Grant Thornton

Brief analysis on:

Income Tax Proclamation No. 1395-2025 (Amendment)

Grant Thornton Ethiopia |

Income Tax Proclamation No. 1395-2025 (Amendment)

Ethiopia's Income Tax Proclamation (1395-2024) seeks to overhaul the national tax system to boost revenue, improve equity and streamline compliance. Its goals include expanding the tax base, curbing evasion, and enhancing public service funding through fairer taxation.

Major reforms include taxing digital economic activities, adjusting income brackets, introducing an Alternative Minimum Tax, tightening cash controls, and simplifying rules for small businesses. Implementation hinges on strong administrative capacity, clear guidelines, and informed taxpayer engagement.

CONTENTS

Key Amendments and Additions (1/12)

1. Article 2: New Tax Categories and Definitions added

- Income from Digital Content Creation: Income from creating, distributing or selling digital media or products through video sharing services, social media platforms. voice transmission podcast services and live transmission platforms. This includes ad revenue, sponsorships, affiliate earnings, among others.
- Digital Services: Services that involves digital content , as shall be defined by a regulation to be issued by the Council of Ministers.

2. Article 3: Revised Taxpayer Categories

The Proclamation calls for a major change in taxpayer classification by dissolving Category "C" and incorporating its members into a broadened Category "B." The two new categories are:

- Category A: Businesses or individuals with annual turnover exceeding ETB 2 million. These taxpayers must maintain full accounting records and are subject to stricter compliance requirements.
- Category B: Individuals with turnover below ETB 2 million. They benefit from simplified tax regime, but professional service providers must still comply with basic reporting.

3. Article 4: Definition of Permanent establishment

- The proclamation reduces the identification of permanent establishment duration from 183 days to just 91 days. This change applies to foreign entities operating and providing services in both service-based and construction-related activities, including consultancy, technical work and projects mandating them to maintain records and will now be classified as having a permanent establishment.
- Technical services including professions such as accounting, engineering, legal, IT, and financial consulting service providers – which irrespective of their annual turnover, are now required to maintain book of records in accordance with Article 86 of this Proclamation.

4. Article 6: Source of Income - Income from non-residents

- Income derived by a person who is not a resident of Ethiopia from the provision of digital services in Ethiopia shall be treated as income sourced in Ethiopia.

Key Amendments and Additions (2/12)

5. Article 11: Employment income tax rate (Monthly)

The monthly employment income tax rates is updated as below:

Monthly Employment Income - ETB	Employment Income Tax Rate
0 -2,000	0%
2,001-4,000	15%
4,001-7,000	20%
7,001-10,000	25%
10,001 -14,000	30%
14,001 and above	35%

7. Article 14: Rates of Rental Income Tax

Individuals' rental income tax is updated as per the below:

Annual Taxable Rental Income – ETB	Rental Income Tax rate
0-24,000	0%
24,001-48,000	15%
48,001-84,000	20%
84,001-120,000	25%
120,001-168,000	30%
Over 168,000	35%

6. Article 12: Keeping record of all employees employed by international organization and embassies and other entities exempted from withholding obligation

The tax authority in cooperation with the Ministry of Foreign Affairs, for tax collection purposes, shall establish a system which records the list and addresses of employees of foreign embassies in Ethiopia and international organization mentioned under Article 93(1).

Additionally, 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.

8. Article 15: Rental income definition

"Rental Income" means an income from rental of any building, residence and warehouse, but does not include the rental income from industrial establishments constructed by a developer of industrial parks, buildings or green house leased under capital goods lease proclamation and spaces in a warehouse rented for a fee."

Key Amendments and Additions (3/12)

