, credit agreement, freight contract, agreement for charter, or any other agreement under which such use or right to use is granted, or a transfer or provision of thermal or electrical energy, gas, or water.

The VAT proclamation no 285-2002 defines a "rendering of services" as:

- Any work performed which is not a supply of goods or money, including the granting, assignment, cessation, or surrender of any right or making available a facility or advantage.

VAT Rate

The general VAT rate is a flat 15%. Companies can offset monthly output VAT (VAT on goods and services delivered) against input VAT (VAT on inputs consumed). Excess of output VAT over input VAT during a month is payable/reported to the Ministry of Revenue by respective period specified under the VAT amendment NO. 1157/2019. Excess of input VAT over output VAT can be carried forward to be offset in subsequent months. There are transactions specified by the VAT proclamation as "zero-rated". The proclamation also defines transactions which are "exempt" from VAT.

Zero rated transactions include export of goods and services; rendering of international transportation services of goods and passengers and technical supplies associated with these; supply of gold to National Bank of Ethiopia; and supply of taxable activity as a going concern.

VAT exempt transactions include sale of used house; rendering of financial services; supply or import of national or foreign currency and securities; import of gold to be transferred to National Bank of Ethiopia; religious services; import or supply of prescription drugs; educational services; humanitarian aid; supply of electricity, kerosene, and water; postal services; provision of transport; permits and license fees.

VAT consumed for exempt transactions is not creditable.

Reverse VAT - A company that receives services from a foreign non-resident company must collect reverse VAT of 15% along with 15% withholding tax on Professional and Technical services. The reverse VAT withheld shall be paid to the tax authority in one month after the month of the transactions.

VAT Payment Mechanism

As per Proclamation 1157/2019, there is a change to the VAT reporting period. Before the change, all VAT-registered entities had to be filed on a monthly basis. Currently, while companies with annual turnover of ETB 70M or more must file A VAT return monthly, companies with annual turnover less than ETB 70M must file every three months. Late filings are subject to a penalty of ETB 10,000.

As per VAT directive 148/2019, If a company fails to include all costs for VAT declaration, the VAT receivables will not be included in VAT declaration of the following month. Rather, they will be part of the costs on the financial statement and the company cannot claim VAT receivables on those costs.

VAT on USD costs is calculated at the exchange rate prevailing at the date of the invoice. The tax authorities provide all refunds in local currency. There are no regulations or provisions to protect foreign investors from ETB depreciation between the date in which the cost was incurred and the date when the refund is issued.

The tax withhold shall be half (50%) of the 15% VAT payable from the seller; the buyer provides a voucher for the amount so withheld and the buyer pays the balance of the VAT in cash to the seller.

VAT Refund

As per directive 148/2011 companies who have receivables after deducting of output and input VAT can claim of receivables. As per the directive, taxpayers can apply for refund after carrying forward VAT credits for five (5) months. The tax Authority will refund the amounts after 45 days of filing the application for refund.

A person whose twelve months taxable transaction exceeds ETB 100M shall be entitled to credit in the accounting period after the date of registration on the amount of value added tax paid on capital goods at hand or purchased after the date of registration that is used or to be used for taxable transaction.

VII. Customs duty and taxes on import

Importers (or their agents) are required to complete customs declarations, indicating the type of import regime, detailed information on the imported goods, tariff classifications, and customs valuations. This information determines the import duties and taxes.

Under Ethiopian tax law, the following duties and taxes are levied on imported goods:

Customs Duty

Custom duty is normally calculated as a percentage of the cost-insurance-freight ("CIF") value. This is the sum of the transaction value (cost of goods), transport charges, transport insurance, and other charges such as loading and unloading, port costs, etc. The duty rate, which varies depending on the type of imported goods, ranges from 0-35%.

Excise Tax

Excise tax is charged on selective goods such as luxury goods, basic demand goods which are hardly affected by price changes, goods that are hazardous to health, etc. According to the Excise Tax Proclamation 1186/2020, excisable value of excisable goods manufactured in Ethiopia is the ex-factory selling price of the goods without including the VAT payable on the supply of the goods, the cost of excise stamps, if any, and the cost of returnable containers. The excise tax rate varies depending on the type of imported goods, from 5%-500%.

Value Added Tax

Value Added Tax (VAT) is levied for every import of goods, other than an exempt import, at flat a rate of 15% of the value of the good.

Surtax

A surtax of 10% is levied on all goods imported to Ethiopia with some exceptions, such as fertilizers, petroleum, and lubricants. The amount payable is calculated on the sum of CIF value, customs duty, excise tax, and VAT.

