Ethiopian
Chamber of Commerce

Ethiopian Business
Development Services Network

Taxation in Ethiopia

Direct and Indirect Taxes - Categories of Tax Payers
Declaration of Income and Assessment of Taxes
Tax Incentives

Addis Ababa 1/2005

Chamber of Crafts
HWK Rhein-Main, Germany

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Introduction

Taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income into government hands. Such public goods like roads, power, municipal services, and other public infrastructures have favorable results on many families, business enterprises, industries and the general public. Public goods are normally supplied by public agencies due to their natures of non-rivalry and non-excludability. The nature of consumption of public goods is such that consumption by one does not reduce consumption for others. Besides, consumption of public goods by an agent does not exclude others from doing same. Such nature of public goods therefore makes them impossible for private suppliers to avail them at market prices like other commodities. Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods.

Despite the fact that people need to pay taxes based on rationales of vertical and horizontal equities, it is not always the case that tax systems are comprehensible and transparent for tax payers especially for less literate business operators. Tax systems are usually not elaborated after proper consultation with the business community. The business owners complain that the tax assessment method is based on subjective estimation as a result of which they are frequently subjected to over-taxation. Since the business owners do not have simplified access to and clarification on information of the tax laws, they lack awareness on tax rules and regulations and this has an impact on the practicability of the regulations.

It is therefore worth clarifying the Ethiopian tax system and the rationales behind for the business owners through the relevant institutions that have access to and ability to understand this booklet. This booklet is the product of the common effort of the Ethiopian BDS Network (EBDSN) supported by the GTZ/MSE project and the Ethiopian Chamber of Commerce (ECC) supported by the partnership project between the German Chamber of skilled crafts and trades (HWK) from Rhein-Main financed by the German Federal Ministry of Economic Cooperation and Development (BMZ) through SEQUA. The main purpose of this booklet is thus to aware the business community the different types of taxes existing in Ethiopia and some of the purposes for which the tax revenues are utilized. For more detailed information on practical issues, we recommend to refer to a training manual, which the partnership project between the ECC and HWK has elaborated especially to assist category B and C taxpayers to avoid problems with the respective tax collecting authorities.

1. Major Types of Taxes existing in Ethiopia

1.1 Direct Taxes

1.1.1 Tax on Income from Employment / Personal Income Tax

Every person deriving income from employment is liable to pay tax on that income at the rate specified in Schedule 'A' as follows:

Schedule 'A'

Employment Income (per month)		Tax Rate (in %)	Deduction (in Birr)
over Birr	to Birr		
0	150	Exempt threshold	
151	650	10%	15.00
651	1 400	15%	47.50
1 401	2 350	20%	117.50
2 351	3 550	25%	235.00
3 551	5 000	30%	412.50
over 5 000		35%	662.00

Example: Computation of Personal Income Tax

Monthly Salary of 500.00 Birr

- Personal Income Tax = 500 Birr x 10% tax rate = 50 Birr
- Deduction = 50 Birr - 15 Birr deduction fee
- Tax payment = 35 Birr

Employment income shall include any payments or gains in cash or in kind received from employment by an individual. Employers have an obligation to withhold the tax from each payment to an employee, and pay the Tax Authority the amount withheld during each calendar month. In applying the procedure, income attributable to the months of *Nehassie* and *Pagume* shall be aggregated and treated as the income of one month.

If the tax on income from employment, instead of being deducted from the salary or wage of the employee, is paid by the employer in whole or in part, the amount so paid shall be added to the taxable income and shall be considered as part thereof.

The following categories of income shall be exempt from payment of personal income tax:

- Income from employment received by casual employees who are not regularly employed provided that they do not work for more than one month for the same employer in any twelve months;
- Pension contribution, provident fund and all forms of retirement benefits contributed by employers in an amount that does not exceed 15% of the monthly salary of the employee;
- Subject to reciprocity, income from employment, received for services rendered in the exercise of their duties by diplomatic and consular representatives, and other persons employed in any Embassy and who are national of that state and bearers of diplomatic passports;
- Payments made to a person as compensation or a gratitude in relation to personal injuries suffered by that person or death of another person;
- Amounts paid by employers to cover the actual cost of medical treatment of employees;
- Allowances in lieu of means of transportation granted to employees under contract of employment;
- Hardship allowance;
- Amounts paid to employees in reimbursement of traveling expenses incurred on duty;
- Amounts of travelling expense paid to employees recruited from elsewhere than the place of employment on joining and completion of employment or in case of foreigners travelling expenses from or to their country, provided that such payments are made pursuant to specific provisions of the contract;
- Allowance paid to members and secretaries of board of public enterprises and public bodies as well as to members and secretaries of study groups set up by the Federal or Regional Government;
- Income of persons employed for domestic duties.

1.1.2 Business Profit Tax

This is the tax imposed on the taxable business income / net profit realized from entrepreneurial activity. Taxable business income would be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting standards. Corporate businesses are required to pay 30% flat rate of business income tax. For unincorporated or individual businesses the business income tax ranges from 10% - 35%. Unincorporated or individual businesses are taxed in accordance with the following schedule below:

Schedule 'C'			
Taxable Business Income / Net Profit per year		**Tax Rate (in %)**	**Deduction (in Birr)**
over Birr	to Birr		
0	1,800	Exempt threshold	
1,801	7,800	10%	180.00
7, 801	16,800	15%	570.00
16, 801	28, 200	20%	1410.00
28, 201	42,600	25%	2520.00
42, 601	60,000	30%	4950.00
Over 60, 000		35%	7950.00

Example: Computation of business profit tax

Business Net Profit per year/Taxable Income = 70,500.00 Birr

- Business Profit Tax = 70,500 Birr x 35% tax rate = 24,675 Birr
- Deduction = 24,675 Birr - 7,950 Birr deduction fee
- Tax payment = 16,725.00 Birr

In the determination of business income subject to tax in Ethiopia, deductions would be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer.

The following expenses shall be deductible from gross income in calculating taxable income:

- The direct cost of producing the income, such as the direct cost of manufacturing, purchasing, importation, selling and such other similar costs;
- General and administrative expenses connected with the business activity;
- Premiums payable on insurance directly connected with the business activity;
- Expenses incurred in connection with the promotion of the business inside and outside the country, subject to the limits set by the directive issued by the Minister of Revenue;
- Commissions paid for services rendered to the business;

- Sums paid as salary, wages or other emoluments to the children of the proprietor or member of the partnership shall only be allowed as deduction if such employees have the qualifications required by the post.

The following categories of income would be exempted from payment of business income tax:

- Awards for adopted or suggested innovations and cost saving measures;
- Public awards for outstanding performance;
- Income specifically exempted from income tax by the law in force in Ethiopia, by international treaty or by an agreement made.

Penalty for understatement of tax:

- If the amount of tax shown on a declaration understates the amount of tax required to be shown, the taxpayer is liable for a penalty in the amount of 10% of the understatement or 50% if the understatement is considered substantial. The understatement is considered substantial if it exceeds 25% of the tax required to be shown on the return or 20,000 Birr;
- The penalty shall continue to apply until, the Appeal Commission or a Court, as the case may be shall have rendered its final decision.

Penalty for late payment:

A taxpayer who fails to pay tax liability on the due date is subject to:

- A penalty of 5% of the amount of unpaid tax on the first day after the due date has passed; and
- An additional 2% of the amount of tax that remains unpaid on the first day of each month thereafter.

1.1.3 Tax on Income from Rental of Buildings

This is the tax imposed on the income from rental of buildings. If the taxpayer leased furnished quarters, the amounts received attributable to the lease of furniture and equipment would be included in the income and taxed. The tax payable on rented houses would be charged at the following rates:

- On income of bodies 30% of taxable income
- On income of persons according to the following schedule next page:

Taxable Income from Rental of Buildings (per year)		Income Tax Payable (in %)	Deduction (in Birr)
over Birr	to Birr		
0	1,800	Exempt threshold	
1, 801	7, 801	10%	180.00
7, 801	16, 800	15%	570.00
16, 801	28, 200	20%	1410.00
28, 201	42, 600	25%	2820.00
42, 601	60, 000	30%	4950.00
over 60, 000		35%	7950.00

Example: Computation of Rental Income Tax

Net profit per-year/Taxable Income 38, 000.00 Birr

- Rental Income Tax = 38,000 Birr x 25% tax rate = 9,500 Birr
- Deduction = 9,500 Birr -2,820 Birr deduction fee
- Tax payment = 6,680 Birr

Conditions of payment:

- The owner of a building who allows a lessee to sub-lease is liable for the payment of the tax for which the sub-lessor is liable, in the event the sub-lessor fails to pay;
- When the construction of a rental building is completed or when the building is rented, the owner and the builder are required to notify the administration of the *Kebele* in which the building is situated about such completion and the name, address, and tax identification number of the person or persons subject to tax on income from rental of building;
- The *Kebele* administration has the obligation to communicate the information obtained to the appropriate tax authority.