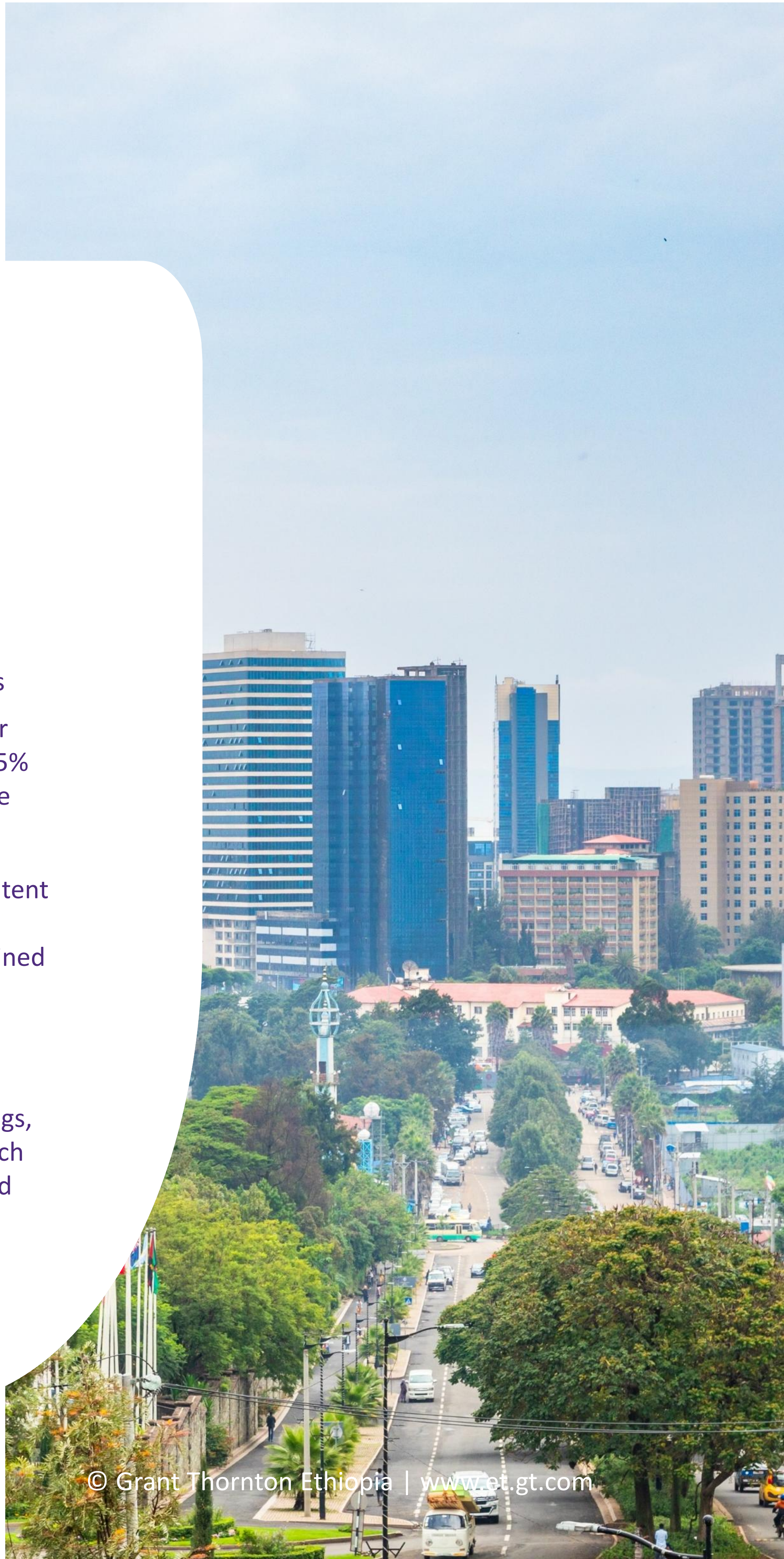
9. Article 19: Rates of business Income Tax

- Corporate tax rate preserved: Organizations continue to be taxed a flat 30% rate.
- Limited Liability Partnerships (LLPs) and Collective Investment Funds (CIFs) no longer pay entity-level corporate tax. Instead, LLPs shall withhold tax from income distributed to their members. Similarly, CIFs shall withhold dividend tax on profits distributed to their shareholders.
- The annual tax-exempt threshold rises to ETB 24,000 for individual businesses. Accordingly, individuals are required to pay business income as per the below rates.

Annual Taxable Business Income - ETB	Business Income Tax Rate
0-24,000	0%
24,001-48,000	15%
48,001-84,000	20%
84,001-120,000	25%
120,001-168,000	30%
Over 168,000	35%

10. Article 22: Income from digital content creation

- Under the Proclamation, income earned through digital content creation will be subject to business income tax. If the activity is:
  - Carried out regularly with the intention of making profit
  - Conducted professionally or in an organized fashion
  - Maintains proper bookkeeping or has business expenditures
- However, if these conditions aren’t met, the earnings will fall under “other income” as defined in Schedule D and will be subject to a 15% tax. Detailed regulations governing this category are expected to be issued.
- Online platforms that facilitate payments to Ethiopian resident content creators will also face new obligations. Specifically, if the annual payouts to a creator exceed a certain threshold—yet to be determined by the Ministry of Finance—the platform must report to the tax authority the total gross income paid to each creator .
- Moreover, digital creators themselves will be required to obtain a Taxpayer Identification Number (TIN), formally declare their earnings, and fulfil all applicable tax obligations. This comprehensive approach marks a significant shift toward formalizing the digital economy and ensuring tax compliance among online entrepreneurs.



11. Article 23: Minimum Alternative Tax

- The Minimum Alternative Tax ensures that businesses contribute a baseline amount to public revenue, even when reporting low or no profits. It applies when a company's business income tax falls below 2.5% of its annual turnover.
  - 2.5% of the turnover of a body or a person
  - 2.5% of net income for banks, insurance companies
  - 2.5% of commission amount for price regulated companies
- Not applicable for entities under liquidation, corporate bodies under debt restructuring and category B taxpayers.
- Taxpayers who are granted tax incentives – minimum alternative tax shall be calculated on the income tax payable after applying tax incentives.
- Minimum Alternative Tax payments can offset regular income tax, with excess amounts carried forward for up to five years.

