Profile——The Federal Democratic Republic of Ethiopia (Ethiopia for short)

I. Jurisdiction Background

The Federal Democratic Republic of Ethiopia (hereinafter referred to as "Ethiopia") is an inland country located in the northeast of Africa, with a civilization history of over 3,000 years, and it is also the second most populous country in Africa. The capital, Addis Ababa, serves as the political, economic, and cultural center of Ethiopia and is the headquarters of the United Nations Economic Commission for Africa and the African Union, known as the "political heart of Africa," occupying a unique political position on the continent. The official working language of the Ethiopian Federal Government is Amharic, while English is commonly used in political and economic activities. In recent years, Ethiopia's economy has maintained rapid growth, making it one of the most economically vibrant countries in Africa. From 2021 to 2023, Ethiopia's GDP growth rates were 5.6%, 5.3%, and 6.5% respectively.As of 2023, the total population was close to 127 million.

II. Organizational Structure

Ethiopia implements a tax-sharing system between the federal government and state governments Under the system, each state submits a certain proportion of taxes to the federal government. The federal government allocates funds to each state based on the population, economic conditions, and the amount of tax revenue submitted. The Ethiopian Ministry of Revenue (hereinafter referred to as "Ministry of Revenue") is the tax management institution of Ethiopia, formerly known as the Ethiopian Revenue and Customs Authority (hereinafter referred to as "ERCA"). The headquarters of the Ministry of Revenue is located in the Addis Ababa, with one Director-General and several Deputy Directors-General appointed by the Prime Minister, responsible for economic planning and development, internal collaboration and support, enforcement and joint functions, and management innovation and services. There are 32 branches across the country, including two located in ports outside Ethiopia, primarily responsible for providing customs clearance services for the country's import and export goods. Another 30 branches direct 22 customs management stations, 50 inspection points, and 153 tax centers. Each branch is headed by a person in charge, under the management of the Deputy Director-General of the Ethiopian Ministry of Revenue responsible for internal collaboration and support.

III. Current Tax System

The Ethiopian government's tax types include direct taxes and indirect taxes, mainly consisting of corporate income tax, individual income tax, value-added tax, excise tax, turnover tax, customs duty, import surtax, withholding tax, royalty fees and stamp duty. According to their nature, they can be classified into three categories:

◆ Taxes on Goods and Services: Including value-added tax, excise tax, turnover tax, customs duty and import surtax, etc;

◆ Income Tax: Including corporate income tax, individual income tax, and withholding tax, etc;

◆ Property Transaction Taxes: Including stamp duty, etc.

IV. Overview of Tax Preference Policies

In recent years, Ethiopia has issued a series of investment incentive policies, integrating the majority of tax incentives scattered across other legislation, such as the preferential policies listed under the mining and petroleum extraction laws.

◆ Value-Added Tax (VAT)

Taxable transactions of commercial lease institutions that meet certain conditions belong to VAT-exempt transactions.

Specific types of goods (excluding exports) or services provided, and goods imported, are exempt from VAT, such as the sale or transfer of second-hand residential properties or rented residential properties, financial services provided, educational services provided by educational institutions, and childcare services provided by pre-school institutions. On June 20, 2024, the Ministry of Finance of Ethiopia issued a new directive on VAT exemptions (Directive No. 1006/2024), further expanded the scope of VAT exemptions. It stipulates VAT exemptions on the production and import of specific grains and beans, agricultural products, cooked or pre-prepared foods, financial leasing agreements, as well as items such as anti-malarial bed nets and condoms.

◆ Corporate Income Tax (CIT)

The "Regulation No. 517-2022 on Investment Incentives" issued on July 12, 2022, lists in its schedule the specific investment fields eligible for investment incentive measures. Enterprises within these investment fields can enjoy "initial income tax incentives" and "other income tax incentives" (referred to as "initial" and "other" income tax holidays).