1.1.4 Tax on Interest Income on Deposits

Every person deriving income from interest on deposits shall pay tax at the rate of 5%. The payers are required to withhold the tax and account to the Tax Authority.

1.1.5 Dividend Income Tax

Every person deriving income from dividends from a share company or withdrawals of profits from a private limited company shall be subject to tax at the rate of 10%. The withholding agent shall withhold or collect the tax and account to the Tax Authority.

1.1.6 Tax on Income from Royalties

‘Royalty income’ means a payment of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematography films, and films or tapes for radio or television broadcasting.

Royalties income shall be liable to tax at a flat rate of 5%. The withholding agent who effects payment shall withhold the foregoing tax and account to the Tax Authority. Where the payer resides abroad and the recipient is a resident, the recipient shall pay tax on the royalty income within the time limit set out.

1.1.7 Tax on Income from Games of Chance

Every person deriving income from winning of games of chance (e.g., lotteries, tombolas, and other similar activities) shall be subject to tax at the rate of 15%, except for winning of less than 100 Birr. The payer shall withhold or collect the tax and account to the Tax Authority.

1.1.8 Tax on Gains of Transfer of Certain Investment Property

This is the tax payable on gains obtained from the transfer (sale or gift) of building held for business, factory, office, and shares of companies. Such income is taxable at the following rates:

- Building held for business, factory, and office at the rate of 15%;
- Shares of companies at the rate of 30%.

Gains obtained from the transfer of building held for residence shall be exempted from tax provided that such building is fully used for dwelling for two years prior to the date of transfer. Any person authorized by law to accept, register or in any way approve the transfer of capital assets shall not accept, register or approve the transfer before ascertaining that the payment of the tax has been duly effected.

1.1.9 Tax on Income from Rental of Property

The taxable income under this category is income derived from casual rental of property (including any land, building, or moveable asset) not related to a business activity. This type of income is subject to tax at a flat rate of 15% of the annual gross income.

1.1.10 Rendering of Technical Services Outside Ethiopia

All payments made in consideration of any kind of technical services rendered outside Ethiopia to resident persons in any form shall be liable to tax at a flat rate of 10% which shall be withheld and paid to the Tax Authority by the payer. The term “technical service” means any kind of expert advice or technological service rendered.

1.1.11 Agricultural Income Tax

According to Proclamation No. 152 of 1978 individual farmers and agricultural producer-cooperatives earning up to Birr 600 per annum are required to pay 10 Birr. The tax rates on every additional income vary from 10% to 89% for income above 600 Birr.

In line with the economic policy and structural set up of the Federal Democratic Republic of Ethiopia, the former tax on income from agricultural activities and the land use rent was revised in 1995. Since income tax from this source is allocated to Regional States in consonance with the provisions of the new constitution of 1994, each Regional State is entitled to issue a Proclamation providing for such a tax and rent.

Accordingly, the Oromia Regional State has promulgated Proclamation No. 8/1995 that revised agricultural income tax rates schedule and rural land use fee. As for the payment of income tax from agricultural activities other taxpayers, except state farms, shall pay at the following rate.

Agricultural Income Tax per Proclamation No. 8/1995, Oromiya		
No.	**Annual Taxable Income**	**Tax Rate**
1	up to 1,200	Birr 15
2	1,201 - 5,000	5%
3	5,001 - 15,000	10%
4	15,001 - 30,000	20%
5	30,001 - 50,000	30%
6	over 50,000	40%

A state farm shall pay 40% of the taxable income it realizes from its agricultural activities. Income from agricultural activities is said to be determined by estimating the price, in the area, of the crop before harvest. If the crop is sold, the price declared shall be the basis for the assessment of income.

1.1.12 Land Use Tax

According to Proclamation No. 77/1976 and No. 152 /1978 individual farmers, who are not members of producer's cooperatives, are required to pay a land use fee of Birr 10 per hectare per annum. Whereas government agricultural organizations are paying 2 Birr per hectare per annum.

Presently regional states have their own land use rent systems. For instance, according to the Proclamation No. 8/1995 of Oromiya, rural land held for agricultural activities is subject to land use rent payment on annual basis. The annual land use rent payable by a farmer shall be Birr 10 for the first hectare and Birr 7.50 for each extra hectare of land. Meanwhile state-farming enterprises shall pay Birr 15 for each hectare of their land holdings. Land use rent is to be collected between the 1st of *Hidar* and the 30th of *Miazia* of the year.

1.2 Indirect Taxes

1.2.1 Turnover Tax

The Turnover Tax would be payable on goods sold and services rendered by persons not registered for Value Added Tax. The rate of Turnover Tax is

- 2% on goods sold locally;
- for services rendered locally:
    - 2% on contractors, grain mills, tractors and combine-harvesters;
    - 10% on others.

The base of computation of the Turnover Tax is the gross receipts in respect of goods supplied or services rendered. A person who sells goods and services has the obligation to collect the Turnover Tax from the buyer and transfer it to the Tax Authority. Hence, the seller is principally accountable for the payment of the tax. In accordance with the Turnover Tax Proclamation No. 308/2002, the following would be exempted:

- Sale or transfer of dwelling used for a minimum of two years, or the lease of a dwelling;
- Rendering of financial services;
- Supply of national or foreign currency and of securities;
- Rendering by religious organizations of religious or other related services;
- Supply of prescription drugs specified in directives issued by the relevant government agency, and the rendering of medical services;

- Rendering of educational services provided by educational institutions;
- Supply of goods and rendering of services in the form of humanitarian aid;
- Supply of electricity, kerosene and water;
- Provision of transport;
- Permits and license fees;
- Supply of goods or services by a workshop employing disabled individuals (if more than 60% of the employees are disabled);
- Supply of books.

Assessment of the Tax

- If after review by the Tax Authority, it appears that a person has understated his tax obligation, the Authority can issue an additional assessment;
- If, for any reason, the books of account are unacceptable to the Tax Authority, or if the tax payer fails to submit same when requested by the Authority, or if no books of account and supporting documents are maintained, the Tax Authority would assess the tax on the basis of information available;
- A presumptive turnover tax would be payable by Category "C" taxpayers who are not required to keep records. The base for the presumptive turnover tax would be the total turnover used as base for the income tax;
- The assessment made would be prepared in an assessment notification and be delivered to the taxpayer;
- If the Authority makes an additional assessment and within 30 days of notice the person assessed does not pay the additional assessment or appeal the assessment the person is in default;
- If the Tax Authority fails to assess the tax and notify the taxpayer of the amount still due within five years from the date of declaration and payment of the tax by the taxpayer the tax so paid would be final and conclusive. In case where the taxpayer has not declared his income or has submitted a fraudulent declaration, no time limit provided in any other law shall bar the assessment of the tax by the Tax Authority.

Notification of Changes

A registered taxpayer is required to notify the Tax Authority:

- Any change in the name, address, place of business, constitution, or nature of the principal taxable activity or activities of the person;
- Any change of address from which, or name in which, a taxable activity is carried on by the registered person, with in 21 days following such change.

Tax Evasion

A person who evades the declaration or payment of tax, commits an offence and in addition to any penalty may be prosecuted and be subject to a term of imprisonment of not less than five (5) years.

If any amount of tax is not paid by the due date, the person liable is obliged to pay interest on such amount for the period from the due date to the date the tax is paid. The interest rate is set at 25% over and above the highest commercial banks lending interest rate that prevailed during the preceding quarter.

A person who fails to file a timely return is liable for a penalty equal to 5% of the amount of tax underpayment for each month (or portion there of) during which the failure continues, up to 25% of such amount. The penalty is limited to 50, 000 Birr for the first month in which no return is filed

1.2.2 Excise Tax

It is believed that this tax should be imposed on luxury goods and basic goods, which are demand inelastic. It is also believed that imposing the tax on goods that are hazardous to health and which are causes to social problems will reduce the consumption thereof.

<u>Rate of Excise tax:</u>

The excise tax would be imposed on goods imported or either produced locally in accordance with the following schedule, given in Excise Tax Proclamation No. 307/2002.