12. Article 26 –Donation: Deducting contributions made to government calls, emergency, reliefs, etc.

- Taxpayers can deduct contributions made in response to calls by Council of Ministers or Regional Cabinet for emergency relief or development, up to 10% of their taxable income. The Minister of Finance may authorize higher deductions for priority sectors via directive.

13. Article 29 (Old Article 27): Restrictions on Cash Transactions

The Proclamation caps cash transactions at ETB 50,000, requiring larger payments to be made through formal banking modalities such as account payee cheque or account payee bank draft, bank to bank transfer or electronic channels. Violations incur a penalty double the amount received, with exceptions granted for specified public and financial institutions.

14. Article 33: Simplified Tax System for Category "B" Taxpayers

In the proclamation 979/2016, Article 33 has been formally removed. For details on its original content, please consult the previous proclamation referenced in this publication's appendix section.

15. Article 50: Taxation of Category "B" Taxpayers

A new tax system has been proposed for Category B taxpayers, based on Annual Gross Sales and structured with progressive rates. Tax on annual gross sales shall be levied and payable on gross receipts from the sale of goods and services in a tax year. This simplified approach replaces the presumption tax and turnover tax law. *(continue to next page please)*

Key Amendments and Additions (5/12)

16. Article 50: Taxation of Category "B" Taxpayers (cont'd)

However, this proclamation excludes the following services/businesses from paying tax based on gross sales instead it requires them to maintain books of account similar to Category A taxpayers.

a) Professional services: Accounting, architectural, consulting, construction, engineering, financial, economy and investment professional, healthcare, legal service providers
b) VAT registered businesses
c) Businesses that opt for net income taxation

Annual Gross Receipts	Tax rate
0 – 100,000	0%
100,001 – 500,000	15%
500,001 – 1,000,000	20%
1,000,001 – 1,500,000	25%
1,500,001 – 2,000,000 and below	30%

17. Article 52 : Rate of non-resident tax

The current legislative framework imposes a standard 15% withholding tax on dividend, insurance and management or technical payments made to non-residents.

Key changes in Article 52 the new proclamation include:

- General Withholding Tax Increase: The standard rate for non-resident payments is 15% covering insurance premiums, dividends, and management or technical fee and 10% for royalties and interest.
- Royalties
  - Ethiopian residents: Generally taxed at 10%, except artistic and cultural royalties, which benefit from a reduced 5% rate.
  - Non-resident : Royalties taxed at 10%, with no special exemption for cultural works.
- Dividends
  - Dividends paid to residents and non-resident will now be taxed at 15% rate.
  - A new exemption is introduced: dividends distributed within a controlling group—defined as one entity holding at least 50% ownership in another—are not taxed at the distributing company level.
- Interest Payments
  - The standard 10% withholding rate still applies for interest paid to both residents and non-residents.
  - Interest from financial institutions and Interest on credit sales will be governed by Schedule C rates (corporate income tax rate).
- Repatriated Profits
  - Tax on profit remitted abroad increases from 10% to 15%.
  - A novel "deemed remittance" provision is added: if profits are not transferred out of Ethiopia within 12 months, they will be treated as if remitted and taxed accordingly.

Key Amendments and Additions (6/12)

18. Article 55 (Old Article 53): Tax Obligation for Non-Resident Entertainers

Entertainers who are not residents of Ethiopia and earn income from performing within the country are subject to a 15% income tax on their total gross earnings from the event. This tax is applied without allowing any deductions for expenses related to the performance.

19. Article 56 (Old Article 54): Taxation on Royalty

An Ethiopian resident who earns income from royalties will be subject to a 10% income tax on the total gross amount received, with no deductions permitted; however, a reduced rate of 5% applies if the royalties stem specifically from artistic or cultural works.

In parallel, a non-resident deriving royalty income from sources within Ethiopia that are directly attributable to a permanent establishment located in the country will also face a 10% income tax on the full amount of the royalty, similarly calculated on a gross basis without allowance for expenses.

20. Article 57 (Old Article 55): Taxation on Dividend earnings

1. Tax on Dividend Income for Residents:

Any individual or entity residing in Ethiopia that earns dividend income is required to pay income tax at a rate of 15%, calculated on the gross amount received. No deductions or offsets are permitted.

2. Tax on Dividend Income for Non-Residents:

Non-resident entities receiving dividends sourced from Ethiopia are also subject to a 15% income tax, provided that the income is attributable to a permanent establishment situated in Ethiopia. The tax applies to the gross amount.

3. Exemption for Intra-Group and Permanent Establishment Distributions:

If a company distributes dividends to either (a) a permanent establishment in Ethiopia or (b) a resident company that is a member of a group of companies—defined as having substantial ownership linkage, typically 50% or more—then the dividend tax is not applicable to the distributing entity under this provision.

