

## **Profile—The Republic of Djibouti (Djibouti for short)**

### **I. Jurisdiction Background**

The Republic of Djibouti (Djibouti for short) is located on the northeast coast of the Horn of Africa. It is situated on the Babel Mandeb Strait, which lies to the east and separates the Red Sea from the Gulf of Aden. It has a land area of 23,200 square kilometers and is divided into one city and five regions. The capital is Djibouti City, with French and Arabic as its official languages while Somali is widely spoken. The economy relies heavily on the service sector. With continued effort focusing on financial, telecommunications, and trade related services, the development of the service sector solidifies the country's position as an important regional business and trade hub in the Horn of Africa.

### **II. Organizational Structure**

The Direction Générale des Impôts (DGI) under the Ministry of Budget is responsible for managing, controlling and collecting all taxes and duties determined by the General Tax Code. In this capacity, the DGI defines strategies for developing the tax base and improving revenues. Headed by the Director General, the DGI comprises departments in charge of tax management, tax control and tax collection respectively.

### **III. Current Tax System**

A territorial tax system is operated in Djibouti. Major taxes include income tax imposed on corporations (also known as Business Profit Tax) and individuals (also known as Salary Tax), as well as Value Added Tax (VAT). There are also other taxes and duties including stamp duty, excise tax, land tax, vehicle tax and business license fee, etc.

### **IV. Overview of tax preference policies**

Income tax exemption is provided to all newly registered foreign and domestic companies for the first 3 years of operation. A specific tax regime is introduced to support micro and very small businesses, providing a tax exemption for the first 2 years of activity and an annual flat rate in the following years.

Several sectors benefit from the general exemption regime granted by the Investment Code. The Investment Code also contains two preferential systems for investors with different level of investment. Regime A provides exemption from the internal consumption tax on materials and equipment necessary for carrying out the investment programme for the first three years of an approved company's operations. Investments or companies considered to be of particular economic or social interest, e.g. the construction of buildings for exclusive industrial, commercial and tourism use, or the construction, creation and operation of

education establishments and trainings, can benefit from Regime B if they fulfil the conditions on investment amount or job creation.

## **V. Tax Collection and Administration**

Personal Tax Identification (PTI) number has been introduced which the taxpayers obtain at the time of registration. Taxation of business profits is done through two tax regimes, i.e. simple taxation and normal taxation. Simple taxation applies to persons or entities that have not opted for taxation based on their actual profits and have an annual turnover below prescribed limits. The normal taxation regime applies to taxpayers whose annual turnover exceeds the threshold.

## **VI. Taxpayer Services**

An integrated large taxpayers office is being set up, with an implementation plan and the necessary legislation to support the integration. The authorities are also designing a stakeholder engagement and communication program as a structured approach to encourage voluntary compliance.

## **VII. Tax Legislation Process**

Djibouti tax system was based on separate codes that dealt with direct and indirect taxation until 2009. In 2009, VAT was introduced and the different codes were bundled in one single document, known as the General Tax Code (GTC). The bundling of the single code facilitates access to applicable tax provisions. Amendments have been made by Finance Law of various fiscal years to reflect and adapt to the economic development and social needs.

## **VIII. Future Tax Reform Plan**

Djibouti is in the process of advancing further fiscal and tax reforms which include improvement on both tax policies, particularly on core taxes, and tax compliance and efficiency level. There are considerations regarding priorities, including further consolidating tax provisions within the General Tax Code to enhance transparency, strengthening centralized control by the Ministry of Budget over tax policy, ensuring strict adherence to the rule of law, establishing a dedicated tax policy unit, and contemplating tax policy measures within the context of a medium-term agenda with government-wide support.

## **IX. International tax cooperation**

Djibouti is a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes as well as the Africa Initiative, the African-focused programme for the

same purpose. It is a Council Member of the Belt and Road Initiative Tax Administration Cooperation Mechanism (BRITACOM) and a member of the Belt and Road Initiative Tax Administration Capacity Enhancement Group (BRITACEG). It is also a member of the OECD/G20 Inclusive Framework on BEPS. Djibouti is in the process of negotiating tax treaties with several jurisdictions.

**X. Others**

None.