Goods to be liable to Excise Tax (produced locally or imported)

Ser. no.	Type of Product	Excise Tax Rate
1	Any type of sugar (in solid form) excluding molasses	33%
2	Drinks:	
2.1	- All types of soft drinks (except fruit juices)	40%
2.2	- Powder soft drinks	40%
2.3	- Water bottled or canned in a factory	30%
2.4	Alcoholic Drinks:	
2.4.1	- All types of beer + stout	50%
2.4.2	- All types of wine	50%
2.4.3	- Whisky	50%
2.4.4	- Other alcoholic drinks	100%
3	All types of pure alcohol	75%
4	Tobacco + tobacco products	
4.1	- Tobacco leaf	20%
4.2	- Cigarettes, cigar, cigarillos, pipe tobacco, snuff and other tobacco products	75%
5	Salt	30%
6	Fuel-Super Benzene, Regular Benzene, Petrol, Gasoline and other Motor Spirits	30%
7	Perfumes and toilet waters	100%
8	Textile and textile products	
8.1	- Textile fabrics, knitted or woven of natural silk, rayon, nylon, wool or other similar materials	10%
8.2	- Textile of any type partly or wholly made from cotton, which is grey, white, dyed or printed, in pieces of any length or width (except Mosquito net and *Abudgedid*) and including, blankets, bed-sheets, counterpanes, towels, table clothes and similar articles	10%
8.3	- Garments	10%
9	Personal adornment made of gold, silver or other materials	20%
10	Dish washing machines of a kind for domestic use	80%

11	Washing machines of a kind for domestic purposes	30%
12	Video decks	40%
13	Television and video cameras	40%
14	Television broadcast receivers whether or not combined with gramophone, radio, or sound receivers and reproducers	10%
15	Motor passenger cars, Station Wagons, utility cars, and Land Rovers, jeeps pickups, similar vehicles (including motorized caravans), whether assembled, together with their appropriate initial equipment:	
15.1	- up to 1,300 c.c.	30%
15.2	- from 1,301 c.c. up to 1,800 c.c.	60%
15.3	- above 1,800 c.c.	100%
16	Carpets	30%
17	Asbestos and asbestos products	20%
18	Clocks and watches	20%
19	Dolls and toys	20%

The base of computation of Excise Tax is the cost of production for goods produced locally; where as for goods imported the base of computation would be the cost of production, insurance and freight costs.

Obligations of the taxpayer:

- Maintaining books of accounts and supporting documents in accordance with proper accounting principles and in a manner acceptable to the Tax Authority;
- Submit every 30 days to the Tax Authority, in a form which would be supplied by the Authority, a declaration containing the necessary information for the proper collection of the tax;
- Comply fully with the requirements of inspection of his premises by the delegates of the Tax Authority;
- Immediately communicate to the Tax Authority the type and address as well as the commencement and termination date of his business;

- Pay in full the tax due within 30 days from the date of termination where such business is terminated.

Regarding goods imported the Tax Authority can sell such goods where the tax in respect of them is not paid within six months from the day of deposit within the premises of government warehouse, or in the case of perishable goods.

Notification of Change

Every taxpayer should notify the Tax Authority of:

- Any change in the name, address, place of business, constitution, or nature of the principal taxable activity or the activities of the person;
- Any change of address from which, or name in which, a taxable activity is carried on by the taxpayer, with in 5 days of the change occurring.

Tax Evasion

A person who evades the declaration or payment of tax, commits an offence and in addition to any penalty may be prosecuted and be subject to a term of imprisonment of not less than five (5) years.

If any amount of tax is not paid by the due date, the person liable is obliged to pay interest on such amount for the period from the due date to the date the tax is paid. The interest rate is set at 25% over and above the highest commercial banks lending interest rate that prevailed during the preceding quarter.

A person who fails to file a timely return is liable for a penalty equal to 5% of the amount of tax underpayment for each month (or portion there of) during which the failure continues, up to 25% of such amount. The penalty is limited to 50, 000 Birr for the first month in which no return is filed.

1.2.3 Value Added Tax (VAT)

VAT is a tax on consumer expenditure. It is collected on business transactions and imports. A taxable person can be an individual, firm, company, as long as such a person is required to be registered for VAT.

Most business transactions involve supplies of goods or services. VAT is payable if they are:

- Supplies made in Ethiopia;
- Made by a taxable person;
- Made in the course or furtherance of a business;
- Are not specifically exempted or zero-rated.

The Value Added Tax would be levied at the rate of 15% of the value of:

- Every taxable transaction by a registered person;
- Every import of goods, other than an exempt import; and
- Import of services.

A person who carries on taxable activity and is not registered is required to file an application for VAT registration with the Authority if:

- At the end of any period of 12 calendar months the person made , during that period, taxable transactions the total value of which exceeded 500,000 Birr; or

- At the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during that period will exceed 500,000 Birr.

<u>Registration procedure:</u>

- A person applying to register for VAT is required to do so in such a form as is established by the implementation directives issued by the Ministry of Revenue;
- When a person carrying out taxable transactions files an application to be registered for VAT, the Authority is required to register the person in the VAT register, and to issue a certificate of registration within 30 days of the registration;
- A person registered for VAT is required to use his taxpayer identification number on all VAT invoices, and on all tax returns and official communications with the Authority.

There is a VAT invoice prepared by the Ministry of Revenue containing the following information:

- Full name of the registered person and the purchaser, and the registered;
- Person's trade name, if different from the legal name;
- Taxpayer identification number of the registered person and the purchaser;

- Number and date of the VAT registration certificate;
- Name of the goods shipped or services rendered;
- Amount of the taxable transaction;
- Amount of the excise on excisable goods;
- Sum of the VAT due on the given taxable transaction;
- Issue date if the VAT invoice, and
- Serial number of the VAT invoice.

The registered person is required to issue the VAT invoice to the purchaser of goods or services upon the supply or rendering, but not later than 5 days after the transaction.

Record Keeping Requirement:

A registered person or any other person liable for VAT under the proclamation shall maintain for 10 years in Ethiopia:

- Original tax invoices received by the person;
- Copy of all tax invoices issued by the person;
- Customs documentation relating to imports and exports;
- Accounting records; and
- Any other records as may be prescribed by the Minister of Revenue by directive.

Administrative Penalties:

The following penalties are imposed for violations of the VAT Proclamation:

- Where any person engages in taxable transactions without VAT registration where VAT registration is required – 100%of the amount of tax payable for the entire period of operation without VAT registration;
- Where any person issued incorrect tax invoice resulting in a decrease in the amount of tax or increase in accredit or in the event of the failure to issue a tax invoice – 100%of the amount of tax for the invoice or the transaction;
- Where a person who is not registered for VAT issues a tax invoice – a penalty of 100%of the tax which is indicated in the tax invoice and is due for transfer to the budget but has not been transferred; and
- Where a person fails to maintain records required – 2,000 Birr for each month or portion thereof that the failure continues.

A person who fails to file a timely return is liable for a penalty equal to 5% of the amount of tax underpayment for each month (or portion thereof) during which the failure continues, up to 25% of such amount. The penalty is limited to 50,000 Birr for the first month (of portion thereof) in which no return is filed. If any amount of tax is not paid by the due date, the person liable is obliged to pay interest on such amount for the period from the due date to the date the tax is paid. The interest is set at 25% over and above the highest commercial lending interest rate that prevailed during the preceding quarter. The following types of supplies of goods (other than by way of export) or rendering of services, as well as the following types of imports of goods are exempt from payment of VAT:

- Sale, transfer or the lease of a used dwelling;
- Rendering of financial services;
- Supply/import of national/foreign currency and of securities;
- Import of gold to be transferred to the National Bank;
- Rendering of religious organizations or church services;
- Import or supply of prescription drugs specified in directives issued by Minister of health, rendering of medical services;
- Educational services provided by educational institutions, or child care services for children at pre-school institutions;
- Supply of goods and rendering of services in the form of humanitarian aid, as well as import of goods transferred to state agencies of Ethiopia and public organizations for the purpose of rehabilitation after natural disasters, industrial accidents, and catastrophes;
- Supply of electricity, kerosene, and water;
- Goods imported by the government, organizations, institutions or projects exempted from duties and other import taxes to the extent provided by law or by agreement;
- Supplies by the post office authorized under the Ethiopian Postal Services Proclamation, other than services rendered for a fee or commission;
- Provision of transport; Permits and license fees;
- Supply of goods or services by a workshop employing disabled individuals if more than 60 % of staff are disabled;
- Import or supply of books and other printed materials.

1.2.4 Customs Duty

Any good imported or exported would be subject to:

- Payment of duties and taxes according to the tariff of Harmonized Commodity Description and coding system;

- Payment of duties and taxes according to the preferential tariff rate where goods are imported from the preferred country;
- Payment of duties and taxes at the rate in force on the day the declaration of the goods are presented to, and accepted by the customs office.

Duty Paying Value

The duty paying value of any import or export goods shall be the actual total costs of the goods.

Duty Paying Value of Imports:

1) For the purpose of customs the duty paying value for imported goods would be the sum of the transaction value, freight cost and insurance premium that is paid to deliver the goods up to a prescribed customs port;
2) Transaction value and other related costs given by a supplier who is associated in business with the importer shall be considered genuine unless the given price is influenced by their relationship;
3) Where a document which show the correct freight cost up to the first customs port is not produced or the document produced is rejected by the Authority; the freight cost of identical goods transported at or about the same time with the same means of transport would be taken to calculate the cost of freight;
4) Goods imported with out insurance coverage or transported under insurance coverage but the bill produced is rejected by customs, the insurance cost paid for identical goods transported at or about the same time with the same means of transport would be taken to calculate the cost of insurance;
5) To determine the accurate value of the goods the following additional costs shall be considered
    a. commission and brokerage costs incurred by the buyer;
    b. cost of container and cost of packing the goods be it for labour or material;
    c. value of goods and services supplied by the buyer free of charge or at reduced cost, to the extent that such value has not been included in the price actually paid or payable;
    d. royalties and license fees related to the goods that is paid directly or indirectly by the buyer;
    e. loading , unloading and handling charges paid up to the port of importation.

