

Together We Develop A Nation



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**Taxation and Investment
Incentives in Ethiopia**



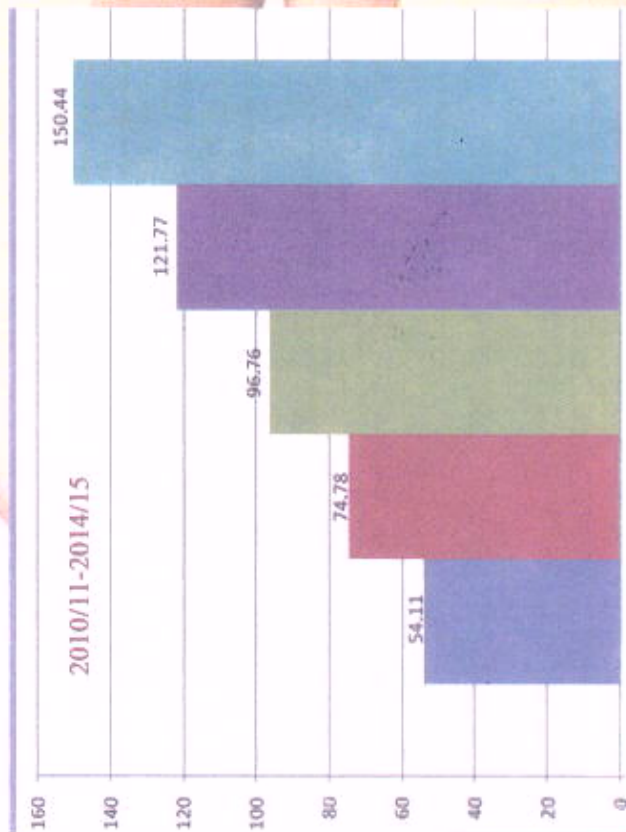
Come and Invest here



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Revenues to be collected in the coming five years (in billion)



1. Ethiopia Basic Profile

Generalities

- Land locked country located in the horn of Africa
- 1,127,127.5q kms area with 78 million people
- Boarder countries
 - o Djibouti 337 kms., Eriteria 912 km, Kenya 830 km, Somali a 626 km, Sudan 1,606 km
- Governing system: Democratic federal republic, 9 regions and 2 chartered cities
- Trade
 - Main access for imports/exports through Djibouti port
 - Main export items coffee, oil seeds, Gold, leather, flowers, Khat
 - Main import items:- food & Beverages, industrial products, fuel & spare part
 - Exchange rate:- 16.57 birr=1US\$
 - Fiscal year:- July 1st to June 30th
 - Time:- 3 hours ahead of GMT

International relations

- Members of COMESA
- Active member of WCO
- Economic policy- free market economy

Economic performances

- o Economic growth:- According to the ministry of finance and economic development(MOFED) the Ethiopian economy experienced a real GDP growth rate of 11.8 percent in 2007/08 owing to the rapid growth in real GDP, the per capital income has increased by an average of 8%
- o Investments: - the Ethiopian investment agency licensed 9,202 investment projects in 2007/8 with total capital outlay of birr 174.4 billion, which has 44% higher than the 2006/07 fiscal year. Of the total investment, 7539(close to 82%) projects are owned by domestic investors while 1,661(18%) projects were owned by foreign investors.
- o Imports:- the merchandise imports showed persistent and celebrated growth during the last six years from birr 16 billion in 2002/03 to birr 58.5 billion in 2007/08
- o Exports: - the export earnings of the country increased from A low level of birr 4.1 billion in 2007/08, to birr 13.6 billion in 2007/08 the total export growth of 30.5% registered during 2007/08 could be accounted for 11.1% by coffee 11.3% by pulses and 6.5% by flower exports.

2. ETHIOPIAN REVENUES AND CUSTOMS AUTHORITY

2.1 Overview

Ethiopian revenues and customs authority is an institution which administers the country's revenue sector.

ERCA is a newly re-organized institution which resulted from the combination of the former Federal Inland Revenue, Ethiopian customs Authority and the Ethiopian ministry of revenue starting from 2008.

