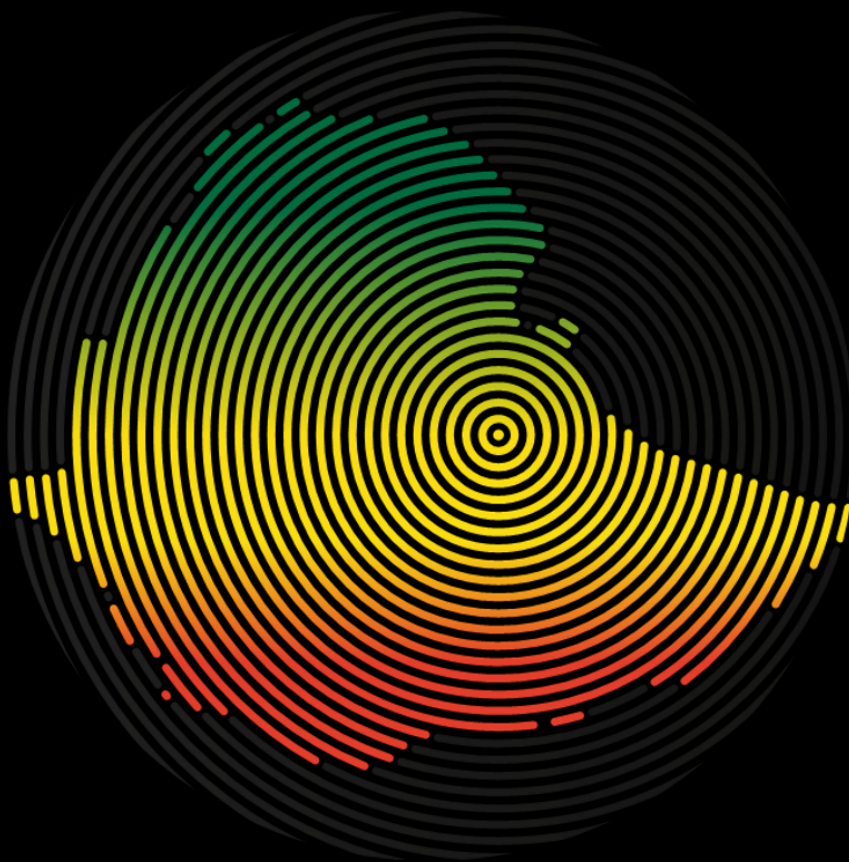


Tax & Legal Alert  
August 2025



## Tax Alert

### Federal Income Tax (Amendment) Proclamation 1395/2025

The Ethiopian tax framework has undergone significant changes with recent amendments to the Federal Income Tax Proclamation No. 979/2016. These changes include the repeal and replacement of certain provisions, alongside the introduction of new tax measures. The amended Proclamation No. 1395/2025 took effect on 8 July 2025.

This alert provides an overview of the key amendments relevant to taxpayers, highlighting the modifications made, the introduction of new tax concepts, and the revoked laws. It is imperative to stay informed and alert regarding these substantial changes in the Ethiopian tax landscape to pre-empt non-compliance which may result in tax disputes. We advise you to read this alert together with the Income Tax (Amendment) Proclamation for more details.

## Overview

The House of Peoples' Representatives of the Federal Democratic Republic of Ethiopia (FDRE) ratified an amendment to specific provisions of the Federal Income Tax Proclamation No. 979 /2016, under Income Tax (Amendment) Proclamation No. 1395/2025, as per the meeting held on 17 July 2025.

This amendment introduces new tax measures:

- Minimum Alternative Tax;
- Advance payment of Income Tax;
- Tax on income from digital content creation; and
- Digital Service Tax.