6) Where documents necessary to determine duty paying value of the goods are not presented, or rejected by the Authority, the transaction value of identical goods imported from the same country at or about the same time shall be taken to determine the value of the goods;
7) Where the value of the goods cannot be determined the transaction value of similar goods imported from the same country at or about the same time shall be taken to determine the value of the goods.

Deductibles from Import Value:

1) The following adjustment costs shall be deducted from import values
   a) costs for damages in routes;
   b) costs for damages in customs warehouse.
2) When it is requested and agreed upon by the customs office to destroy or dispose any dangerous goods deposited in the warehouse, the goods shall be destroyed or disposed at the presence of customs officer and other officials concerned, and the value of the goods destroyed or disposed should be deducted proportionally from the duty paying value of the goods.

For customs purpose the value of export goods shall be the transaction value of the goods and the cost of transaction up to the port of exit.

Requirements for Customs transit goods:

1) For commercial goods
   - original bill of lading;
   - original or copy performa invoice;
   - original receipt of pre-shipment inspection fee;
   - original and copy of bank permit;
   - deposit for goods imported with guarantee bond or certificate for goods imported without guarantee bond.

2) For duty free goods
   2.1 Goods which do not require pre-shipment inspection
   - bill of lading (goods to be imported with bank permit);
   - copy of the original bill of lading (for goods to be imported with out bank permit);
   - permit letter for duty free privilege or certificate for the transportation of goods without guarantee;
   - document showing quality and quantity of transit goods;

2.2 Goods requiring pre-shipment inspection

- original bill of lading;
- original or copy of the performa invoice;
- original receipt of the pre-shipment inspection fee;
- original and copy of the bank permit.

3) For goods to be imported on government budget

- original and copy of bill of lading;
- original or copy performa invoice;
- original receipt of the pre-shipment inspection fee or copy of the receipt bearing the seal of customs offices;
- original bank permit with its copy;
- undertaking letter for a guarantee or permit for transiting goods without guarantee.

4) For transit of donation or gift goods

- original bill of lading or the fax copy of the original;
- original or copy document stating the type, the amount, and the value of goods;
- letter of guarantee or permit for goods to be transited without guarantee.

Customs Control

For the implementation of the objectives of customs, the following goods shall be under the supervision and control of customs:

- Imported goods from the time at Customs port until the completion of customs formalities and received by the importer;
- Goods under drawback procedure from the time of drawback claim until exportation;
- Goods entered into customs warehouse until removed from the warehouse;
- Goods of export from the time they entered into customs port until the completion of customs formalities and be exported;
- Goods in transit, from the time their movement is allowed until the completion of transit procedure;
- Goods found with out owner, abandoned, forfeited or contraband goods until they are sold or disposed other wise.

The Customs Authority would be responsible for the damage on goods under its control and supervision caused by its employees while discharging their official duties.

Duty Free Privilege

Ethiopians enjoying duty free privilege are classified in to five categories based on the special rank, responsibility, mission and the length of their stay in abroad. People in these categories and goods imported without paying duties and taxes are the following.

Category 1

Ethiopian diplomats returning from abroad up on completion of their mission. These diplomats are:

a) Ethiopians who were working in Ethiopian Embassies abroad;
b) Ethiopians who were assigned by the government with the rank of diplomat to work at international and regional organizations where Ethiopia is a member;
c) Ethiopians competitively employed by their own in the above organizations and have got a diplomatic status;
d) Ethiopians who are issued diplomatic passport and were working in foreign institutions recognized by the Ministry of Foreign Affairs of Ethiopia;
e) Ethiopian returnees on special call made by the government.

People under this category can import automobile; personal effects and house hold goods without paying duties and taxes. However, those who are under “E” of category 1 are not allowed to import automobile on duty free.

Category 2

Ethiopians who are included in this category are:

a) Those who have been working in any Ethiopian government office for more than three years;
b) Those who returned to invest their capital in their country and who have got investment certificates;
c) Students who have been attending higher education for one or more academic year;
d) Students who have been abroad for higher education and who returned home for research during academic seasons may bring with them part of what they are allowed to import when they return home after graduation;

e) Returnees/refugees stayed for more than three years abroad;
f) Ethiopians employed in international regional organizations on competitive basis served for more than three years abroad.

People under this category are allowed to import automobile, personal effects and household goods without paying duties and taxes. Where as those people mentioned under “E” are not allowed to import automobile on duty free.

Category 3

Ethiopian refugees, returnees, staff of international and regional organizations who do not have a diplomatic status and employees of government branch offices abroad who stayed for more than one year and less than three years. People in this category are allowed to import household goods and personal effects on duty free but not automobile.

Category 4

This category includes Ethiopians who stayed abroad for more than three months and less than one year. These are refugees, returnees, employees of government branch offices abroad, staff of international and regional organizations as well as Ethiopians who were out on business, seminar, education, visiting and medical reasons. Ethiopians under this category are allowed to import household goods and personal effects on duty free excluding automobile.

Category 5

Ethiopians who were abroad for less than three months for government business education, visiting and medical reasons. People in this category are also allowed to import household goods and personal effects on duty free except automobile. Diplomatic and Consular Missions and their officials are entitled duty free rights. UN Organizations, international and regional organizations and their officials and staff members are granted exemptions from all customs duties and taxes for articles imported by them with in the permitted time frame.

Organizations established by foreign governments to render economic, technical and cultural assistance and their expatriates are granted exemption from all customs duties and taxes for articles imported by the organizations and their respective officials. Expatriates working in non-governmental organizations are entitled duty free rights for articles imported for their personal use. Investors of foreign nationals are also entitled to a duty free right for articles imported for their personal use.

Any goods imported duty free may be sold or disposed to any person who enjoys similar privileges without paying duties and taxes. Whereas, if the goods imported duty free are to be sold or transferred to any other person not having the privilege it would be subjected to customs duties and taxes at the rate and value prevailing during the time of sales or disposal.

1.3 Stamp Duty

The following instruments shall be chargeable with stamp duty:

- Memorandum and articles of association of any business organization, cooperative or any other form of association;
- Award; Bonds; Warehouse bond;
- Contract and agreements and memoranda;
- Security deeds;
- Collective agreement;
- Contract of employment;
- Lease, including sub-lease and transfer of similar rights;
- Notarial acts;
- Power of attorney;
- Documents of title to property.

Time and Manner of Payment

1) The stamp duty would be paid:

- On memorandum and articles of association, before or at the time of registration;
- on awards, before or at the time of issuance of the award;
- on contracts or agreements, before or at time of signature;
- on leases or sub-leases, before or at the time of signature;
- on notarial acts, at the time of issuance;
- on security deeds, before or at the time of signature;
- on documents of title to property, before or at the time issuance is effected.

2) The payment of stamp duty

- Under Birr 50 would be effected by affixing stamp of appropriate value to the instrument;
- when the stamp duty exceeds Birr 50 or where the type and nature of instrument so requires, the Federal Government Revenue Board may by directive provide;
- that stamp duty be paid by means other than affixing stamp.

3) Whoever executes or receives an instrument bearing an adhesive stamp shall at the time of execution cancel the same, so that it cannot be used again.

Rate of Stamp Duty:

The stamp duty on each instrument to be charged, levied and collected at the following rates:

No.	Instruments chargeable with Stamp Duty	Basis of Valuation	Rates of Stamp Duty
1	Memorandum and articles of association of any business organizations, or any association: a) upon 1st execution b) upon any subsequent execution	 flat flat	 Birr 350 Birr 100
2	Memorandum and articles of association of cooperatives a) upon 1st execution b) upon any subsequent execution	 flat flat	 Birr 35 Birr 10
3	Award	on value	a) determinable value 1% b) undeterminable value Birr 35
4	Bonds	on value	1%
5	Warehouse bond	on value	
6	Contracts and agreements and memoranda	flat	Birr 5
7	Security deeds	on value	1%
8	Collective agreement a) on 1st execution b) on any subsequent execution	 flat flat	 Birr 350 Birr 100
9	Contract of employment	salary	1%
10	Lease including sub-lease and transfer thereof	on value	0.5 %
11	Notarial act	flat	Birr 5
12	Power of attorney	flat	Birr 35
13	Register title to property	on value	2%

Right to Appeal

Persons dissatisfied with the decision of the Federal Inland Revenue Authority in respect of the amount of Stamp Duty may, within 21 days from the date of notification of the decision rendered in writing, make an appeal against the decision to the Federal High Court.