The Authority applies modern management tools and technologies. Currently it gives fast services for the tax payers. Also it tries to facilitate international trade participants (importer, exporters) delivering their goods to domestic and international market on time.

Vision, mission, objectives and organizational Structure of ERCA

Vision

To be a leading fair and modern tax and customs administration in Africa by 2028 that can be financing the government expenditure through domestic tax revenue collection.

Mission

The ERCA shall promote the voluntary compliance of tax payers, ensure integrity and develop the skills of the employees support modernization, trade and investment harmonization of the taxes and customs administration system, contribute to the economic development and social welfares through effective revenue collection.

Value

Customer focused service delivery (Trust respect, protect support) protect the well being of the society, integrity and transparency, professionalism, law enforcement and collaborative working.

Objectives

- To establish modern revenue assessment and collection system, and provide customers with equitable efficient and quality service.
- To cause taxpayers voluntarily discharge their tax obligations.
- To enforce tax and customs laws by preventing and controlling contraband as well as tax fraud and evasions.
- To collect timely and effectively tax revenues generated by the economy
- To provide the necessary support to regions with a view to harmonizing federal and regional tax administration systems.

2.3 Types of taxes in Ethiopia

There are two types of taxes named direct taxes and indirect taxes

Direct taxes

- Employment income tax
- Income from rent of building
- Business income tax
- Tax on royalty
- Income from rendered technical services
- Income from games of chance
- Income from dividends
- Income from rental property
- Interest income from deposits

Indirect taxes

- Excise tax
- Turn over tax(TOT)
- Value added tax(VAT)
- Stamp duty

2.4 Tax rates in Ethiopia

2.4.1 Income tax on employment



Sales Register Machine

Taxable income per month (In Birr)	Income tax payable (%)	Deduct birr
≤ 150	0	0
151-650	10	15
651-1400	15	47.50
1401-2350	20	117.50
2351-3550	25	235.00
3551-5000	30	412.50
≥5001	35	662.00

2.4.2 Rental income tax

Annual taxable rental income (In birr)	Income tax payable (%)
≤ 1800	0
1801-7800	10
7801-16,800	15
16,801-28,200	20
28,201-42,600	25
42,601-60,000	30
≥60,000	35

