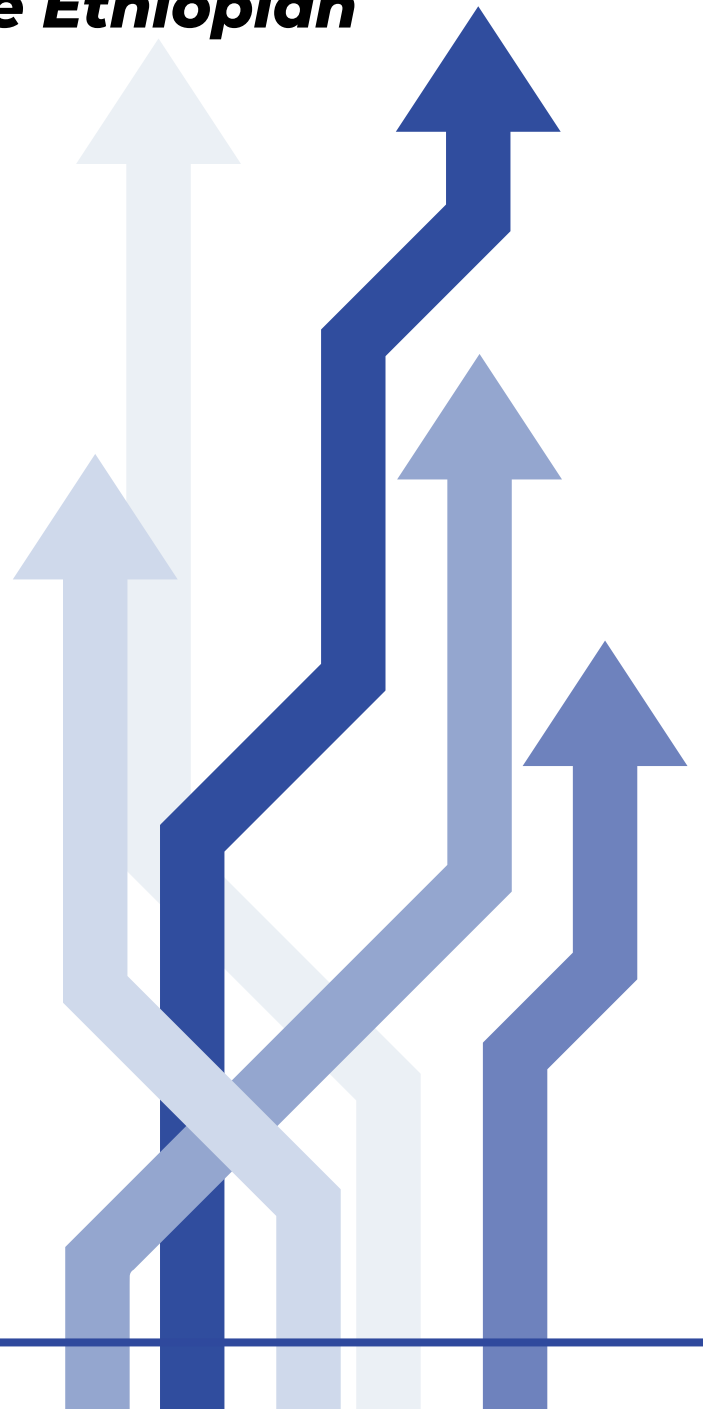


# HST Business Insights

*Management insights from the future.*

## ***Key Updates from August 2022 to August 2023 in the Ethiopian Tax System***

by: Mamo Abdi



# Key Updates from August 2022 to August 2023 in the Ethiopian Tax System

by: Mamo Abdi | Manager at HST

The tax laws are changing over the last several years in Ethiopia, the primary reasons for the case is presumed not only raising revenue to redistribute wealth among citizens, but also to broaden the tax base, ensure and enhance the voluntary tax compliance as well as equity in the tax system.

In an ever-changing tax environment, businesses are advised to stay updated on the recent tax developments.

Therefore, this is an update aimed to provide recent tax developments about domestic, international tax and any other changes that are directly or indirectly related to tax compliance. It addresses custom, investment and excise tax developments that happened from August 2022 to August 2023 in the Ethiopian tax landscape.

## A. Regulation No. 519/2022 to Provide for Social Welfare Levy on Imported Goods

This regulation is issued by Council of Ministers and came into effect on 22 August 2022.

As stated in the preamble of the enactment, the Social Welfare Levy is aimed to fulfill the commitment of the Government to provide and finance education, training, health, and other social services. The main contents of articles contained in the regulation are:

### A.1. Goods that are subject to social welfare levy

Except for the followings, all imported goods are subject to social welfare levy.

- Goods imported by persons and organizations with diplomatic privileges.
- Goods that are subject to sur tax under import Sur tax regulation No 133/2007 issued by Council of Ministers.
- Goods exempt by a Directive to be issued by the Ministry of Finance for social and economic reasons.