Penalty

Any person:

- Executing or signing, otherwise than as a witness, a document chargeable with stamp duty without the same being stamped,
- Who, with intent to defraud the appropriate payment of duty, conceals facts bearing on the true nature of any instrument,

shall be liable on conviction to a fine not less than Birr 25,000 and not exceeding Birr 35,000 and to rigorous imprisonment for a term not less than 10 years and not more than 15 years.

Any person who:

- Appointed to sell stamps or stamped papers, disobeys regulations issued under this proclamation; or
- Not so appointed, sells or offers for sale stamps or stamped papers;

shall be liable on conviction to a fine not less than Birr 5,000 and not exceeding Birr 20,000 and to rigorous imprisonment for a term not less than 5 years and not more than 10 years.

Exemptions:

- The Ministry of Revenue may for good cause grant exemption from payment of stamp duty;
- Public bodies on which the Federal Government of Ethiopia Financial Administration Proclamation No. 57/1996 applies shall be exempt from payment of stamp duties;
- Goods imported for sale by traders having import license shall be exempt from payment of stamp duty when first registered in the name of the trader;
- Documents may be exempted from the payment of stamp duty in accordance with international agreements and conventions approved by the Government;
- Subject to reciprocity, the Minister may grant embassies, consulates and missions of foreign states exemption from payment of stamp duty;
- Share certificates shall be exempt from stamp duty payable on the register of title of property.

2. Categories of Taxpayers

Taxpayers are classified into the following three major categories:

1) Category “A” Taxpayers
2) Category “B” Taxpayers
3) Category “C” Taxpayers

2.1 Category “A” Taxpayers

This category of taxpayers includes:

a) Any company incorporated under the laws of Ethiopia or in a foreign country;
b) any other business having an annual turnover of Birr 500,000 or more.

Category “A“ taxpayers are required to submit to the Tax Authority, at the end of the year, a balance sheet and a profit and loss statement and the following details:

a) Gross profit and the manner in which it is computed;
b) general and administrative expense;
c) depreciation expense; and
d) provisions and reserves.

In addition, these taxpayers should register with the Tax Authority the type and quantity of vouchers they use before having such vouchers printed. Any printing press before printing vouchers of taxpayers shall ensure that the type and quantity of such vouchers is registered with the Tax Authority.

2.2 Category “B” Taxpayers

Unless already classified in category “A”, any business having an annual turnover of over Birr 100, 000 would be classified under Category “B” taxpayers. This category of taxpayers should submit to the Tax Authority profit and loss statement at the end of the year**.**

2.3 Category “C” Taxpayers

Unless classified in Categories “A” and “B”, those businesses whose annual turnover is estimated up to Birr 100, 000 are classified under this category of taxpayers.

Ser. No.	Business Sectors	AAPR	Tax Free	Category “C” Presumptive Tax Per Year																		
				Up to 10000	10001-15000	15001-20000	20001-25000	25001-30000	30001-35000	35001-40000	40001-45000	45001-50000	50001-55000	55001-60000	60001-65000	65001-70000	70001-75000	75001-80000	80001-85000	85001-90000	90001-95000	95001-10000
1	Fruits and Vegetables	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
2	Natural Honey, Butter + related Trades	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
3	Edible oil + its by-product	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
4	Skin + Hide Trade	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
5	Civet Trade	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
6	General Manufacturing	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
7	General Merchandise Trade + Grocery	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
8	Sport Goods Trade	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
9	Office Cafeteria	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
10	Incense Trade	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
11	Sugar Distribution	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
12	Candy + Sweet Production	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
13	Food items	10	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1605	1680	1755	1830	1905	2000	2100
14	Salt Trade	12	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1620	1710	1800	1890	2000	2120	2240
15	Building Contractors	13	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1628	1725	1823	1920	2050	2180	2310
16	Cereal + Pulses	13	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1628	1725	1823	1920	2050	2240	2380
17	Coffee Trade	14	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1635	1740	1845	1960	2100	2240	2380
18	Fabrics + Treads Trade	14	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1635	1740	1845	1960	2100	2240	2380
19	Cosmetics + Perfume Trade	14	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1635	1740	1845	1960	2100	2240	2380
20	Household Utensils Trade	14	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1635	1740	1845	1960	2100	2240	2380
21	Glass Works + Trade	14	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1635	1740	1845	1960	2100	2240	2380
22	Pepper + Spices Trade	15	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1643	1755	1868	2000	2150	2300	2450
23	Cemetery status work	15	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1643	1755	1868	2000	2150	2300	2450
24	Bed mattress production and Trade	15	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1643	1755	1868	2000	2150	2300	2450
25	Printing press	15	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1643	1755	1868	2000	2150	2300	2450

Ser. No.	Business Sectors	AAPR	Tax Free	Category “C”						Presumptive Tax Per Year												
				Up to 10000	10001-15000	15001-20000	20001-25000	25001-30000	30001-35000	35001-40000	40001-45000	45001-50000	50001-55000	55001-60000	60001-65000	65001-70000	70001-75000	75001-80000	80001-85000	85001-90000	90001-95000	95001-10000
26	Metal + building materials trade	16	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1650	1770	1890	2040	2200	2360	2520
27	Animal & animal products trade	18	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1665	1800	1940	2120	2300	2480	2660
28	Hop + malt trade	20	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1680	1830	2000	2200	2400	2600	2800
29	Barter transaction	20	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1680	1830	2000	2200	2400	2600	2800
30	Vehicles spare parts trade + workshop services	20	6000	80	180	280	380	480	630	780	930	1080	1230	1380	1530	1680	1830	2000	2200	2400	2600	2800
31	Jute trade	23	5217	110	225	340	455	615	788	960	1133	1305	1478	1650	1823	2020	2250	2480	2710	2940	3170	3400
32	Kindergarten (private)	23	5217	110	225	340	455	615	788	960	1133	1305	1478	1650	1823	2020	2250	2480	2710	2940	3170	3400
33	Shoe making + repair	23	5217	110	225	340	455	615	788	960	1133	1305	1478	1650	1823	2020	2250	2480	2710	2940	3170	3400
34	Charcoal trade	25	4800	130	255	380	518	705	893	1080	1268	1455	1643	1830	2050	2300	2550	2800	3050	3300	3550	3800
35	Construction materials production + trade	25	4800	130	255	380	518	705	893	1080	1268	1455	1643	1830	2050	2300	2550	2800	3050	3300	3550	3800
36	Laundry services	25	4800	130	255	380	518	705	893	1080	1268	1455	1643	1830	2050	2300	2550	2800	3050	3300	3550	3800
37	Hunting game services	25	4800 0	130	255	380	518	705	893	1080	1268	1455	1643	1830	2050	2300	2550	2800	3050	3300	3550	3800
38	Electrical + electronics goods supply	26	4615	140	270	400	555	750	945	1140	1335	1530	1725	1920	2180	2440	2700	2960	3220	3480	3740	4000
39	Hotels, bars + snakes	26	4615	140	270	400	555	750	945	1140	1335	1530	1725	1920	2180	2440	2700	2960	3220	3480	3740	4000
40	Wood + timber trade	27	4444	150	285	420	593	795	998	1200	1403	1605	1808	2040	2310	2580	2850	3120	3390	3660	3930	4200
41	Cotton trade	27	4444	150	285	420	593	795	998	1200	1403	1605	1808	2040	2310	2580	2850	3120	3390	3660	3930	4200
42	Stationeries, bookshops, books + news papers	29	4138	170	315	460	668	885	1103	1320	1538	1755	1990	2280	2570	2860	3150	3440	3730	4020	4310	4600
43	Gold silver smith & jewelry trade	30	4000	180	330	480	705	930	1155	1380	1605	1830	2100	2400	2700	3000	3300	3600	3900	4200	4500	4800
44	Tailoring services	30	4000	180	330	480	705	930	1155	1380	1605	1830	2100	2400	2700	3000	3300	3600	3900	4200	4500	4800
45	Souvenir, Ornaments + gift	30	4000	180	330	480	705	930	1155	1380	1605	1830	2100	2400	2700	3000	3300	3600	3900	4200	4500	4800
46	Cinema houses	30	4000	180	330	480	705	930	1155	1380	1605	1830	2100	2400	2700	3000	3300	3600	3900	4200	4500	4800
47	Commission agent for goods	30	4000	180	330	480	705	930	1155	1380	1605	1830	2100	2400	2700	3000	3300	3600	3900	4200	4500	4800
48	Barber + beauty salons	30	4000	180	330	480	705	930	1155	1380	1605	1830	2100	2400	2700	3000	3300	3600	3900	4200	4500	4800
49	Traditional clothes weaving trade	30	4000	180	330	480	705	930	1155	1380	1605	1830	2100	2400	2700	3000	3300	3600	3900	4200	4500	4800