4. Treatment of Exempted Distributions:

Distributions made under the exemption stated in item 3 are subject to specific rules: The distributed amount cannot be recorded as a deductible expense, cannot be claimed as a cost, cannot be used to offset other taxable income, and must not be included as part of the recipient's income for tax purposes.

Key Amendments and Additions (7/12)

21. Article 58 (Old Article 56): Taxation on Interest

Tax on Interest Income for Residents

- A resident of Ethiopia who derives interest shall be liable for income tax at the rate of 10% of the gross amount of interest.

Tax on Interest Income for Non-Residents

- A non-resident that earns interest income from Ethiopian sources—specifically from transactions linked to a permanent establishment it operates within Ethiopia—is subject to a 10% income tax, calculated on the gross amount of the interest received.

Interest Income between Financial Institutions

- Interest earned by financial institutions from deposits or similar arrangements with other financial institutions is taxed under Schedule C-income from Business.

Interest from Credit Sales

- Interest income from sales made on credit terms is also excluded from the 10% withholding tax and taxed under Schedule C, income from Business.

22. Article 59 (Old Article 57): Winnings from games of chance

Income from winning at games of chance held in Ethiopia shall be liable for income tax at the rate of 20% (which previously was 15%) on the gross amount of the winnings. The original proclamation exempted winnings less than 1,000 Birr, however, the new draft proclamation has no mention of such exemptions.

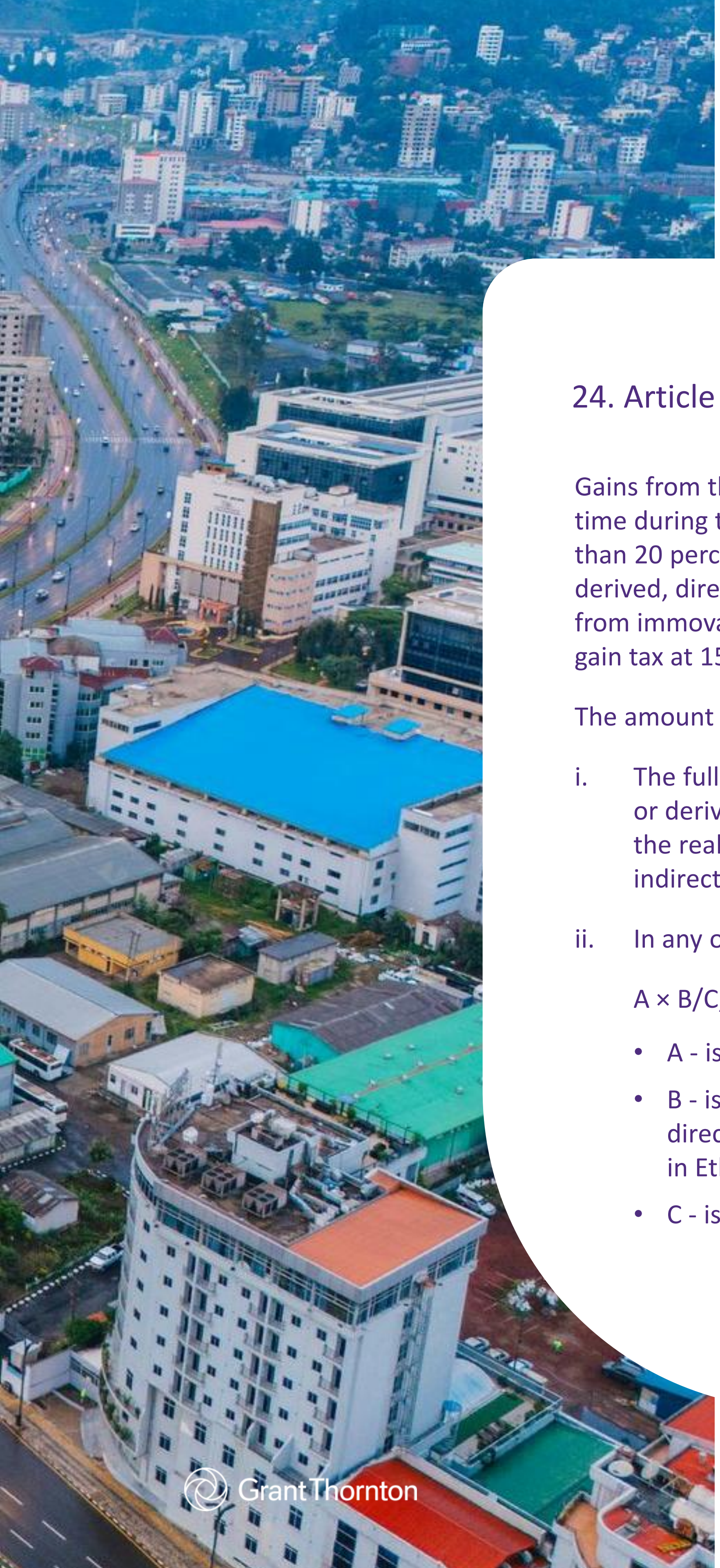
23. Article 61 (Old Article 59): Disposal of taxable asset

Applicable Tax Rate: Any gain realized from the disposal of a taxable asset is subject to income tax at a rate of 15%. A "taxable asset" includes shares, bonds, and immovable asset—except when the building has served exclusively as the residence for at least two consecutive years prior to disposal, in which case any gain is tax-exempt under this Article..