Additionally, the amended proclamation revises certain articles regarding:

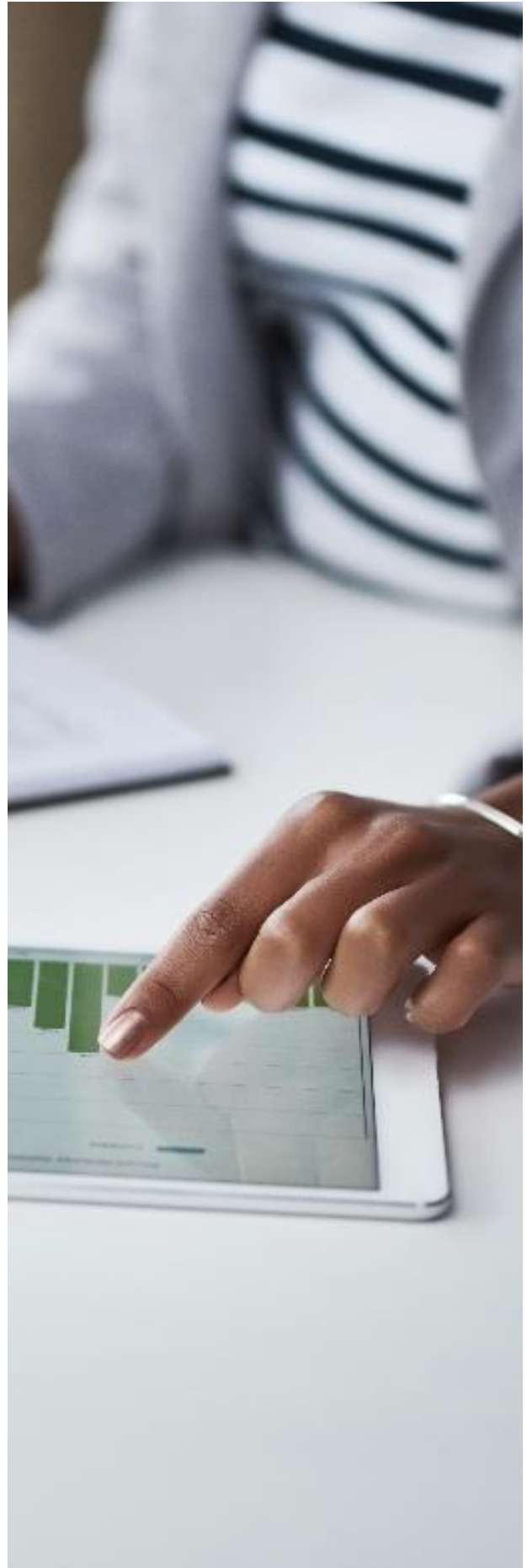
- Definition of Permanent Establishment;
- Taxpayer categories;
- Tax rates applicable under Schedules A, B, C, D, and E, and the types of income;
- Rates of domestic Withholding Tax and the thresholds;
- Methods of payment;
- Taxation of offshore indirect transfers; and
- Administrative penalties and deductibility limitations for cash transactions above certain thresholds.