Withholding Tax

Withholding Tax (WHT) are collected on goods imported for commercial use. The collected amount, 3% of the CIF, can be used as a tax credit against the taxpayer's income tax liability for the year. WHT is not necessarily a tax, but rather a (partial) guarantee on the payment of income taxes.

Calculation of duties and taxes

Tax Name	Calculation
Custom Duty	= Duty Paying Value * Customs Duty Rate
Excise tax	= (Duty Paying Value + Customs Duty) * Excise Tax Rate
Value added tax	= (Duty Paying Value + Customs Duty + Excise Tax) * 15%
Sur tax	= (Duty Paying Value + Customs Duty + Excise Tax + VAT) * 10%
Withholding tax	= Duty Paying Value * 3%

Exchange rate

Foreign currency considered in valuation must be converted into Ethiopian Birr. For conversion, the official exchange rate declared by the NBE for the day when the goods declaration is registered must be used.

The Ministry of Revenue provides its own Customs Duty ("CD") with details on prices on various goods. The rate is usually calculated as per the price on the CD. This CD is updated every three months. The CD is collected from international market and amount is set through FOB in USD for all items. This custom office will check the items through valuation. If the amount presented by customer is very low, then they will use the CD amount for the different taxes to be paid. The "CD Valuation" is a document in excel sheet prepared for the assessment made by the custom office which includes good description, model type, unit, year of production, origin of country, FOB in USD, CIF in USD, and custom code.

Temporarily Imported Goods

Temporary importation means that goods entering a customs territory for a limited period and are then removed from the territory again, unchanged, and without any duty liability arising, but at the time of removing the goods from customs territory (re-exportation), duty and tax is paid on the depreciated value as per the directive issued by the Ministry of Revenue 3/1996.

Duty-Free Imported Goods

An "investment" is defined as an expenditure of capital in cash, in kind, or both to establish a new enterprise or to expand or upgrade one which already exists. The Council of Ministers Regulation No. 270/2012 created an investment incentive in the form of a duty relief on the goods imported by an investor.

Investor investing in Ethiopia are eligible to use Investment Tax Incentives as per the applicable investment regulation. The incentives include the following items, which can be imported duty free (exempted from customs duty and tax), as applicable based on the specific area of investment:

- Capital goods
- Construction materials
- Motor vehicles
- Spare parts whose value is not greater than 15% of the total value of the capital goods to be imported within five (5) years from the date of the investment project's commercial operations date ("COD")

Duty and tax exempted imported goods may be re-exported or transferred to a person who enjoys similar privileges (who has a privilege of duty and tax exemption on imported goods) without payment of duties and taxes or transferred to any person upon payment of duties and taxes.

The duties and taxes are calculated on the value of goods and tariff rates prevailing during the time of transfer. If duty- and tax-free imported goods are lost or damaged, the duty and tax right holder is required to report this to Ministry of Revenue.

Companies must receive prior approval from the Ethiopian investment commission ("EIC") before processing to import capital goods and construction materials duty free. Duty- and tax-free importation of capital goods is not permitted for investors engaged in the following sectors:

- Real estate development
- Publishing
- Export Trade
- Wholesale trade

According to the amendment regulation no.312/2014, an investor who has invested within an industrial development zone shall be entitled to two (2) years income tax exemption if the investment is made in an industrial zone located in Addis Ababa or special zone of Oromia.

VIII. Stamp duty

As per proclamation 110/1998 of the stamp duty, the following instruments are subject to stamp duties:

Stamp duty rate

Instruments chargeable with stamp duty	Basis of Valuation	Rates of Stamp duty
Memorandum and articles of association of any business or organization or any association: **a)** Upon 1st execution **b)** Upon subsequent execution	Flat	a) Birr 350 b) Birr 100
Award	On value	a) With determinable value 1% b) With undeterminable value birr 35
Bonds	On value	1%
Warehouse bond	On value	1%
Contracts and agreements and memorandum thereof	Flat	Birr 5
Security Deeds[25]	On value	1%
Collective agreement **a)** On 1st execution **b)** On any subsequent execution	Flat	a) Birr 350 b) Birr 100

Instruments chargeable with stamp duty	Basis of Valuation	Rates of Stamp duty
Contract of employment	Salary	1%
Lease including sub lease and transfer thereof	On value	0.5%
Notarial act	Flat	Birr 5
Power of attorney	Flat	Birr 35
Register title of property	On value	2%

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