Calculation of Taxable Gain: The gain derived from the sale or transfer of a taxable asset shall be calculated using the following formula:

(A + B) − C = Taxable Gain, where:

- A - represents the total consideration received for the disposal of the asset
- B - 30% inflation adjustment
- C - denotes the original cost of acquiring the asset



Key Amendments and Additions (8/12)

24. Article 62: Offshore Indirect Transfer

Gains from the realization of shares or membership interests, at any time during the 365 consecutive days preceding 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 s subject to capital gain tax at 15%.

The amount of the gain subject to capital gain is:

i. The full amount of the gain: if the shares or other interests derive or derived at any time during the 365 consecutive days preceding the realization, more than 50 percent of their value, directly or indirectly, from immovable or any other property in Ethiopia. Or

ii. In any other case, the gain is:

A × B/C, where:

- A - is the amount of the gain.
- B - is the value of the shares or other interests derived, directly or indirectly, from immovable and any other property in Ethiopia; and
- C - is the total value of the interest

25. Article 64: Tax Undistributed Profit

Tax on Undistributed Profit

A business entity must pay 15% tax on its undistributed profit—this is the portion of profit that is not reinvested within the timeline and rules set by the Ministry's directive. If the company reinvests its profit properly (according to the directive), then this tax doesn't apply. The specific conditions for reinvestment will be outlined in an upcoming directive issued by the Minister.

Undistributed Profit refers to Net Profit:

- Net profit that is not distributed to shareholders as dividends.
- Net profit that is not used to grow the company's capital within 12 months after the tax year ends. And
- An amount not remitted to a foreign company carrying on business through a permanent establishment..

What Counts as Reinvestment:

- When it uses its net profit to increase the shares of the shareholders and increase its capital

Key Amendments and Additions (9/12)

26. Article 65 (Old article 62): Repatriated profit

A non-resident company that operates in Ethiopia through a permanent establishment (such as a branch or project office) is required to pay a 15% tax on any profits it repatriates to its parent company abroad.

If the establishment doesn't repatriate its profits within 12 months after the end of the tax year, the Ethiopian tax authority will treat those profits as if they had been remitted and will assess the 15% tax accordingly. Once that tax is paid, if the profits are later actually transferred, no additional tax will be applied at that time. The specific procedures and conditions for implementing this rule will be outlined in regulations issued by the Council of Ministers.

27. Article 68 (Old article 65): Exempt Income

The proclamation as included premium collected and dividend paid to holding company to the list of exempted income. Accordingly, the below listed incomes are exmpted from tax.

- 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"

28. Article 81: Method of Payment

The Proclamation introduces a cash transaction limit of ETB 50,000, meaning individuals cannot pay or receive more than this amount in cash for any of the following:

1. Total daily transactions with a single person
2. Any individual transaction, or
3. All transactions related to a single event or occasion involving one person.

This restriction does not apply when payments are made using account payee cheques, account payee bank drafts, direct bank-to-bank transfers, or any other payment methods formally approved by the National Bank of Ethiopia. However, the cap does not apply to public bodies, public enterprises, banks, and microfinance institutions, nor to other persons, organizations, or types of transactions that may later be specified by a directive from the Ministry of Finance.

29. Article 86 (Old article 82): Category "B" taxpayers – Book of accounts

- Sub article (2) which requirs rocord keeping is hereby removed by the proclamation.
- Sub article (3) – Category "B" taxpayers may maintain books of records in accordance with financial accounting reporting standard . If such books of account are acceptable, tax shall be assessed based on their books of account."

Key Amendments and Additions (10/12)

30. Article 86 (Old article 82): Deductible expenses

If a taxpayer fails to provide the necessary documentation to justify deducting an expense or including it as part of an asset's value, the tax authority has the power to reject the deduction or the inclusion of the expenses in the value of the asset.

Additionally, if the taxpayer fails to maintain and submit proper accounting records as required, taxes may be assessed based on estimates. In such cases, the taxpayer won't be eligible to be entertained based on the tax payment method applicable to Category "B" taxpayers.

One notable allowance included in the proclamation is that companies can deduct interest expenses incurred from loans used specifically to buy shares in another company provided that the company receives dividend from the company in which the share is purchased.

31. Article 86 (Old article 82): Category "A" taxpayers – Separate book of accounts

A Category "A" taxpayer with multiple business activities covered under Schedule "C" must keep separate and accurate accounting records for each business activity in line with legal requirements. This ensures proper tax assessment and avoids mixing financial data across different business lines.

