Ethiopia

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Business Tax Advisory

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A. At a glance

Business Income Tax Rate (%)	30/35 (a)
Capital Gains Tax Rate (%)	15/30 (b)
Branch Tax Rate (%)	30/35 (a)
Withholding Tax (%)	
Dividends	10 (c)
Interest	
On Deposits	5 (c)
On Foreign Loans	10
Royalties for the Right to Use Artistic Works	5 (c)
Royalties Paid by Holders of Large-Scale Mining Licenses	
Precious Minerals	8
Semiprecious Minerals	6
Metallic Minerals	5
Industrial Minerals	4
Construction Minerals	3
Salt	4
Geothermal	2
Technical Services Rendered Outside Ethiopia	10
Income from Casual Rental of Property (on Annual Gross Income)	15 (c)
Purchases of Goods for More than ETB10,000	2 (d)
Purchases of Services for More than ETB500	2 (d)
Branch Remittance Tax	10 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3/10 (f)

(a) The standard business income tax rate is 30%. Income from mining operations, excluding petroleum, natural gas and oil shale, is taxed at a rate of 35%. Income from petroleum, natural gas and oil shale operations is taxed at the standard rate of 30%.

(b) The 15% rate applies to gains derived from transfers of buildings located in municipal areas that are used for a business. The 30% rate applies to gains derived from transfers of shares of companies.
(c) This is a final income tax that is withheld at source for both residents and nonresidents.
(d) This rate applies if the supplier provides a tax identification number. Otherwise, the rate is 30%. For further details, see Section B.
(e) Remittances by branches to their foreign headquarters are considered to be distributions of dividends and are accordingly subject to income tax at a rate of 10%.
(f) Companies in the mining sector may carry forward losses 10 years. Also, see Section C.

B. Taxes on corporate income and gains

Business income tax. Resident companies are subject to business income tax on their worldwide income. Nonresident companies are subject to tax on their Ethiopian-source income only. A company is resident in Ethiopia if it satisfies any of the following conditions:
- It has its principal office in Ethiopia.
- Its place of effective management is located in Ethiopia.
- It is registered in the trade register of the Ministry of Trade and Industry or of the trade bureaus of the regional governments of Ethiopia. Registered companies include permanent establishments of nonresident companies in Ethiopia.

Tax rates. The standard rate of business income tax is 30%. Income from mining operations, excluding petroleum, natural gas and oil shale, is taxed at a rate of 35%. Income from petroleum, natural gas and oil shale operations is taxed at the standard rate of 30%.

Certain investment activities approved by the Ethiopian Investment Authority qualify for income tax exemptions and other incentives. For example, new export-oriented investments in manufacturing, agro-industrial activities or the production of agricultural products may qualify for income tax exemptions ranging from two to seven years, while two-year tax exemptions are available for investments in the expansion and upgrading of existing businesses engaged in such activities. The availability and length of tax exemptions depend on the distance of the place of investment from Addis Ababa, the capital city. The exemptions are designed to encourage investors to invest in remote areas that are less developed but endowed with resources. Enterprises that incur losses during the period of income tax exemption may carry forward their losses to years following the expiration of the tax-exemption period for a period equaling half the tax-exemption period. The normal loss carryforward period is three years (see Section C).

Tax on "windfall profit" obtained by a person as a result of change that occurred in local or international economic situations that was not caused by the person's own efforts will be applied as soon as the Ministry of Finance and Economic Development prescribes the following:
- Businesses subject to the "windfall profit" tax
- The amount of income to be considered "windfall profit"
- The effective date for application of the tax

Shortly after parliament approved an amendment of the income tax proclamation providing for the introduction of a tax on "windfall profit" during its 18 November 2010 session, the Ministry of

Finance and Economic Development (MoFED) instructed commercial banks to pay 75% of the profit that the MoFED determined that the banks made because of the devaluation of the birr. The amendment to the proclamation stated that businesses in the finance sector and oil exploration and mining sector were likely to be subject to such tax.

Capital gains. Capital gains derived from transfers of buildings located in municipal areas that are used for a business, factory or office are subject to tax at a rate of 15%. Capital gains derived from transfers of shares of companies are subject to tax at a rate of 30%.

Subject to certain limitations, losses incurred on transfers of the properties described above may be used to offset gains. Unused capital losses may be carried forward indefinitely.

Subject to limitations, gains or losses are recognized on transfers of assets used in a business (other than buildings) and are subject to business income tax.

Administration. The Ethiopian Revenues and Customs Authority (ERCA) administers and collects certain taxes, including the business income tax and capital gains tax of companies. The Ministry of Mines and Energy collects mining taxes.

The tax year (year of assessment) is the Ethiopian budgetary year, which runs from 8 July to 7 July of the following calendar year. If a company's accounting year differs from the Ethiopian budgetary year, its base period for the tax year is the accounting year ending within the tax year.

Advance income tax of 2% is withheld from payments for goods or services if the payments exceed certain thresholds. The tax is withheld from payments for goods if the amount payable in a single transaction or supply contract is more than ETB10,000. For payments for services, tax is withheld if the amount payable in a single transaction or contract is more than ETB500.