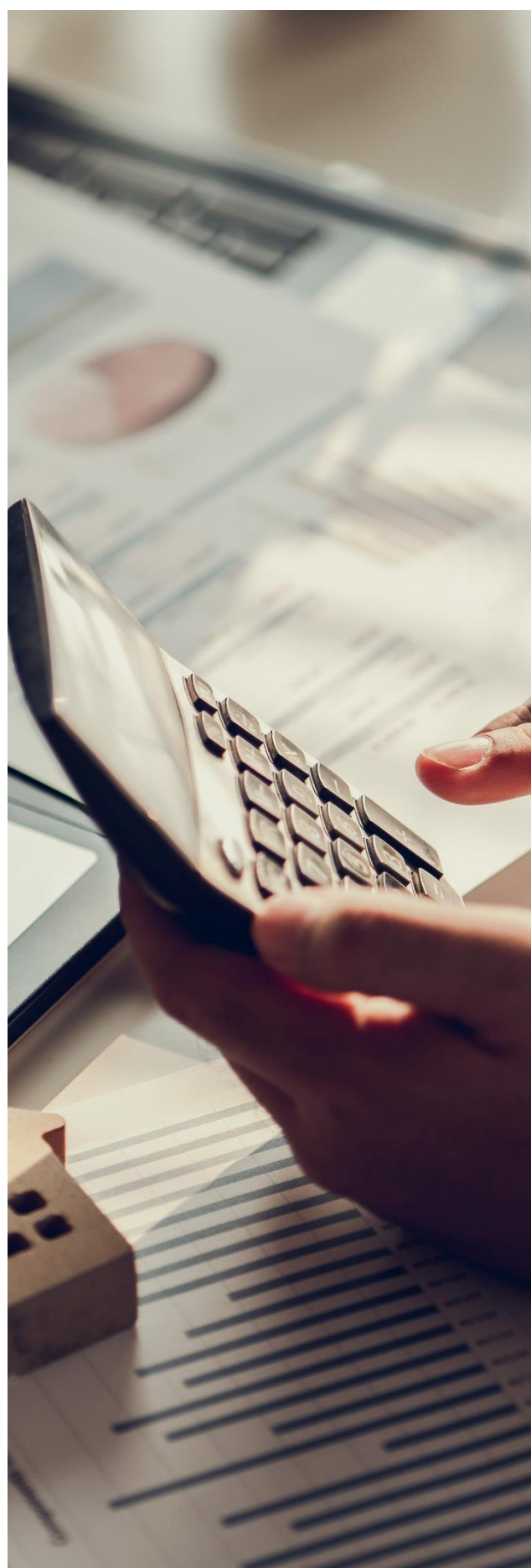
Furthermore, the Turnover Tax Proclamation No. 308/2002, along with its amendments, have been repealed under this amendment.

## Effective Date

The effective date for the amendments are as follows:

- The alternative minimum tax shall be applicable on income tax to be collected as of 8 July 2025;
- The tax to be collected on schedule “D” income and the withholding tax collected on local transactions shall become effective as of 7 August 2025; and
- All other changes to the proclamation shall come into force on income derived as of 8 July 2025.





## 1. Permanent establishment (“PE”)

As per the amended income tax proclamation, the criteria for identifying a permanent establishment based on the duration of presence in Ethiopia has been revised.

The threshold for a service PE has been reduced from 183 days to 91 days in a year.

Article 4(2)(c) which provided for a service PE has been deleted and replaced with a provision that defines a PE to include the provision of services, including consultancy services, by a person through employees or other personnel engaged by the person for such purpose, where the services or connected business in Ethiopia continues for at least 91 days on aggregate in a tax year or any one-year period.

The threshold for a construction PE in Article 4(3) has also been reduced from 183 days to 91 days in a year. Article 4(3) which provided for such PE has been deleted and replaced with a provision that deems a building site, a construction, assembly, or installation project, or supervisory activities connected with such site or project to be a permanent establishment in Ethiopia where they continue for more than 91 days within a tax year or in any one-year period.

## 2. Classification of Taxpayers

Taxpayers, previously classified into three categories, are now classified into two categories as follows:

