

Setting up your Business in Ethiopia

Issues to consider



Ethiopia

Ethiopia is located in the north-eastern part of Africa, bordered by Sudan, Somalia, Djibouti, Eritrea and Kenya. Addis Ababa, the capital city is the seat of the African Union & United Nations Economic Commission for Africa. Ethiopia has an estimated total population of 96.6 million, a large, young and easy-to-train work force. It has enormous potential for hydropower and geothermal energy generation, and is the fastest growing non-oil producing country in Africa.

The National Bank of Ethiopia (NBE) is the central bank of the country. The financial sector consists of public and private banks, insurance companies, and micro-finance. Most of the industrial and agricultural loans to projects focused on export are given by the Development Bank of Ethiopia. Ethiopia has investment opportunities mainly in Agriculture, Manufacturing and Services.

However, there are a number of issues which you must consider when you are looking to set up your business in Ethiopia.

This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

Establishment (a branch of your overseas business)

- Not a separate legal entity but an extension of the overseas parent company;
- Must produce company incorporation documents from the country of the international office and register in the concerned government offices to obtain trading license, VAT registration certificate, Tax Identification Number (TIN);
- If have a Permanent Establishment (PE) in Ethiopia, then profits from this PE are liable to Ethiopian Corporation tax.

Private Limited Company:

- Gives a perception of a local business, with longevity;
- Corporation tax shall be paid on company profits;
- Employees income tax, Withholding Tax (WHT), and VAT returns must be filled on a monthly basis.
- Business profit/loss tax returns must be filled with in four months following the end of the financial year of the company.
- Tax clearance are mandatory in order to get the renewal of the trading license.

Public Share Company:

- Shareholders have limited liability;
- Corporation tax shall be paid on company profits;

Setting up your Business in Ethiopia

Issues to consider



- Employees income tax, WHT, and VAT returns must be filled on a monthly basis;
- Business profit/loss tax returns must be filled with in four months following the end of the financial year of the company;
- A dividend tax of 10% shall be paid to the tax office when dividend is paid to shareholders;

How much Corporation Tax will the business pay?

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 applicable 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 Schedule below:

Taxable business income (net profit) of the year		Tax rate in percent
-	7,200.00	0%
7,201.00	19,800.00	10%
19,801.00	38,400.00	15%
38,401.00	63,000.00	20%
63,001.00	93,600.00	25%
93,601.00	130,800.00	30%
Over 130,800		35%

Dividend Income

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.



Setting up your Business in Ethiopia

Issues to consider



Dividend tax is payable on profit appropriated and/or on net profit after tax regardless of time of appropriation if dividend is not declared within 12 months' time.

Withholding Tax

Bodies having legal personality, government agencies, non-profit organizations, or non-governmental organizations and other tax payers required to withhold tax by a directive of authority, shall withhold tax at the rate of 2% of the gross amount of payment made for the following.

- The supply of goods in Ethiopia involving more than 10,000 Birr in one transaction or supply contract;
- The supply of services involving more than 3,000 Birr in one supply contract

A withholding agent shall provide the recipient of the withholding income with a withholding tax receipt in a form approved by the tax authority. The withholding amount shall then paid to the authority within 30 days after the end of the month.

What if we make cross-border transactions between group companies?

Ethiopia follow internationally recognized **Transfer Pricing** (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

The income tax proclamation No. 979/2016 stated that if a transaction not conducted on an arm's length basis is identified by the tax authority, then the tax authority may distribute, apportion, or allocate income, gains, deductions, losses, or tax credits between the parties to the transaction as is necessary to reflect the income, gains, deductions, losses, or credits that would have been realized in an arm's length transaction.

What Employment Taxes and Social Security will need to be paid?

If an individual is resident in Ethiopia, then they are subject to Ethiopian tax laws. A resident is defined in the Ethiopian law as follows.

1. An individual shall be resident in Ethiopia if he/she:
 - has a domicile within Ethiopia;
 - has an habitual abode in Ethiopia and/or;
 - is a citizen of Ethiopia and a consular, diplomatic or similar official of Ethiopia posted abroad.
2. An individual, who stays in Ethiopia for more than 183 days in a period of twelve calendar months either continuously or intermittently shall be resident for the entire tax period.