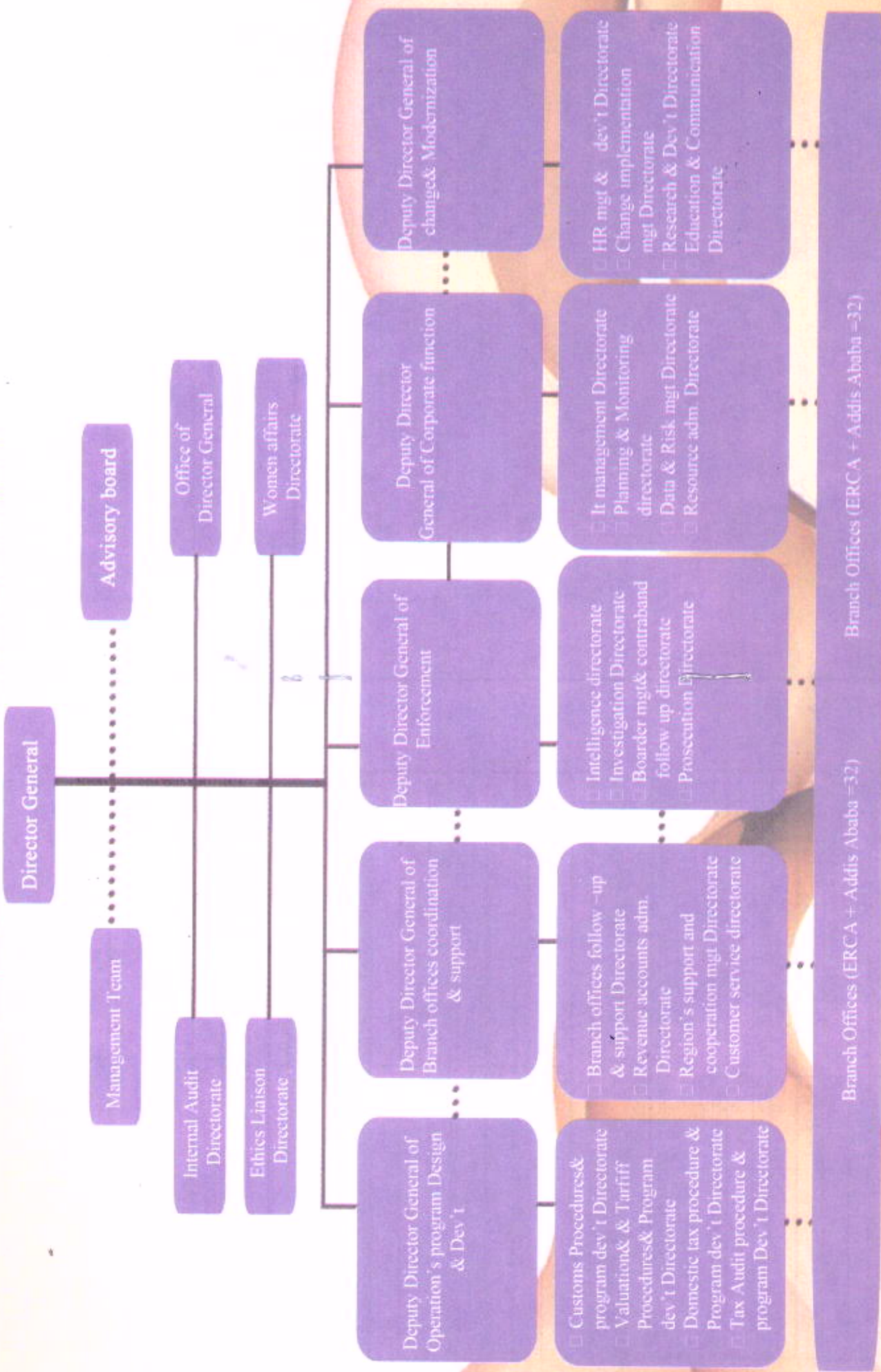
2.4.3 Tax on unincorporated business

Taxable business income per annum (In birr)	Income tax payable (%)
≤ 1800	0
1801-7800	10
7801-16,800	15
16,801-28,200	20
28,201-42,600	25
42,601-60,000	30
≥60,000	35

2.4.4 Other direct taxes.

Taxable business income per annum (In birr)	Income tax payable (%)
4. Tax on incorporated business	30%
5. Tax on income from mining	30%
6. Capital gains tax	15%
7. Income from dividends to share holders	10%
8. Income from chance winning lottery	15%
9. Income from ring service	5%
10. Income from rendering service	10%

Ethiopian revenues and customs authority organizational structure



2.4.5 Indirect taxes rates

<i>Value added tax on goods & service</i>	15%
<i>Turn over tax(TOT) goods</i>	2%
<i>service</i>	10%
<i>Tax on exports</i>	0%
<i>Excise tax on imports</i>	0-100%
<i>Value added tax on imports</i>	15%
<i>Import customs duty</i>	0-35%
<i>Income from rendering service</i>	10%

N.B

Import

<i>Raw materials, capital goods,</i>	0-20%
<i>Pharmaceutical & chemicals</i>	20-35%
<i>Durable and non-durable consumer goods</i>	30-35%
<i>Luxuries</i>	

2.5 Service Delivery & Technologies in ERCA

2.5.1 Tax payers identification number/TIN/

- Computerized tax payers identification number system(TIN) provides the foundation for the tax collecting institutions to offer modern service to it's customers.
- Every tax payers registered and working in Ethiopia should have a single TIN number.
- ERCA gives TIN number for the customers when any business owner request for registrant of tax payer

2.5.2 Cash register machines

- A cash register machine is an instrument which registers every transactional sales of the business.
- It is necessary to use cash register machines when running businesses.
- These machines are directly connected with ERCA database and it transfers every sales and transaction to the tax collector authority.
- The cash register machines are also necessary for the business owner enabling to control its sales transactions.