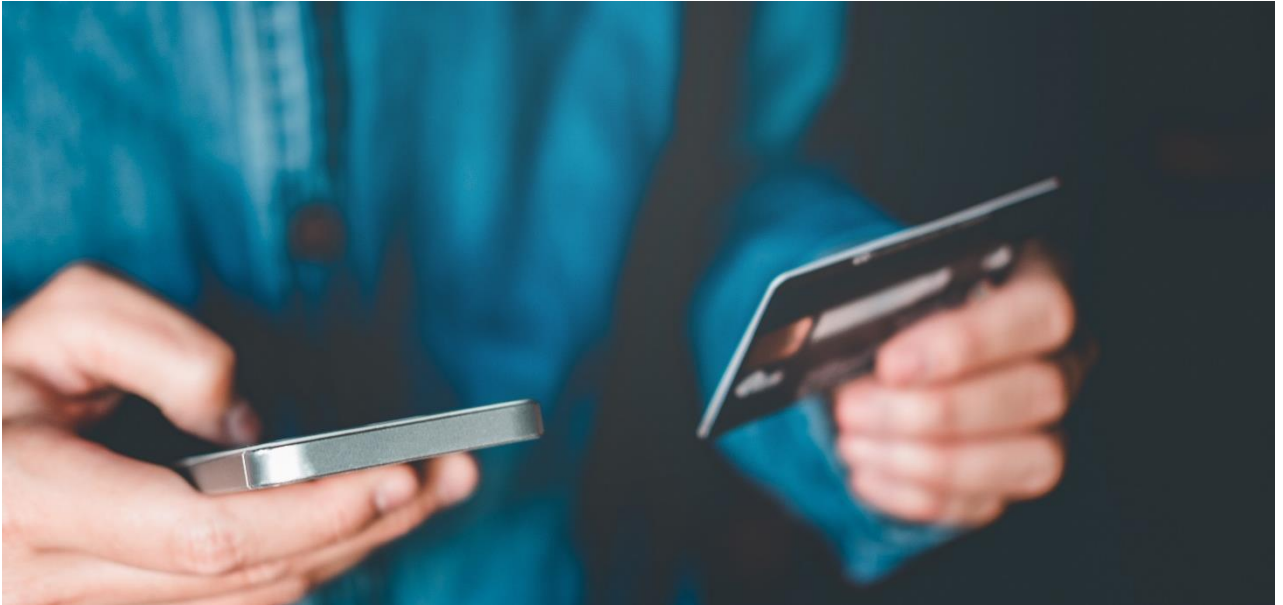
- Category "A" Taxpayers: Includes bodies and any other persons with an annual turnover exceeding ETB 2,000,000; and
- Category "B" Taxpayers: Includes taxpayers, excluding bodies, with an annual turnover less than ETB 2,000,000.

Based on these categories, amendments have been made in various areas including record-keeping requirement, income tax rates, and tax payment methods.

### What are the record-keeping requirements based on the taxpayer category?

Both Category “A” and Category “B” taxpayers must now maintain books of accounts in accordance with financial accounting reporting standards.

Category “A” taxpayers with income from multiple business activities must keep separate books for each activity.



**What are the record-keeping requirements based on the taxpayer category?...ctd’**

If a taxpayer fails to submit the required accounting records, tax will be assessed based on an estimate.

Taxpayers engaged in professions such as accounting, auditing, economic and investment, financial, legal, management, engineering, architectural, surveying, information technology, and social affairs must maintain books records regardless of their annual turnover.

**Changes made regarding the taxation of Category "B" taxpayers**

Category “B” taxpayers are now required to pay tax on annual gross sales according to the progressive rates outlined below, based on their annual gross sales:

| Annual gross receipts (ETB)     | Percentage |
|---------------------------------|------------|
| 0 – 100,000                     | 2%         |
| 100,001 – 500,000               | 3%         |
| 500,001 – 1,000,000             | 5%         |
| 1,000,001 – 1,500,000           | 7%         |
| 1,500,001 – Less than 2,000,000 | 9%         |

However, this does not apply to the following categories:

- Professional services, including accounting, architectural, consulting, construction, engineering, financial, economic, investment, healthcare, and legal services;
- VAT-registered businesses; and
- Businesses that opt for net income taxation by filing a declaration for income received under Schedule C.

**Changes made to annual business income tax payment requirements based on taxpayer category**

Category "A" Taxpayers:

- **Advance Payment:** Pay 25% of the tax paid in the immediate past tax year within 30 days from the end of each quarter in which they have to declare their income;
- **Final Payment:** Settle the remaining balance upon annual declaration, based on books of records less the quarterly payments; and
- **Refund:** If the assessment of the tax during the annual tax declaration shows that quarterly tax payments exceed the annual tax due, the overpaid amount will be refunded to the taxpayer.

Changes made to annual business income tax payment requirements based on taxpayer category...ctd'

Category "B" Taxpayers:

- **Advance Payment:** Pay 25% of the tax paid in the immediate past tax year within 30 days from the end of each quarter, starting from July 8 of each year; and
- **Final Payment:** Pay the remaining balance during annual tax payment, less quarterly payments.