Ser. No.	Business Sectors	AAPR	Tax Free	Category "C"						Presumptive Tax Per Year												
				Up to 10000	10001-15000	15001-20000	20001-25000	25001-30000	30001-35000	35001-40000	40001-45000	45001-50000	50001-55000	55001-60000	60001-65000	65001-70000	70001-75000	75001-80000	80001-85000	85001-90000	90001-95000	95001-10000
50	Electrical lift works + repair	33	3636	210	375	570	818	1065	1313	1560	1808	2100	2430	2760	3090	3420	3750	4080	4410	4740	5205	5700
51	Health care services	34	3529	220	390	600	855	1110	1365	1620	1875	2200	2540	2880	3220	3560	3900	4240	4580	4980	5490	6000
52	Bed services	35	3429	230	405	630	893	1155	1418	1680	1950	2300	2650	3000	3350	3700	4050	4400	4750	5250	5775	6300
53	Leather clothes production, tailor + trade	35	3429	230	405	630	893	1155	1418	1680	1950	2300	2650	3000	3350	3700	4050	4400	4750	5250	5775	6300
54	Vehicles seats upholstery repair	35	3429	230	405	630	893	1155	1418	1680	1950	2300	2650	3000	3350	3700	4050	4400	4750	5250	5775	6300
55	Music + video shops	46	2609	340	615	960	1305	1650	2020	2480	2940	3400	3860	4320	4780	5460	6150	6840	7530	8220	8910	9600
56	Photograph + photocopy services	49	2449	370	683	1050	1418	1785	2230	2720	3210	3700	4190	4680	5355	6090	6825	7560	8295	9030	9765	10500
57	Tyre repair	50	2400	380	705	1080	1455	1830	2300	2800	3300	3800	4300	4800	5550	6300	7050	7800	8550	9300	10050	10800
58	Shops, cafeterias Grocery, etc.	50	2400	380	705	1080	1455	1830	2300	2800	3300	3800	4300	4800	5550	6300	7050	7800	8550	9300	10050	10800
59	Night clubs	50	2400	380	705	1080	1455	1830	2300	2800	3300	3800	4300	4800	5550	6300	7050	7800	8550	9300	10050	10800
60	Stamp sales on commission	50	2400	380	705	1080	1455	1830	2300	2800	3300	3800	4300	4800	5550	6300	7050	7800	8550	9300	10050	10800
61	Tobacco distribution on commission	50	2400	380	705	1080	1455	1830	2300	2800	3300	3800	4300	4800	5550	6300	7050	7800	8550	9300	10050	10800
62	Computers + type writer training center	50	2400	380	705	1080	1455	1830	2300	2800	3300	3800	4300	4800	5550	6300	7050	7800	8550	9300	10050	10800
63	Tailoring training center	50	2400	380	705	1080	1455	1830	2300	2800	3300	3800	4300	4800	5550	6300	7050	7800	8550	9300	10050	10800
64	Tyre sales commission agent	50	2400	380	705	1080	1455	1830	2300	2800	3300	3800	4300	4800	5550	6300	7050	7800	8550	9300	10050	10800
65	Engineering & plan drafting	60	2000	480	930	1380	1830	2400	3000	3600	4200	4800	5700	6600	7500	8400	9300	10200	11200	12400	13600	14800
66	Renting of household utensils	70	1714	630	1155	1680	2300	3000	3700	4400	5250	6300	7350	8400	9450	10500	11800	13200	14600	1600	17400	18800
67	Consultancy services	70	1714	630	1155	1680	2300	3000	3700	4400	5250	6300	7350	8400	9450	10500	11800	13200	14600	16000	17400	18800
68	Sales of paintings + drawings	70	1714	630	1155	1680	2300	3000	3700	4400	5250	6300	7350	8400	9450	10500	11800	13200	14600	16000	17400	18800
69	Transit services	70	1714	630	1155	1680	2300	3000	3700	4400	5250	6300	7350	8400	9450	10500	11800	13200	14600	16000	17400	18800

Note: AAPR stands for Average Annual Profitability Rate

3. Declaration of Income and Assessment of Taxes

Taxpayers shall submit the tax declaration to the Tax Authority at the time of submitting the balance sheet, and the profit and loss account for that tax year within the time prescribed below:

a) Category "A" taxpayers within four months from the end of the taxpayers tax year;
b) Category "B" taxpayers within two months from the end of the taxpayers tax year.

A standard assessment method should be used to determine the income tax liability of category C taxpayers. The taxpayer should pay the tax determined in accordance with standard assessment from the 7th day of July to the 6th day of August every year, unless, the taxpayer requested and is allowed to make installment payments.

If no records and books of accounts are maintained by the tax payer, or if, for any reason, the records and books of accounts are unacceptable to the Tax Authority, or if the taxpayer fails to declare his or its income within the time prescribed by the proclamation, the Tax Authority may assess the tax by estimation. Unless and otherwise provided, the period for tax assessment is the one-year period from 1st *Hamle* to 30th *Sene*. A body shall not change its accounting year unless it obtains prior approval, in writing, from the Tax Authority and compiles with any condition that may be attached to the approval.

If a taxpayer has submitted a declaration of income within the time and manner as prescribed in the proclamation, the Tax Authority has five years to amend the assessment. The five years assessment period runs from the due date of the declaration. In case where the taxpayer has not declared his income or has submitted a fraudulent declaration, no time limit provided in any other law shall bar the assessment of the tax by the Tax Authority.

Assessment Notification

Every assessment notification should contain the following elements:

a) Gross income and deductions applicable;
b) Taxable income;
c) Rates applicable or percentage;
d) Taxes paid and due;
e) Any penalty or interest;

f) Taxpayer’s name, address, and TIN; and
g) Brief explanation of the assessment and a statement of the taxpayer’s rights.

Right of Appeal against Assessment of Income

Any taxpayer who objects to an assessment may appeal to the Tax Appeal Commission upon fulfilling the following requirements:

- A deposit of 50% of the disputed amount should be made to the Tax Authority;
- The appeal is lodged with the Appeal Commission within 30 days following the day of receipt of the assessment notice or from the date of decision of the Review Committee.

Members of the Appeal Commission at every level shall be appointed from among persons having good reputation, acceptability, integrity, general and professional knowledge, and from among persons who have not committed any offense in connection with tax and tax administration. The Appeal Commission exists at different levels:

- Federal Appeal Commission;
- Regional Appeal Commission;
- Zonal Appeal Commission;
- *Woreda* Appeal Commission.

The Appeal Commission has the authority to:

- Confirm, reduce or annul any assessment appealed against on the basis of established factual grounds and the law;
- Instruct the Tax Authority or the taxpayer to submit new facts, if any;
- Order the Tax Authority or the taxpayer or any other person or governmental department or agency to produce supporting evidence relevant to the taxpayer’s allegation.

Record Keeping Requirement

All persons who are engaged in a business or trade or who own buildings held all or in part for rental, except for Category “C” taxpayers shall keep books and records. Those businesses that are required to keep books of accounts and records are also required to keep the following information:

a) Record of the business assets and liabilities, including a register of fixed assets showing the date of acquisition, the cost of acquisition, and the current book value of each asset;

b) Record of all daily income and expenses related to the business activity and the matter to which they relate;

c) Record of all purchases and sales of gods and services to the business activity showing:
   - the particular goods and services sold;
   - the name of the buyers and sellers or providers in such a manner that they can be identified by the Tax Authorities;
   - pre-numbered invoices containing the vendor's tax identification number;

d) Record of trading stock on hand at the end of the accounting period, including the type, quantity and cost of that stock as well as the method of valuation of that stock;

e) Any other document relevant for the determination of the tax liability;

f) If a taxpayer has certain books or records in a foreign language, the Tax Authority may require that they be translated into one of the official languages of Ethiopia at the taxpayer's expense.

Penalty for Failure to keep proper Records

The taxpayer shall be liable for a penalty of 20% of the tax assessed if he failed to keep proper books of account, records, and other documents regarding a certain tax year. If the Tax Authority finds that a taxpayer has failed for two consecutive years, to keep proper books of account, records, and other documents the licensing authority would suspend the taxpayer's license on notification by the Tax Authority.

Tax Evasion: A tax payer who evades the declaration or payment of tax commits an offense and, in addition to the penalty for the understatement of income may be prosecuted and be subjected to imprisonment for a term of not less than five (5) years.

4. Tax Incentives

To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the following incentives are granted to both domestic and foreign investors engaged in areas eligible for investment incentives:

Customs Import Duty

- 100% exemption from the payment of import customs duties, and other taxes levied on imports is granted to an investor on all investment capital goods, such as plant machinery and equipment, construction materials, as well as spare parts worth up to 15% of the value of the imported investment capital goods, provided that the goods are not produced locally in comparative quantity, quality and price;
- Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to another investor enjoying similar privilege;
- Exemptions from customs duties or other taxes levied on imports are granted for raw materials that are necessary for the production of export goods.