Setting up your Business in Ethiopia

Issues to consider



3. A body shall be resident in Ethiopia, if it
- has its principal office in Ethiopia;
 - has its place of effective management in Ethiopia and/or
 - is registered in the trade register of the Ministry of Trade and Industry or Trade bureau of the Regional Governments as appropriate.

We would advise any new entrant to Ethiopia or person who spends time working in Ethiopia to take professional advice to determine whether they are Ethiopian tax resident.

Current Personal Income Tax rates in Ethiopia are as follows:

Employment Income		Tax rate in percent	Deduction
-	600.00	0%	-
601.00	1,650.00	10%	60.00
1,651.00	3,200.00	15%	142.50
3,201.00	5,250.00	20%	302.50
5,251.00	7,800.00	25%	565.00
7,801.00	10,900.00	30%	955.00
Over 10,900		35%	1,500.00

- Every person deriving income in Ethiopia from employment is liable to pay tax on that income at the rate specified. The first Ethiopian Birr 600 employment income is excluded from taxable income.
- Employers have the obligation to withhold the tax from each payment to an employee, and to pay to the tax authority the amount withheld during each calendar month.
- Every investor has a tax obligation and is required to obtain a tax payer identification number (TIN) from the Federal Revenue and Customs Authority.

Employers and employees also have to pay for pension scheme which is administered by the Ethiopian government.

The rate of contribution to the pension scheme is based on the basic salary of an employee with the following rate from Employer and Employee.

Employer's Contribution	Rate (%) 11%
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Setting up your Business in Ethiopia

Issues to consider



Employee's Contribution

7%

It is the employers' legal responsibility to pay over employee's tax and pension deductions to the Ethiopian tax authorities within 30 days following the end of the month of pay.

Foreign national working in Ethiopia are not required to be covered by the Ethiopian pension scheme.

What is Value Added Tax (VAT) and should the business be registered?

Every investor has a tax obligation and is required to obtain a tax payer identification number (TIN) from the Federal Revenue and Customs Authority. An investor that will be involved in taxable activity has to register for VAT. VAT is a recent addition to the tax regime in Ethiopia. There is voluntary and obligatory registration of VAT in Ethiopia.

VAT is a "goods and services tax" on supplies made, the standard rate of which is 15%. If a business makes taxable supplies in excess of Ethiopian Birr 500,000 in any 12 months, then it MUST be registered for VAT. Entities with less than Birr 500,000 turnover can voluntarily register for VAT.

There are three types of supply

- Taxable – must charge 15% VAT on supplies (output VAT), can reclaim input VAT
- Taxable – must charge 0% VAT on supplies (output VAT), can reclaim input VAT
- Exempt – cannot charge VAT nor reclaim input VAT

The supply of most types of goods and services in Ethiopia would be classed as Taxable supplies. However, when these supplies are made to companies which are outside of Ethiopia VAT shall not be charged and the related input VAT can be reclaimed from the tax authority.

For every transaction by a registered person, every import goods other than an exempt import, and an import of services, 15% of the value or zero rate of value shall be applied as Value Added Tax. An import of goods takes place when the goods are entered into the customs declaration.

The value of a taxable import is the customs value of the goods, determined in accordance with the customs of Ethiopia, plus the sum of duties and taxes payable upon the import of the goods into Ethiopia excluding VAT and income tax withholding.

A turnover tax (TOT) of 10% is used by companies whose turnover is less than Ethiopian birr 500,000 and not voluntarily registered for VAT. The amount charged as TOT is not reclaimable from the tax authority.

Can we provide Share option plans to our staff?



Setting up your Business in Ethiopia

Issues to consider



Companies see Share Option plans as being an important way of attracting, motivating and retaining key staff.

Some of public share companies in Ethiopia have started providing Shares to their respective staffs to attract, motivate and retain their key staff.

How else can we compensate our employees?

Ethiopia has a very comprehensive range of compensation and benefit options available for companies to offer their employees.

Pensions, accident and life insurance for the worker and family medical insurance are now commonplace benefits provided by many Ethiopian businesses to their workforce. Providing Company cars, fuel allowance, house allowance, tuition fees and other benefits are also provided to employees as benefit packages.

To discuss your requirements please contact the International Office on +44 (0) 1245 449266 or [email](#) us directly.

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The information in this document was prepared as at April 18, 2017.