For new Taxpayers:

- **Category "A":** Pay tax due for the tax year when filing their annual income tax declarations.
- **Category "B":** Pay tax due for the tax year between July 7 and August 8.

3. Schedules of Income

The Federal Income Tax Proclamation 979 /2016 provides for the taxation of income in accordance with the following schedules:

- Schedule “A”, Income from employment;
- Schedule “B”, Income from rental of buildings;
- Schedule “C”, Income from business;
- Schedule “D”, Other income; and
- Schedule “E”, Exempt income.

The amended Income Tax Proclamation has updated the rates applicable to these income schedules. Additionally, certain types of income taxes have been incorporated into these schedules. The details are summarized as follows.

Schedule “A”: Income from employment

Rates of Employment Income tax

Monthly rates of employment income tax has been amended as per the below table:

| Pervious Rates                           |                            | New Rates                                |                            |
|------------------------------------------|----------------------------|------------------------------------------|----------------------------|
| Monthly Income from Employment (In Birr) | Employment income tax rate | Monthly Income from Employment (In Birr) | Employment income tax rate |
| 0 – 600                                  | 0%                         | 0 – 2,000                                | 0%                         |
| 601 – 1,650                              | 10%                        |                                          |                            |
| 1,651 – 3,200                            | 15%                        | 2,001 – 4,000                            | 15%                        |
| 3,201 – 5 ,250                           | 20%                        | 4,001 – 7,000                            | 20%                        |
| 5,251 – 7,800                            | 25%                        | 7,001 – 10,000                           | 25%                        |
| 7,801 – 10,900                           | 30%                        | 10,001 – 14,000                          | 30%                        |
| Over 10,900                              | 35%                        | Over 14,000                              | 35%                        |

**When are employees with multiple employments or self-withholding obligations required to file a tax declaration?**

Employees who have more than one employer within a calendar year, or have self-withholding obligations, will now be required to file a tax declaration within 30 days following the end of the year. Previously, such employees were required to file a tax declaration not later than 30 days after every 3 months.

**How does the amended Proclamation enhance Tax collection control for employees obligated to self-withhold Tax on their income?**

According to Proclamation 979/2016, an employee employed by an international organization or working in an embassy, diplomatic mission, or other consular establishment in Ethiopia of a foreign government or employed by an entity exempt by law from tax withholding obligations is required to self-withhold tax from the employment income received from such entities.

For employees obligated to withhold tax from their employment income, the amended proclamation enhances the control of tax collection from self-withholding. It mandates that the Tax Authority, in collaboration with the Ministry of Foreign Affairs, establish a system to record the list and addresses of employees from the specified organizations for the purpose of tax collection. The amended proclamation also states that, government agencies which are responsible for issuance and renewal of work permits to foreign employees shall be responsible to inform the Tax Authority as soon as they issue or renew work permits. The information to be provided shall contain the name of the employee, the address in Ethiopia, the name of the employer, the type of the work permit, duration of stay, the amount of salary and fringe benefits as well as any other relevant information that the Tax Authority requires.

**Schedule “B”: Income from rental of buildings**

Article 15 is amended by introducing a definition of “rental income” in sub-article 8, to mean income derived from the rental of any building, residence, or warehouse. However, it excludes:

- Rental income from industrial establishments constructed by developers of industrial parks, buildings, or greenhouses leased under the Capital Goods Lease Proclamation; and
- Spaces in a warehouse rented for a fee.