32. Article 87 (Old Article 83): Method of Payment

If an employee has worked for more than one employer in a calendar year or earned additional income subject to self-withholding, he/she ise required to file a tax declaration within 30 days after the year ends.

However, employees who earn income from only one employer and have no other taxable sources are not required to file a separate declaration. In such cases, the employer-issued withholding tax receipt serves as the official tax assessment for that year, and the tax amount shown in that statement is considered the employee's final liability under both this Proclamation and the Tax Administration Proclamation.

33. Article 88: Administrative Penalty

Taxpayer who received money in cash in excess of ETB 50,000 shall be liable to pay the amount received as administrative penalty for receiving cash above the legal threshold.

Key Amendments and Additions (11/12)

34. Article 89 (Old article 84): Tax advance payment

Under Proclamation No. 979/2016, which allowed Category A taxpayers to pay corporate income tax payment within four months after the end of the financial year ad Category B within two is being replaced by a mandatory quarterly advance payment scheme under the Proclamation.

Now, Category A and B taxpayers must pay 25% of their prior year's tax liability every quarter:

- Category A within 30 days from the end of each quarter beginning from the end of the month in which they have to declare their income.
- Category B within 30 days from the end of each quarter beginning from Hamle 1 of each year.

The remaining balance is due at the time of the annual tax declaration. And if there is over payment, it will be refunded.

For newly registered taxpayers, the rules differ:

- New Category A taxpayers will make their first full payment when submitting their annual return.
- While new Category B taxpayers must pay between Hamle 1 and Hamle 30.

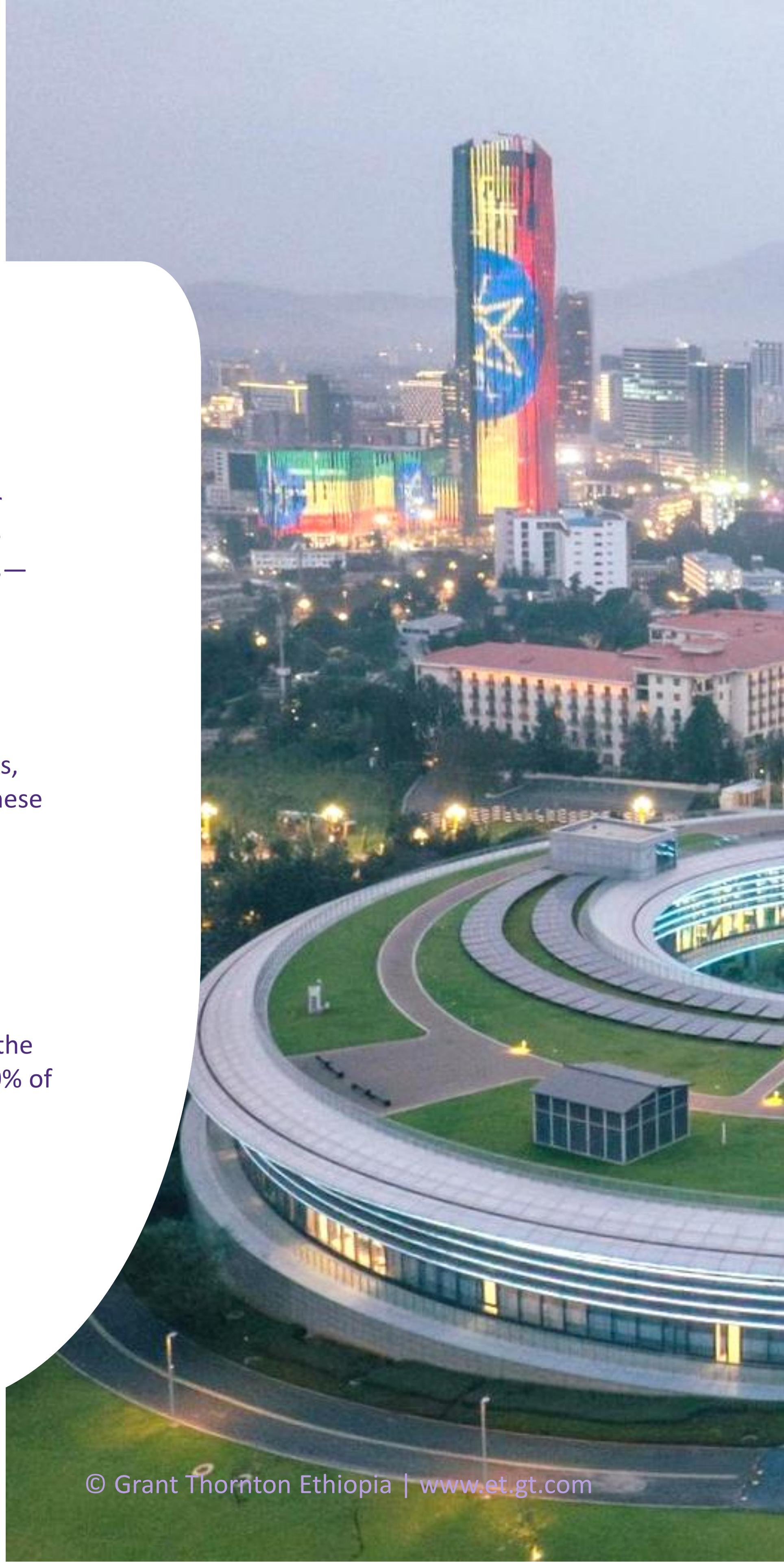
35. Article 97 (Old Article 92): Withholding tax rate

