

Investment Incentives in Ethiopia

Description

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Introduction

Investment incentives are special rights granted for certain categories of investors in order to promote and facilitate private investors to play their role in investing and accelerating the country's economic growth. In Ethiopia according to Investment Proclamation No. 1180/2020, investment areas eligible for incentives as well as the amount of incentive shall be determined by regulation to be enacted by the Council of Ministers. Accordingly, the Investment Regulation No.474/2020 Article 21 relating to investment incentives affirms that the Council of Ministers Regulation No.270/2012 will remain valid and applicable. Thus, the investment incentives granted to investors engaged in areas eligible for investment incentives will be discussed herein under.

Income Tax Exemption for New Enterprises

According to Article 5 of Regulation No.270/2012, any investors who establish a new enterprise in the following states;

1. The State of Gambela Peoples;
2. The State of Benishangul Gumuz;
3. the State of Afar (except in areas within 15 Kilometers right and left of the Awash River);
4. The State of Somali;
5. Guji and Borena Zones of the State of Oromia; And
6. South Omo Zone, Segen (Derashe, Amaro, Konso and Burji) Area Peoples Zone, Bench Maji Zone, Sheka Zone, Dawro Zone, Kaffa Zone or Konta and Basketo Special Woredas of the State of Southern Nations, Nationalities and Peoples

shall be entitled to an income tax deduction of 30% for three consecutive years.

Income Tax Exemption for Expansion or Upgrading of an Existing Enterprise

Any investor expanding or upgrading his existing enterprise with respect to the additional income generated by the expansion or upgrading shall be entitled to income tax exemption for a period of time to be specified taking in to consideration the specific activity and location of the investor.

Income Tax Exemption for Investors Exporting Products and Services

Any investor who exports products and services shall be entitled to income tax exemption for two years. Not only an exporter but also any person who supplies products or services input at least 60% of his product to an exporter shall be also entitled to the same kind of exemption. In addition to that

Ethiopian products and services destined for export are exempted from payment of any export tax subject to few exceptions.

Exemption from Customs Duty

Exemption from payment of customs duty is granted to investors to import all investment capital goods. This includes plant machinery and equipment, construction materials as well as spare parts worth up to 15% of the total value of the capital goods within five years from the date of commissioning of the project. However, an exception here is that such goods are not produced locally in comparable quantity, quality and price. Exemptions from customs duties or other taxes levied on imports are also granted for raw materials necessary for the production of goods.

An investor granted with customs duty exemption who buys capital goods or construction materials from local manufacturing industries shall be refunded the customs duty paid for raw materials or components used as inputs for the production of such goods.

Loss Carry Forward

An enterprise that suffers losses during the income tax exemption period can carry forward such losses, following the expiration of the income tax exemption period for half of the tax exemption period. Any loss incurred during the income tax exemption period is not allowed to carry forward for more than five income tax periods.

Conclusion

Generally income tax exemption and exemptions from customs duty are granted for both domestic and foreign investors. This is to encourage private investment in all corners of Ethiopia and promote the inflow of foreign capital and technology..

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