Rate of rental income tax:

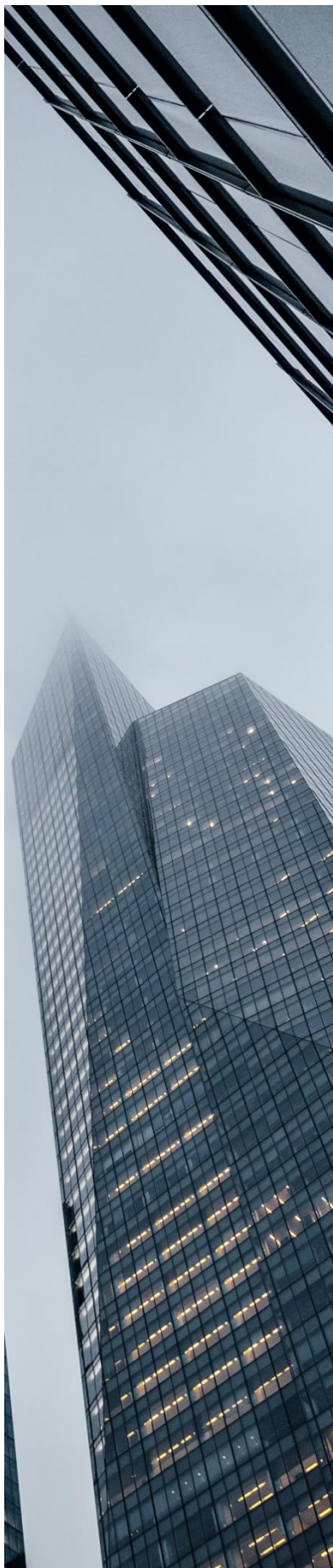
- The rate of rental income tax for corporate bodies shall be 30%;
- The rates of income tax for individuals shall be as follows:

| Previous Rates (up to 7 July 2025) |                                 | New Rates (from 8 July 2025) |                                 |
|------------------------------------|---------------------------------|------------------------------|---------------------------------|
| Annual Taxable rental income       | The rates of rentals income tax | Annual Taxable rental income | The rates of rentals income tax |
| 0 – 7,200                          | 0%                              | 0 – 24,000                   | 0%                              |
| 7,201 – 19,800                     | 10%                             |                              |                                 |
| 19,801 – 38,400                    | 15%                             | 24,001 – 48,000              | 15%                             |
| 38,401 – 63,000                    | 20%                             | 48,001 – 84,000              | 20%                             |
| 63,001 – 93,600                    | 25%                             | 84,001 – 120,000             | 25%                             |
| 93,601 – 130,800                   | 30%                             | 120,001 – 168,000            | 30%                             |
| Over 130,800                       | 35%                             | Over 168,000                 | 35%                             |

Schedule “C”: Income from business

- The rate of business income tax applicable for corporates shall be 30%.
  - The rate of business income tax applicable for individuals with the exception of Category “B” taxpayers who pay tax on annual gross sales shall be the following:
- | Previous Rates (up to 7 July 2025) |                                  | New Rates from (8 July 2025)   |                                  |
|------------------------------------|----------------------------------|--------------------------------|----------------------------------|
| Annual Taxable Business Income     | The rates of Business Income Tax | Annual Taxable Business income | The rates of Business Income Tax |
| 0 – 7,200                          | 0%                               | 0 – 24,000                     | 0%                               |
| 7,201 – 19,800                     | 10%                              |                                |                                  |
| 19,801 – 38,400                    | 15%                              | 24,001 – 48,000                | 15%                              |
| 38,401 – 63,000                    | 20%                              | 48,001 – 84,000                | 20%                              |
| 63,001 – 93,600                    | 25%                              | 84,001 – 120,000               | 25%                              |
| 93,601 – 130,800                   | 30%                              | 120,001 – 168,000              | 30%                              |
| Over 130,800                       | 35%                              | Over 168,000                   | 35%                              |
- Limited liability partnerships and legally registered collective investment funds, regardless of their legal form, are exempt from corporate income tax.
  - However, limited liability partnerships are required to withhold tax from income distributed to their members in accordance with Schedule "C" that is applicable to individual business tax.
  - Collective investment schemes must withhold dividend tax on profits distributed to their shareholders.