Areas of Investment not eligible for Exemption from Payment of Customs Duty

- Hotels (other than those star-designated), motels, tea rooms, coffee shops, bars, night club and restaurants that do not have international standards;
- Wholesale, retail and import trade;
- Maintenance services;
- Commercial road transport and car-hire services;
- Postal and courier services;
- Real estate development;
- Business and management consultancy services;
- Advertisement services;
- Cinematography and similar activities;
- Radio and television broadcasting services;
- Theatre and cinema hall operations;
- Customs clearance services;
- Laundry services;
- Travel agency, trade auxiliary and ticket-selling services;
- Lottery and games of similar nature.

Income Tax Holiday

Profit tax holiday is granted in accordance with the Council of Ministers Regulation No. 84/2003 as follows:

Conditions for profit tax holiday eligibility, for investors engaged in a new manufacturing or agro-industry activity:

a) If at least 50% of its production is to be exported, profit tax exemption is for 5 years. In addition, if the investment is made in relatively under-developed regions the profit tax exemption is for 6 years;

b) If at least 75% of its production will be input for the production of export items there is also a profit tax exemption for 5 years. If the investment is made in relatively under-developed region the exemption would be for 6 years;

c) If the project is evaluated under a special circumstance by the BOI the profit tax exemption would be given up to 7 years. If the investment is made in relatively under-developed regions the profit tax exemption would be given up to 8 years. However, the granting of income tax exemption for a period longer than 7 years requires the decision of the Council of Ministers;

d) If less than 50% of the production is to be exported the profit tax exemption would be given for 2 years. If the investment is made in relatively under-developed regions the exemption would be given for 3 years;

e) If the production is for the local market there is a profit tax exemption for 2 years; and if the investment is made in relatively under-developed regions the exemption would be given for 3 years;

f) If the production mentioned above under (d) and (e) is considered by the BOI to be a special one the profit tax exemption would be given up to 5 years. If the investment is made in relatively under-developed regions the exemption would be given up to 6 years.

It is to be noted that for expansion or upgrading of the above projects which would increase the existing production by 25% in value and if 50% of the production is to be exported, a profit tax exemption would be given for 2 years.

In order to improve the foreign currency reserve of the country enhancing export trade has become necessary. Among the measures taken to achieve this, the setting up of the following export trade incentive schemes is of worth mentioning:

- Duty Draw-Back Scheme;
- Voucher Scheme;
- Bonded Manufacturing Warehouse Scheme.

Duty Draw-Back Scheme

"Duty Draw-back" means a scheme by which duty paid on raw materials used in the production of commodities is refunded upon exportation of the commodity processed and shall include refund of duties paid on goods re-exported in the same condition.

Beneficiaries of the scheme are persons or organizations wholly, partially or occasionally engaged in exporting their products; re-exporting commodities, or raw materials they have imported upon payment of duties. Where raw materials equivalent in price and quality to those they imported are locally available it would not apply. Duties paid on commodities or raw materials shall not be refunded where the amount of duty paid is less than Birr 1000.

The commodity produced with the raw material should be exported within one year from the date on which such raw material has been imported or purchased locally. Before exporting the commodity or raw material, the beneficiary of the Drawback Scheme should declare to the Tax Authority upon presentation of supporting documents that he intends to claim drawback. The declaration presented shall include the following:

- The name and address of the claimant;
- The date of importation and the import transaction documents;
- The document proving the amount of duty paid;
- The type and quantity of the commodity or raw material on which draw-back is claimed; input output coefficient;
- The type and detailed description of the manner of exportation of the commodity to be exported;
- If the commodity or raw material is re-exported in the same condition, the damage that could be caused by not being re-exported;

- The burden of proof that the duty claimed and the raw material and commodity presented for draw-back are in accordance with the proclamation.

If duty draw back is claimed for an export of commodity or raw material, the rate is 100% assuming that the items in question are processed and exported. The rate is 95% if the raw material or commodity is re-exported in the same condition.

Voucher Scheme

"Voucher" means a document having monetary value, printed by the Ministry of Finance, to be used as deposit for duties and taxes payable on imported raw materials. The Ministry of Finance upon request of the Customs Authority shall issue vouchers, in the amount of taxes and duties to be paid on raw materials they may import, to producers who are legible to become beneficiaries upon satisfying the conditions required.

On arrival of the imported raw materials at the Customs post, the raw materials shall directly be transferred to the private warehouse in the premises of the production site after the exporter has deposited with the Customs Authority the vouchers in the amount of taxes and duties to be paid. Raw materials imported under the Voucher Scheme must be fully utilized within one year from the date of their importation. However, taking into consideration the nature of the raw material, the Customs Authority may extend this period for an additional one year. Export commodities produced from raw materials imported under the Voucher Scheme should be declared and exported in accordance with Customs Procedure Code issued for this purpose by the Customs Authority.

Raw materials imported under the Voucher Scheme should not be sold in the local market. Any producer who in violation of the prohibitions provided sells the raw materials imported under the Voucher Scheme in the local market forfeit his right to use the Scheme. If the producer because of events beyond his control has terminated his export activity, after securing the consent of the Customs Authority, can sell the raw materials upon payment of duties and taxes together with interest thereon.

If the Ministry of Trade and Industry accepts the input-output coefficient submitted by the producer the Customs Authority would assess the taxes and duties payable on the raw materials imported under the Voucher Scheme on the basis of the input-output coefficient and settle the voucher on the basis of such assessment. Beneficiaries of the Voucher Scheme, in addition to input-output coefficient are required to submit a memorandum showing the amount of raw material wasted in the course of production process, the input used out of the raw material imported in the production of the by-product, in percentage, during the execution of the annual production plan.

Beneficiaries of the Voucher Scheme are persons and organizations who have obtained eligibility certificate issued by the Ministry of Trade and Industry. To become beneficiaries of the Scheme persons and organizations are required to:

- Have manufacturing license;
- Submit their annual business and export plan;
- Submit input-output coefficient;
- Supply information concerning raw materials wasted in the process of production;
- Submit evidence of export performance in the last two years, if they are not new to the sector;
- Sign an agreement with the Customs Authority undertaking to fulfill obligations enabling them to become beneficiaries of the Scheme;
- Submit evidence confirming that the commodity has demand and the demand is confirmed.

Bonded Manufacturing Warehouse Scheme: Beneficiaries of the Bonded Manufacturing Warehouse Scheme are producers wholly engaged in exporting their products who are not eligible to use the Voucher Scheme and who have license that enables them to operate Warehouse.

The customs official and the exporter would jointly lock the licensed warehouse. The exporter who imports raw materials would complete transit formalities at the port of arrival and the raw materials should directly be transferred to the warehouse. All the necessary customs formalities would be completed at the warehouse. The raw material to be used for production must be removed in the presence of the customs official. Unless the raw materials transferred into the warehouse are fully utilized and unless the products are exported within one year from the date of transfer to the warehouse, the exporter would be made to pay the taxes and duties together with the interest thereon.

If because of events beyond his control the producer has terminated his export activity, after securing the consent of the Customs Authority, he can sell the products manufactured by the use of the raw materials imported free of duty through the Bonded Manufacturing Warehouse locally upon payment of duties and taxes together with the interest thereon.

Persons that can be beneficiaries of the Bonded Manufacturing Warehouse Scheme are persons who have fulfilled the following conditions:

- Have manufacturing license;
- Having warehouse that has fully complied with all requirements provided for by Customs laws and regulations;
- Having paid allowances to the Customs officials assigned in the warehouse and license fees as determined by law;
- Present evidence showing that they have insured the warehouse;
- Provide their annual export plan showing the type, quantity and value of the products they intend to export during the year, and the raw materials they import to use in such products;
- Submit input-output coefficient;
- Submit a memorandum showing the amount of raw material wasted in the course of production process, the input used out of the raw material imported in the production of the by-product in percentage, during the execution of the annual production plan.

5. Purposes for which the Tax Revenue is Utilized

The best instrument which the governments can use as a source of revenue is taxation. It can be said, therefore, that a major function of taxation is to marshal the necessary funds to finance the ever-expanding level of public expenditures.

As in all other countries, one of the purposes of taxation in Ethiopia is the raising of as much revenue as possible to meet the ever-expanding public expenditure for the supply of public goods and services which otherwise would not be available to the general public by the market. The central aim of the tax system in Ethiopia is to collect sufficient money to finance the administrative machinery of the government as well as to finance the fulfillment of basic infrastructures like roads, telecommunication, electricity and other basic social services like education, health and water supply facilities.

In developing countries personal savings are usually low. This is because the per capita income of the population in these countries is very low. Moreover, the population in these countries is so high that it demands their governments to spend much of their limited revenues on public goods, such as infrastructure, education and health. Thus the governments of these countries normally have to look into various sources of finance, one of which is tax revenue, so that public goods and services which in turn positively impact development are supplied in reasonable quantities.

With the increasing task of the government, the role of taxation in economic development has become even more significant. Such goals addressed through taxation like maintaining and expanding adequate system of social services, the curtailing of unnecessary consumption of luxury items, the maintaining of economic stability, and the raising of funds for capital formation are justified. In general the fundamental principle of the tax structure is the mobilization of economic surplus.