Companies must file annual tax returns, together with their annual accounts, within four months after the end of their accounting year. Companies must pay the tax shown in the tax return reduced by the amount of the advance payments withheld and any foreign tax credits. The tax office audits the company's return and annual accounts to determine the final assessment.

Companies that fail to pay tax by the due date must pay interest at a rate that is 25% above the highest commercial lending interest rate that prevailed during the preceding quarter, together with administrative penalties.

Dividends. A 10% final income tax that is withheld at source is imposed on dividends paid by share companies and withdrawals of profits from private limited companies. The tax applies to both residents and nonresidents. If shareholders decide to reinvest their dividends to expand the activities of the company, the dividends are exempt from tax, with the exception of certain sectors.

Remittances by branches to their foreign headquarters are considered to be distributions of dividends and are accordingly subject to income tax at a rate of 10%.

Income withholding taxes are imposed on interest, royalties and certain other types of income. For a listing of these taxes, see Section A.

Withholding tax on imports. Withholding tax is collected from business income taxpayers at a rate of 3% at the time of importation of goods for commercial use. The amount of this tax may be credited against the taxpayer's income tax liability for the year.

Foreign tax relief. Foreign tax paid may be used as a credit against tax payable with respect to the foreign-source income, limited to the amount of tax in Ethiopia that would otherwise be payable on such income.

C. Determination of trading income

General. Taxable income is the amount of income subject to tax after the deduction of all expenses and other deductible items allowed under the tax law.

Expenses are deductible to the extent they are incurred for the purpose of earning, securing, and maintaining business income, if it can be proved that the expenses are genuine.

Subject to restrictions, reinvestments by resident companies of their profit to increase the capital of another company may be deducted for tax purposes.

Foreign-exchange gains and losses. All net gains or losses arising from transactions in foreign exchange are considered to be taxable income or deductible losses in the year in which they arise.

Provisions. Specifically identifiable provisions for bad debts are allowed if the company has taken all reasonably necessary steps to recover the debts. General provisions and provisions for stock obsolescence are not allowed.

Financial institutions may deduct special (technical) reserves in accordance with the National Bank of Ethiopia directives. However, the taxable income of banks is increased by amounts withdrawn from such reserves.

Tax depreciation. Buildings and other structures are depreciated using the straight-line method at an annual rate of 5%. A straight-line depreciation rate of 10% applies to intangible assets.

The following assets are depreciated using a pooling system.

Assets	Rate (%)
Computers, information systems, software products and data storage equipment	25
Fixed assets of companies engaged in mining activities	25
Other business assets	20

Under the pooling system, the depreciation rate is applied to the depreciation base, which is the book value of the category as recorded in the opening balance sheet of the tax year, increased by certain costs incurred during the tax year, and decreased by certain amounts received during the tax year. The tax base is increased by the following costs: the cost of assets acquired or created; the cost of improvements that are capitalized; and the costs of renewal and reconstruction of assets. The tax base is decreased by the sales price of assets disposed of and compensation received for the loss of assets.

A negative depreciation base is added to taxable income. If the depreciation base is ETB1,000 or less, the entire depreciation base is deductible.

No depreciation is allowed on the revaluation of business assets.

Maintenance and improvement expenses exceeding 20% of the depreciation base of a category of business assets increase the depreciation base of that category.

Fine arts, antiques, jewelry, trading stock and other business assets not subject to wear and tear and obsolescence may not be depreciated.

Relief for losses. Companies may carry forward net operating losses for three years. However, if a company incurs losses in any of the three years following the year of the loss, the loss carryforward period may be extended a year for each loss year in the three-year period, up to a maximum loss carryforward period of six years. Earlier losses must be set off first. Losses may not be carried back.

Companies in the mining sector may carry forward losses 10 years.

If, during a tax period, the direct or indirect ownership of the share capital or the voting rights of a body change more than 25%, by value or by number, the right to a loss carryforward no longer applies to losses incurred by that body in that tax period and previous tax periods.

Group of companies. The Ethiopian tax law does not allow the filing of consolidated returns.

D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT); levied on all supplies of goods and services made in Ethiopia and on imports, except for exempt items	
Standard rate	15%
Certain items, including exports	0%
Equalization turnover tax; imposed on persons not registered for VAT	
Goods sold locally	2%
Services rendered locally by contractors and grain mills, and on rentals of tractors and combine-harvesters	2%
Other services	10%
Excise tax; levied on specified goods manufactured in Ethiopia and on imports; for locally produced goods, tax is imposed when production is completed and is based on production cost; for imports, tax is imposed on Cost, Insurance, and Freight (CIF) value;	

Nature of tax	Rate
rates vary among products; low rate applies to textile and garment products, and high rate applies to various items, including vehicles with engines exceeding 1,800 cc	
Rates	10% to 100%
Surtax on all imported items mentioned above	Additional 20% of CIF value
Revenue stamp duties; levied on transfers of certain property, including vehicles	2%

E. Tax treaties

Ethiopia has entered into double tax treaties with various countries, including the Czech Republic, France, Israel, Italy, Kuwait, Romania, the Russian Federation, South Africa, Tunisia and Turkey. Ethiopia has signed double tax treaties that have not yet been ratified with Algeria, Iran and Oman. Ethiopia also recently entered into double tax treaties with India and the United Kingdom.