## *Types of income are included under Schedule "C"*

### **1. Income from digital content creation**

- Income from digital content creation shall be considered as business income when the following criteria are met:
  - Carried out regularly with the intention to make profit,
  - The creator is operating in a professional or organized manner,
  - Maintains books of records or has business expenditures.
- If these conditions are not satisfied, the income is classified as other income and taxed under Schedule "D".
- Digital content creators whose income exceeds the threshold to be established by the directive to be issued by the Council of Ministers are required to obtain a Taxpayer Identification Number and fulfil other relevant taxpayer obligations.
- Income from digital content shall be included in the annual tax declaration.
- Any online platform which facilitates payments for digital content creators that are residents in Ethiopia and whose annual turnover exceeds the threshold to be determined by a Directive to be issued by the Ministry shall report to the Tax Authority the amount of gross income each creator has received.

### **2. Interest income**

- Interest income earned by a financial institution through deposits in another financial institution or similar transactions will be taxed under Schedule "C".
- Additionally, taxpayers who earn interest income from the sale of goods or services on credit are required to pay tax in accordance with Schedule "C".

## *Non-Deductible Expenses under the Amended Proclamation*

The following items are no longer tax-deductible:

- Payments exceeding Birr 50,000 are non-deductible unless made via account payee cheque, account payee bank draft, bank-to-bank transfer, or an electronic payment method specified in a directive to be issued by the Ministry of Finance.
- The deduction of expenses or inclusion in asset value may be disallowed if taxpayers fail to provide necessary documentary evidence.

## *Deductibility of Donations*

In addition to donations related to Ethiopian charities and societies, as well as donations made in response to government calls, a new provision allows for donations towards development activities as determined by a directive to be issued by the Ministry of Finance. Taxpayers are permitted to deduct up to 10% of their taxable income for the year for such donations.

## Minimum Alternative Tax

Minimum Alternative Tax has been introduced under Article 23 of the Proclamation.

If the total assessable profits from all sources of business income result in a tax liability below 2.5% of turnover, the taxpayer is subject to a minimum alternative tax at the following rates:

- 2.5% the turnover of a body or person;
- 2.5 % of net banking income, in the case of banks;
- 2.5% of the gross premium income for life and non-life insurance business, in the case of an insurance company; and
- 2.5% of the commission amount, in the case of a price-regulated company

The minimum tax payable shall be offset by any business income tax paid during the year by the taxpayer.

Taxpayers are allowed a tax credit for tax paid, applicable for up to five years, to the extent that it reduces tax payable, to the level of minimum tax (2.5%) without the reduced business income tax paid as minimum tax.

The minimum tax concept also applies to taxpayers granted tax incentives in accordance with tax incentive laws and is to be calculated on the income tax payable after applying tax incentives.

## Schedule “D”: Other Income

### I. Income of Non-residents

Under the amended proclamation, the withholding tax rates applicable for non-resident income are as follows:

- Insurance premium: 15% of the gross amount;
- Royalty: 10% of the gross amount;
- Dividend: 15% of the gross amount;
- Interest: 10% of the gross amount;
- Management or technical fee: 15% of the gross amount; and
- Non-resident entertainers: 15% of gross income from performance without expenditure deduction.

### II. Income of Non-Residents Attributable to a Permanent Establishment

As per the amended proclamation the withholding tax rates on the income of a non-resident who derives Ethiopian source income that is attributable to a permanent establishment of the non-resident in Ethiopia are as follows:

- Dividends: 15% of the gross amount
- Interest: 10% of the gross amount
- Royalties: 10% of the gross amount





## Schedule “D”: Other Income...ctd’

### III. Income of residents

As per the amended proclamation the withholding tax rates on the income of a resident of Ethiopia are as follows:

- Royalties: 10% of the gross amount; 5% for royalties related to art and culture
- Dividends: 15% of the gross amount
- Interest: 10% of the gross amount

### IV. Income from Games of Chance

A person who derives income from winning at games of chance held in Ethiopia shall be liable for income tax at the rate of 20% on the gross amount of the winnings.