2.5.3 Cargo scanning machines

- These machines are working to scan imported and exported goods without unpacking the commodities.
- The cargo scanning machines are located in the exit and entry ports of the country.
- It is also helpful for the tax importer and exporters to fast service.
- Risk management based inspection
- ERCA follows risk management based inspection for the import& export cases.
- The authority gives fast service for its compliant customers
- The authority try to distinguish the compliance level of it's tax payers and gives fast service for those compliant customers.

2.5.4 Dry port service

Dry port is a service center which custom procedure will be undertaker & which connected to sea port by train or road transport.

- In Ethiopian case the MOJJO Dry port Land semera dry port currently gives service to its customers.
- It minimizes transit costs & related importers costs.

3. Investment incentives

In order to promote the investments in the country, the Ethiopia taxation system gives some incentives for the appropriate investors. The incentives are given for those investors including exemption from the payment of custom duties& income taxes.

3.1 Exemption from the payment of customs duties

o As per the Ethiopian customs proclamation no 622/2009, goods may be imported of exported free from and duties of taxes in accordance with laws of international agreements to which Ethiopia signed.

o Goods necessary for trade promotion, technology transfer, tourism & cultural exchange development works and consultancy service may be imported on duty relief basis.

o An investor shall be allowed to import duty free capital goods necessary for his existing enterprise.

The duty free importation may be rejected to the capital goods and construction materials where it finds that they are locally produced with competitive price and quantity.

An investor eligible for duty free importation of capital goods shall be given the same privilege for spare parts whose value is not greater than 15% of the total value of the capital goods to be imported.

Conditions for importing vehicle duty free include

- o Investors working in agriculture, construction, contractors, agro processing
- o Tour operation investments
- o Ambulances for employees that are needed for emergency cases
- o Vehicles for the staffs service

Areas of investment not eligible for customs duty exemption

- o Hotels (excluding star-designated) motels, tea room, coffee shops, bars, night clubs and restaurants which do not have international standards
- o Wholesale, retail & import trade

- o Maintenance services
- o Commercial road transport and car hire services

- o Postal services
- o Real estate development

- o Business and management consultancy services
- o Advertisement service

- o Cinematography and similar activities

- o Radio and television broad casting services

- o Theatre and cinema hall operations

- o Customs clearance service

- o Travel agency, trade auxiliary and ticket selling services and

- o Lottery and games of a similar nature

o Capital goods imported free of customs duty shall not be transferred to third parties not entitled to similar duty free privileges, unless prior allowed there on

3.2 Exemption from income tax

The sectors eligible to exemption from income tax includes

- o Manufacturing

- o Agro industry

- o Agricultural production

Investors working on above sectors and

- o Exports at least 50% of his/her products or

o Supplies at least 75% of his product to an exporter as a production input shall be eligible for income tax exemption for 5 years

o The grant may under special circumstances, grant income tax exemption for a period not longer than 7 years

o An investor engaged in above sectors but export less than 50% of his products or supplies his products only to the domestic market shall be eligible for income tax exemption for two years.

o Under special circumstances grant of income tax exemption be for a period not longer than 5 years

3.3 Carry forward for losses

An investor who has incurred loss with in the period of income tax exemption shall be allowed to carry forward his loss for half of the income tax exemption periods after the expiry of such period.

Importation of goods on francovaluta

- o Imported goods used for inputs such as labels, seeds, packages and the like for goods to be exported

- o Gifts trade samples and advertising materials not imported as merchandise

- o Repeatedly used containers, boxes, tins imported full of any articles

- o Goods imported for the replacement of short landing of defects accorded by the supplier to the importer under the terms of warranty

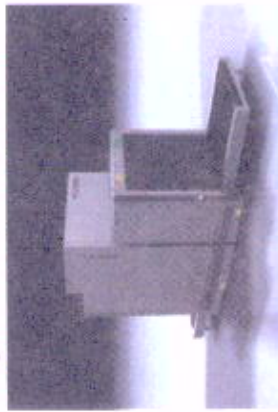
- o Personal effects

- o Goods introduced into the country temporarily and subject to re-export

Relocatable Scanning Machines



Passenger Luggage & Cargo Freight X-ray Inspection



Trucker Devices

Electronic Data Switch
Trucking Reader
Micro Reader
Micro Data Terminal
Barcode
Real Time Monitoring