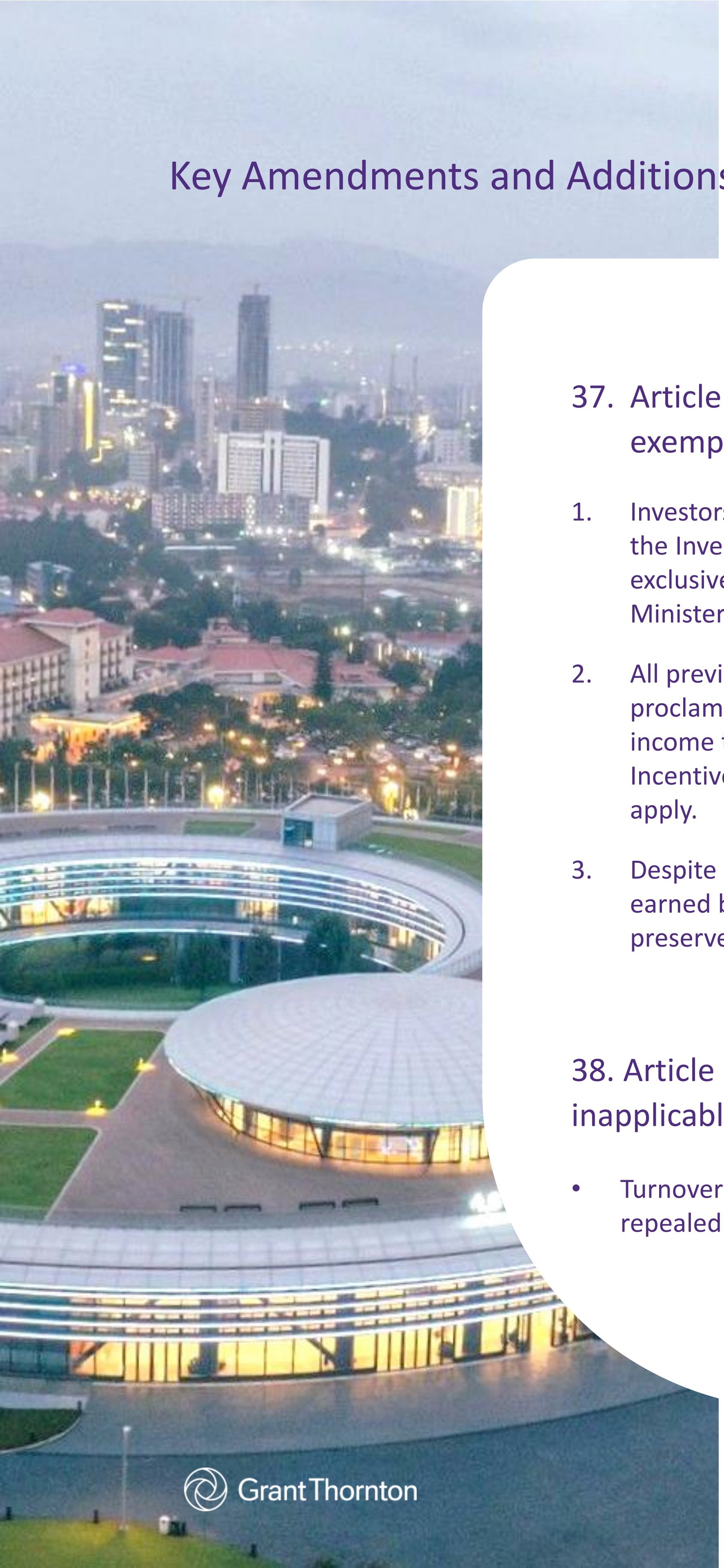
The Proclamation raise the withholding tax rate on domestic payments for goods and services from the previous 2% to a new rate of 3%. At the same time, it increases the minimum transaction values at which the tax applies—doubling the threshold for goods from ETB 10,000 to ETB 20,000 and significantly raising the services threshold from ETB 3,000 to ETB 10,000.

The existing 30% final tax rate remains unchanged for entities that do not possess a Tax Identification Number (TIN) and relevant business license. However, certain groups such as micro-enterprises, registered legal entities, government institutions, and nonprofit organizations are excluded from these withholding tax requirements.