### A.2. Rate of social welfare levy

- Except the exempted goods from social levy, tax at the rate of 3% shall be levied on all imported goods.
- The social levy imposed on imported goods is in addition to custom and taxes to be collected under the applicable laws.

### A.3. Social levy computation

- The base for calculation of the social levy are aggregate cost, insurance, and freight (CIF).
- The social levy tax shall not serve as a base for any other tax imposed on imported goods.

### B.1. Location privileges

An investor who invests in an area far from the center with very low infrastructure development that are listed in the Directive issued by MoF in consultation with concerned stakeholders shall be entitled to an income tax exemption of 30% for three consecutive years after the expiry of income tax exemption period specified in the schedule.

An investor who invests at new, atypical and selected tourist destination areas in hotels, lodges and resorts with a rank of star is eligible to income tax exemption for five consecutive years.

### B.2. Creation of employment opportunity abroad

An Investor who provides employment opportunity outside Ethiopia to Ethiopians who have obtained qualification certificate,

- a. will be entitled to benefit for one year income tax exemption if he provides employment opportunity for 100 up to 300 Ethiopians.
- b. will be entitled to benefit for two years income tax exemption if he provides employment opportunity for 300 up to 500 Ethiopians.
- c. will be entitled to benefit for three years income tax exemption if he provides employment opportunity for more than 501 Ethiopians.
- d. The income tax exemption to be granted under this rule will not exceed 6 years.

### B.3. Incentive for expansions

Investors who seek to expand or upscale the existing investment will be entitled to an income tax exemption specific for the new income generated through the expansion.

### B.4. Income tax incentives for exporters of goods and services

Investors who invest outside industrial parks and who export or provide supplies to an exporter of at least 60% of their products or services will be entitled to a one-time income tax exemption for two years in addition to the exemption of income tax provided in the schedule. This too, applies to investors who invest within industrial parks and who export or provide supplies to an exporter of at least 80% of their products or services.

### B.5. Loss -carry forward as an incentive

Any investor who has incurred loss within the period of income tax exemptions will be allowed to carry forward such loss for half of the exemption period after the expiry period. The loss cannot be carried forward more than five income tax periods.

## C. Excise Tax Proclamation Amendment

The new Ethiopian excise tax proclamation No 1287/2023 became ratified by the House of Peoples Representatives to be effective starting 27 April 2023.

The new changes in the proclamation include:

### C.1. Inclusion of new excisable items

Telecommunication service of mobile and wireless telephone (internet, voice, and SMS) is subject to excise tax at the rate of 5%.

C.2. Existing Excisable Items with Reduced Excise Tax Rate	<b>Excisable items</b>	<b>Last Rate (%)</b>	<b>Present Rate (%)</b>
	Edible animal or vegetable fats and oils and their cleave products containing 40g or more saturated fat per 100g, or unable to determine level of saturated fat from label and partially and wholly hydrogenated	40 &30	30
Any sugar excluding medical	20	10	
Chewing gum	20	10	
Edible chocolates and sweets	20	10	
Ethyl alcohol	60	10	
Salt	25	10	
Fuel — super benzene, regular benzene, petrol, gasoline and other motor spirits, jet fuel	30	15	
Textile fabrics, knitted or woven of natural silk, rayon, nylon, wool, partly or wholly made from cotton, which is grey, white, dyed or printed, in pieces of any length or width (except mosquito net and Abugida) and including blankets, bedsheets, counterpanes, towels, counterpanes, towels, table clothes and similar articles manufactured by industries.	8	5	
Carpets	30	15	

### C.3. Vehicles' Excise tax

### C.4. Exclusion from Excise Tax Scope

Video recording or reproducing, television broadcasting receivers, apparatus, photo, or video camera whose excise tax rate was 10% are now excluded from Excise tax scope. ■



Mamo Abdi is a Senior Manager at Tax and BSS Business Unit of HST and he can be reached at [mamo.abdi@hst-et.com](mailto:mamo.abdi@hst-et.com)

Sources:  
 . Social Welfare Levy on Imported Goods Regulation No. 519/2022.  
 . Investment Incentive Regulation Number 517/2022.  
 . Excise Tax Proclamation No 1287/2023.

Excisable vehicle	Status	Tax rate range (%)
Vehicle with cylinder capacity (CC) 1500 diesel	New	10
Vehicle the same CC with service years 1 to 5	Used	70-410
Vehicle with CC 1501-2500	New	20
Vehicle the same CC with service year 1 to 5	Used	70-420
Vehicle with CC 2501-3000	New	30
Vehicle the same CC with service years 1 to 5	Used	80-430
Vehicle with more than 3000 CC	New	30
Vehicle with the CC with service years of 1-5	Used	90-500
Vehicle with electric cylinder not exceeding 1500cc	New	5
Vehicle the same CC with service years 1 to 5	Used	60-410
Vehicles whose service year is more than 5 years	Used	200