### V. Undistributed Profit

A tax rate of 15% applies to the undistributed profit of a body for a tax year, to the extent that it is not reinvested in accordance with the directive to be issued by the Ministry.

Subject to the details to be provided in a directive to be issued by the Ministry, a body shall be considered to have reinvested its profit when it uses its net profit to increase the shares of the shareholders and increase its capital.

### VI. Repatriated profit

A non-resident entity operating in Ethiopia through a permanent establishment is subject to a 15% tax on the repatriated profit of that establishment.

If the permanent establishment fails to remit profits within 12 months following the end of the tax year, the tax will be assessed as if the profit has been remitted.

### VII. Digital service tax

- Income earned by a non-resident from providing digital services in Ethiopia is considered Ethiopian-sourced income.
- Both residents and non-residents who earn income from digital services provided in Ethiopia are required to pay digital service tax.
- The rate and payment mode of this tax will be established by the Council of Ministers, with the rate not exceeding 5%.

### VIII. Gain on disposal of certain investment assets

- Under the income tax proclamation 979/2016, a person who derives a gain from the disposal of immovable assets, shares, or bonds is liable to income tax.
- The recent amendment has revised the previous 30% income tax rate of capital gains on disposal of shares and bonds to 15%.
- The gain on the disposal of a taxable asset is calculated using the following formula: *The amount of gain = The consideration for the disposal of asset – (The cost of the asset + 30% inflation adjustment)*



### Offshore indirect transfers

- The amended Income Tax proclamation introduces the concept of indirect transfers occurring outside Ethiopia.
- Gains from selling shares or membership interests are included in chargeable income if, during the 365 days before the realization, more than 20 percent of the value of the shares or other interests is derived, directly or indirectly through one or more interposed entities, from immovable or any other property in Ethiopia.
- The income tax rate for the gain shall be 15%.
- Ethiopian property owners must notify the Authority if such transactions occur indirectly through related companies.
- If the person executing the indirect transfer is not a resident of Ethiopia, the person located in Ethiopia who made the transfer of the property, will be considered the agent of the non-resident.
- This agent is responsible for paying any taxes due related to the transfer.
- A body or person who has disposed an asset shall notify the tax authority of the disposal by filling a declaration.
- Failure to notify the Authority results in penalties under the Tax Administration Proclamation.

### *Changes made regarding Schedule “E”: Exempt Income*

The following exempt incomes are included in the amended proclamation:

- Premium collected by the Ethiopian deposit insurance fund;
- Premium collected by existing companies from, issuance of new shares; and
- Dividend paid by any company to a company in Ethiopia which directly or indirectly held 12.5% of the voting right and has controlling share in the first mentioned company.

### **4. Withholding of tax from domestic payments**

Taxpayers required to withhold tax at a rate of 3% of gross amount of payment made for the following:

- The supply of goods in Ethiopia involving more than Birr 20,000 in one transaction or supply contract
- The supply of services involving Birr 10,000 in one supply contract.
- If the supplier has failed to provide TIN and business license to the withholding agent, the withholding agent shall withhold tax at a rate of 30% of the gross amount of the payment made.

## 5. Method of Payment

A taxpayer shall not receive a payment in excess of Birr 50,000 other than an account payee cheque or account payee bank draft, bank to bank transfer or a payment system authorized by national bank of payment for the following:

- a. In aggregate from a person in a day ;
- b. In respect of a single transaction; and
- c. In respect of transitions relating to one event or occasion from a person.

However, this provision shall not be applied to public bodies, public enterprises, banks and micro-finance institutions.

Administrative penalty: a taxpayer who receives cash exceeding the specified threshold amount will be liable to pay an administrative penalty equivalent to the amount received in cash.

## Conclusion

The amended proclamation seeks to reduce the income tax burden for low-income taxpayers, broaden the tax framework, simplify the tax payment process for small business owners, and address tax evasion and avoidance. Additionally, it aims to clarify certain articles within the proclamation.

For further discussion or guidance, please reach out to any of the contacts listed below or your usual Deloitte contact, who will be pleased to assist you.



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