The tax system in Ethiopia is not only meant to raise revenue for current expenditures but also aims at directing economic agents to the development goals foreseen by the government through the incentive schemes embedded within the prevailing tax laws. If the investments are of high priority in-terms of the country’s overall development goals, then they are entitled to better tax incentives like tax holidays and the vice versa if otherwise. By doing so the government can direct the allocation of resources into areas of its priority.

Through the tax system, government can protect domestic industries from competing imported goods through levying high tariff on the later.

Taxation is also used for non-fiscal purposes such as reducing the inequalities in income distribution; encouraging certain industries and discouraging others depending on how useful and appropriate they are at that particular economic stance.

Hence, some of the specific purposes of taxation in Ethiopia can be summarized as follows:

- Raising of as much revenue as possible to finance the country’s social and economic development programs and to alleviate poverty;
- Promotion of capital investment and trade;
- Ensuring equity, fairness and consistency in the administration of tax laws;
- Encouraging certain industries which are held important in developing the country; and
- Discouraging other industries which are likewise not important to the long-run development of the country.

6. Views of the Business Community

The business community comprises many different enterprises with partly diverging interests. Public enterprises, parastatals, micro, small, medium and large enterprises are part of it. So the views differ according to the size of the enterprise in terms of turnover, paid-up capital and employment records and according to the sector. Also do regional aspects play a role, since the regions have gained more autonomy. Last but not least the municipal taxes may complicate the picture and make transparency difficult. The latter two aspects raise issues of regional equity, since it was observed that the tax-burden for the very same business might differ according to the geographical area of operation.

In general, the organized business community is unanimous about some basic principles:

- Tax policy should promote investment and production so as to broaden the economic tax base of the country and not only aim at over imposing taxes on existing incomes
- Taxes must be fair, i.e., citizens should be taxed in proportion to their abilities to pay " in proportion to the benefit they derive from the government " (principle of equity) [1)];
- The possibilities and mechanisms to appeal should be improved and entrepreneurs be regarded as partners who contribute their share to the national revenue (and not as objects that need to be controlled first with a general suspicion that they are evading their civic duty);
- Tax penalties should be aimed at correcting and guiding the business community and not be regarded as a source of additional revenue for the government. The prevailing tax penalties are considered to be beyond the common businesses ability to pay, which makes it very hard for government as well to enforce payment and leads to the closure of enterprises, which otherwise could have continued to provide income and jobs to the national economy.

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1) Both "ability to pay" and "benefits received", therefore, are criteria of fairness. Taxation in accordance with appropriately applied standards of ability to pay or benefits received is said to meet the requirements of vertical equity (because such taxation exacts different amounts from people in different situations). Just as important is horizontal equity - the principle that people who are equally able to pay and who benefit equally should be taxed equally.

The tax exempt income threshold is considered to be very low and as a result micro and small enterprises which normally generate meager income from their activities are obliged to pay taxes which they could not afford. micro businesses have low returns that barely cover their daily basic needs. Micro business owners rather expect from the government various supports among which tax incentive is one.

Business owners frequently complain that the tax assessment method is based on subjective estimation as a result of which they are frequently exposed to over-taxation. Since micro and small enterprises do not have simplified access to and clarification on information of the tax laws, they lack awareness on tax rules and regulations and their implementation. An additional problem is, that many business owners do not keep their books properly, which invited to general estimations, which are often arbitrary. So training is necessary on the one hand and on the other hand, national standards for bookkeeping, which would be respected in all taxation offices nationwide need to be defined and introduced (promising projects are underway in this regard but need to be implemented soon).

The tax assessors from the government too are felt to be in dire need of upgrading. Whereas many entrepreneurs are not up to the level with regard to the current tax legislation, observations in the field show, that this is also the case with many of those, whose job is to assess and collect the taxes, oversee tax declarations and so on.

It is acknowledged that the new income tax proclamation has included all previously proposed amendments in the areas of income tax, and this made it easier both for the business community and the tax collectors themselves to obtain all the necessary information, with respect to income tax, from one document and make use of it.

With regard to the recently introduced Value Added Tax (VAT), arguments have been exchanged between the government and business community. These centered around the fear, that VAT would escalate the prices and services and weaken the purchasing power of the people, which is already low. This in turn would discourage investors from producing goods and services for local consumption and thus perpetuate poverty. The most serious threat to fair competition in a tax system with VAT is the flagrant contraband-trade, especially through the hardly controllable Somali border.

7. Future Plans of Improvement in the Taxation System

Studies to update the measurement of business profitability rates, which will be used to revise the standard assessment method of presumptive taxation, are underway. Of course, such updating is necessary and as far as possible the study needs to be broad based in considering the necessary data to be more realistic in setting the profitability rates. The Revenue Agency with the City Government of Addis Ababa is planning to start a new annual tax estimation assessment method for businesses whose annual revenue is less than 100,000 Birr. The previous estimation, which adds 6% every year, would be replaced by the new estimation for the standard assessment of income tax. The implementation of the Taxpayer Identification Number (TIN) system has been started. The intention is to ensure tax compliance and at the same time simplify the process for taxpayers. The TIN system is planned to be integrated to the systems of the Ethiopian Customs Authority, banks, other financial institutions, government agencies and commercial institutions. The City Government of Addis Ababa is planning to assign tax identification numbers to all citizens of the city by the end of 2005. This method would help the city maintain a tax record on every citizen who works in private companies or international institutions.

The Federal Inland Revenue Authority (FIRA) is in the process of finalizing its long-term computerization strategy, including the technical support that it will be required to provide to the city and regional tax authorities. Taxpayer education and service programs are started and this needs to be further strengthened by giving due attention and wide coverage. Some of the initiatives include the development of a comprehensive Tax Guide that covers all the taxes administered by the Federal Inland Revenue Authority, and public awareness programs conducted through the media. However, there is a need to assess the specific problems of the business operators periodically in order to address their real needs in this regard.

The involvement of the City and Regional Tax Authorities in the tax reform programs and its implementation is a good start which needs to be enhanced. Likewise, due attention would be required to consult the business community on such reform programs so as to be realistic and to ease its implementation. The revenue sector reform program office of the Ministry of Revenue has stared providing training on the Income Tax, Excise Tax, Turnover Tax, and VAT proclamations to personnel of the city/regional tax authorities, and to FIRA regional personnel. Similarly, there is a start on taxpayer awareness creation programs but a lot remains to be done in this regard. The FIRA and the city/regional tax authorities are currently developing operating modalities under which the latter will provide operational support in the administration of VAT and other taxes in areas of the country that the FIRA is unable to provide the mentioned services with least cost and high efficiency.

Customs Reform Program

The Ethiopian Customs Authority (ECuA) is planning to modernize its operational systems. The modernization of ECuA would involve effective use of computerized systems. The modernization would support the faster release of goods, post-release verification and audit programs and the development of effective commercial intelligence and anti-smuggling programs. Moreover, ECuA needs to develop its internal training capacity through the establishment of a training school.

The Customs Reform Program is organized into the following sub-programs:

- Customs Automation; Headquarters and Station Buildings; Training School; Customs Laboratory; Enforcement; Management and Operational Staff Training.

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Ethiopian Chamber of Commerce (ECC)
Ethiopian Business Development Services Network (EBDSN)

List of Publications for Business Development

Start and Improve your Business (this volume will be published in 6/2004)
Identify viable business ideas, market and supply analysis, write a business plan, organise business management, evaluate sales, improve products.

Marketing Strategies for Micro, Small and Medium Enterprises
Marketing problems faced by Ethiopian businesses, marketing strategies, managing prices, product development and promotion.

Trade Fair Participation and Export Guide
Trade Fair participation, export procedures, export business registration and licensing, Ethiopian trade statistics, quality export products information.

Business Planning
Business planning for micro, small and medium enterprises: personal data, equipment owned and to be purchased, work premises at the disposal of the operator, production/service plan, raw material requirement, yearly sales plan, operating expenses, profit and loss statement.

Accounting and Cost Calculation Manual
Manual and electronic cash book formats, records on maintenance services, receipt, sales on credit, raw material inventory, cash flow statement, accounting software and software providers in Ethiopia, cost calculation, identify cost components, calculate variable and fixed costs, calculate total cost per unit, how cost calculating improves your business.

Loan Conditions of Commercial Banks and Micro-Finance Institutions
Loan conditions in Ethiopia: loan types, loan term, lending rate, re-payment schedule, type of collateral, loan criteria, eligibility.

Improve your Business Association
Needs assessment of your members, situation analysis, action planning, services, fundraising, membership fees and accounting.

Standards and Quality in Ethiopia
Standards, conformity assessment, testing, certification, metrology.

Investment Guide
Business environment, investment opportunities and conditions, taxation and incentives, investment protection.

On sale by Mega Book Store and Chambers of Commerce