In January 2023, the Ministry of Finance issued Directive No. 941-2023 on Expanding/Enhancing Investment Incentives, which offers investors undertaking enterprise expansion or upgrading a corporate income tax reduction of 60%, 80%, or 100% based on the proportion of expansion or upgrading.

◆ Individual Income Tax (IIT)

The following income obtained by individual residents is eligible for individual income tax exemption: the amount paid by the employer equivalent to the actual medical expenses of the employee, transportation allowances granted according to the employment contract, hardship allowances, traffic allowances and travel allowances, tax-exempt pensions under the civil servant pension notice or private organization employee pension notice, alimony, or child support payments, etc.

V. Tax Collection and Administration

As mentioned above, Ethiopia implements a tax-sharing system between federal government and state governments. The Ethiopian Ministry of Revenue is the tax management institution of Ethiopia, responsible for the collection and management of taxes for residents and non-residents, including tax collection, tax registration, tax declaration, tax assessment, tax inspection, and tax auditing. Its headquarters is mainly responsible for economic planning and development, internal collaboration and support, execution and joint functions, management updating and services, while local branches and their subordinates are in charge of the actual local implementation work.

In recent years, the Ethiopian government has implemented a series of tax reforms aimed at establishing a modern and efficient tax system:

◆ Implement automation reforms.

The Ethiopian Ministry of Revenue manages nearly all domestic taxes, including VAT and withholding income tax, by improving its computer system. This computer system is known as the Standard Integrated Government Tax Administration System (SIGTAS).

◆ Promote tax control machines.

To ensure tax revenue, the Ethiopian Ministry of Revenue has made it mandatory for enterprises to purchase tax control machines from recognized suppliers. These machines are connected to the central computer processor of the Ethiopian Ministry of Revenue, enabling more accurate tax assessment and the detection of tax evasion clues.

◆ Establish a Tax Identification Number (TIN).

The reform for the Taxpayer Identification Number (TIN) aims to establish a national taxpayer identification number system to determine an individual's taxable income, identify deliberate or deceptive concealment of income, and strengthen national tax administration.

VI: Taxpayer Services

Enterprises must strictly comply with local legal requirements and submit various tax payments on time. The main types of taxes that need to be declared independently include: VAT, withholding tax, individual income tax, and corporate income tax. Two methods are mainly adopted for independent declaration: paper declaration and electronic declaration. For electronic declaration:

◆ The Ethiopian Ministry of Revenue has launched the Electronic Tax Payment System (hereinafter referred to as "E-Tax"). Taxpayers can handle electronic declaration through the E-

Tax section on the official website of the Ethiopian Ministry of Revenue.

◆ Taxpayers can deal tax affairs through the Ethiopian government's electronic services portal, known as Ethiopian Electronic Services (hereinafter referred to as "E-Services Portal"). The development of the E-Services Portal aims to provide online public services for citizens, non-citizens, enterprises, government, and non-governmental organizations.

VII. Tax Legislation Process

In 2016, Ethiopia issued the "Federal Income Tax Proclamation No. 979/2016."

In 2016 and 2017, Ethiopia respectively issued tax administration announcements, namely "Federal Tax Administration Proclamation No. 983/2016" and "Tax Administration Regulation No. 407/2017", which regulate matters related to tax management, including income tax, VAT, excise tax, and stamp duty.

In 2020, the Ethiopian Ministry of Finance issued the "Excise Tax Proclamation No. 1186/2020," repealing the "Excise Tax Proclamation No. 307/2002" and its amendments, which had been in effect for nearly two decades.

The current legal basis in Ethiopia is as follows:

(1) Income tax: Federal Income Tax Proclamation No. 979/2016 and Income Tax Regulation No. 410/2017;

(2) Value-Added Tax: VAT Proclamation No. 285/2002, VAT(Amendment) Proclamation No. 609/2008, and VAT(Amendment) Proclamation No. 1157/2019;

(3) Excise Tax: Proclamation No. 1186/2020 on Excise Tax and Amendment Proclamation No. 1229/2020;

(4) Turnover Tax: Proclamation No. 308/2002 on Turnover Tax and Amendment Proclamation No. 611/2008;

(5) Import Surtax: Regulation No. 133/2007 on Import Surtax.