36. Article 97: Failure to provide documents for Withholding

If the supplier in a transaction fails 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.





Key Amendments and Additions (12/12)

37. Article 105: Application of income tax incentives and tax exemptions granted under other laws

1. Investors who receive official investment permits under the provisions of the Investment Proclamation will qualify for income tax benefits exclusively through the Incentives Regulations issued by the Council of Ministers. No other legal instrument will grant such tax advantages.
2. All previous income tax exemptions granted through various proclamations, directives, or regulations—unless they are granted by the income tax proclamation, income tax regulation and Investment Incentives Regulations—are now officially revoked and will no longer apply.
3. Despite the repeal mentioned in sub article 2 above, business income earned by cooperatives remains exempt from income tax, as specifically preserved under the Cooperatives Proclamation.

38. Article 106 (Old article 100) Repealed and inapplicable laws

- Turnover Tax Proclamation No. 308/2002 and its amendments is repealed by this proclamation.

39. Effective date

The Proclamation shall come into force on:

1. The Alternative Minimum tax will be applicable on income tax to be collected as of July 8, 2025.
2. The tax levied on schedule “D‟ income and the withholding tax collected on transactions as provided under renumbered Article 97 shall become effective as of August 7, 2025.
3. All other provisions of this amendment shall be applicable on income derived as of July 8/2025.

Impact on Specific Taxpayer Types

Large Businesses (Category A)

- Must maintain full books of account and submit detailed financial reports.
- Subject to Minimum Alternative Tax if their tax liability is less than 2.5% of their annual turnover.
- Required to comply with enhanced documentation, including transfer pricing and related-party disclosures

Small Businesses (Category B)

- Taxed under a simplified regime based on Annual Gross Sales:
  - 2% for 0–100,000 Birr
  - 3% for 100,001–500,000 Birr
  - Up to 9% for 1.5M–2M Birr
- Exemptions apply to professional service providers and VAT-registered businesses, who must maintain book of account.

Digital Content Creators

- Taxed under a simplified regime based on Annual Gross Sales for Category B:
- The Tax Authority shall issue a directive which prescribes the digital content creation as business activity; taking into consideration income level, the type of transactions, the type of content and the purpose of the business activity.

Comparison with the Original Proclamation (1/2)

This amendment addresses gaps and ambiguities in the 2016 law, particularly around the digital economy, taxpayer classification, and enforcement mechanisms. It introduces clear thresholds, new tax instruments, and stronger compliance tools.

Aspect	Original Law (979/2016)	Amended Law (2025)
Permanent establishment threshold	183 Days	91 Days
Taxpayer Categories	A, B, C	A- body and > ETB 2M, B ≤ ETB 2M
Digital Service	Not addressed	Defined and taxed
Minimum Alternative Tax	Not present	MAT at 2.5%
Cash Transaction Limits	No limit	Max ETB 50,000
Category B taxpayers	10-35% of net income	2-9% of gross sales
Dividend tax	10%	15%
Royality tax	5%	10% (5% for art and culture)
Digital Services	Not taxed	Up to 5%
Non-resident entertainer	10%	15%
Undistributed Profits	10% if not reinvested	15% if not reinvested
Repatriated Profits	10%	15%
winning at games of chance	15%	20%
Capital gain tax	30%- shares and 15% building	15 % -shares and building

>>

Comparison with the Original Proclamation (2/2)

Aspect	Original Law (979/2016)	Amended Law (2025)
Offshore Indirect Transfers	Not addressed	Defined and taxed
Premium on sakes of share	Not addressed	Exempted
Dividend to holding company	Taxed	Exempted (holding >12.5% voting right)
Penalties	General	Double for cash violations
Maintain separate books of account for each business activity	Not required	Mandatory
Advance tax payment	Not required	Quarterly
Withholding Tax on local transactions	2% or 30% (no TIN)	3% or 30% (no TIN)

Join our mailing list:

Never miss out on our latest publications. Fill out this form here or scan the QR code to subscribe: MS Forms

How can Grant Thornton assist you?

At Grant Thornton, we offer comprehensive Advisory, Audit, and Tax services to support private businesses, foreign investors, public interest entities, NGOs and international organizations on their business, investment and other interests in Ethiopia.

For further debrief on this new proclamation or any other concerns you may have in the business, investment and tax space, please don't hesitate to contact us.

Grant Thornton Advisory Ethiopia

Grant Thornton Building, 4th Floor
Guinea Conakry Street, Kazanchis
Addis Ababa, Ethiopia

T: +251-115-53-63-64
E: info@et.gt.com
W: www.et.gt.com
LinkedIn: Grant Thornton Advisory Ethiopia

Seid Abdella, FCCA
Tax Partner
Seid.abdella@et.gt.com

Fitsum Haile, FCCA
Associate Director, Tax Advisory
Fitsum.haile@et.gt.com