VIII. Future Tax Reform Plan

On August 6, 2022, the Ethiopian Federal Parliament held a meeting and proposed the introduction of a social welfare tax on imported goods, aiming to alleviate the pressure of the domestic fiscal deficit and utilize tax revenue to reconstruct the infrastructure in the post-war northern region, including medical and educational facilities. The social welfare tax will be collected at a rate of 3% based on the total cost of the goods, insurance, and freight values, rather than on the value of the goods. Currently, the social welfare tax legislation is in the drafting stage, and the government has not yet officially announced the legislation.

In 2023, the Ethiopian Ministry of Finance issued the draft "Value Added Tax Proclamation (2023)" (which has not yet come into force formally), which expands the scope of goods and services subject to value added tax and raises the registration threshold for value added tax to 2 million Birr in annual turnover. Additionally, a provision for voluntary registration has been introduced, allowing for voluntary registration for value added tax for those with an annual turnover of 1 million Birr from the sale of goods and services. As for the scope of taxation, the draft has made corresponding adjustments, adding new commercial joint ventures, e-commerce, public service fees, private transportation, and other sectors. The draft proposes to exempt value added tax on medical services, prescription drugs, public transportation, medical equipment, and financial services.

On March 27, 2024, the Ethiopian Ministry of Finance issued a new Transfer Pricing Directive (Directive No. 981), replacing the previous Transfer Pricing Directive (Directive No. 43) issued in 2015. The new directive became effective from January 2024. The new directive adheres to the principles of the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and is based on Article 79 of the Transfer Pricing Provisions of Federal Income Tax Proclamation No. 979 issued by the Ministry of Finance of Ethiopia in 2016.

On June 12, 2024, the Ethiopian Ministry of Finance issued a new directive on the management of excise tax stamps (Directive No. 1004/2024), which requires the use of digital or physical excise tax stamps on a range of goods, including mixed spirits, alcoholic and non-alcoholic beer, wine, fortified wine, ready-to-drink alcoholic products, cigarettes, tobacco products, bottled water, and non-alcoholic carbonated beverages (including sugary drinks). This measure aims to enhance the transparency and accountability of taxation by tracking the production and distribution of taxable goods, and to establish a robust consumption tax security system. Furthermore, the Ethiopian Ministry of Finance issued a directive (No. 1007/2024) on June 25, 2024, amending the excise tax rates, with the new directive increasing the excise tax rates for alcoholic beverages, tobacco, tobacco products, and plastic bags. For instance, the tax rate on cigarettes was raised from 30% plus 6 Birr per pack (20 sticks) to 30% plus 20 Birr per pack (20 sticks).

IX. International Tax Cooperation

In 2018, China and Ethiopia signed a Memorandum of Understanding on jointly building the "Belt and Road." As the host country of the African Union headquarters, Ethiopia has carried out fruitful cooperation with China under the framework of jointly building the "Belt and Road," taking a leading position in Sino-African cooperation.

Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA), the African, Caribbean and Pacific Group of States (ACP), and has joined the African Continental Free Trade Area Agreement (AfCFTA). It is entitled to the benefits of the United States' African Growth and Opportunity Act (AGOA), the European Union's Everything But Arms arrangement, and China's "zero tariff treatment for 97% of tariff lines".

As of January 2, 2024, Ethiopia has concluded and brought into force agreements on the avoidance of double taxation with 27 countries and regions.

The Ethiopian government has implemented autonomous customs operations, gradually introduced modern management methods, simplified customs clearance procedures, and progressively reduced tariff rates. In recent years, Ethiopia has repeatedly lowered tariffs, and the current average tariff rate is about 17%. Export goods are exempt from export taxes (except for coffee), and raw materials imported for the production of export products are exempt from import tariffs and other related taxes.

X. Other Items

None.