

## Ethiopia Team

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## Draft VAT proclamation on its way to Parliament

### Ethiopia Team



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### 1. Introduction

In Ethiopia, VAT is by far the largest component of overall tax revenues. It accounted for approx. 33% of the total (and almost three-fifths of all indirect tax revenues) in 2018–19, split between VAT on domestic transactions (23%) and VAT on imported goods (10%).<sup>1</sup>

VAT is a consumption tax levied on consumers through registered taxpayers and was introduced in Ethiopia by Proclamation 285/2002 in order to:

- collect tax on the added value of sales, which was not possible under the previous sales tax system (now replaced);
- minimise damage caused by attempts to avoid/evade taxes and ascertain the profit obtained by tax-payers;
- enhance savings and investment, as VAT is a consumption tax rather than a tax on capital; and
- enhance economic growth and improve the ratio between GDP and gross government revenue.

Although minor amendments were made to the original VAT proclamation by Proclamation 1157/2019, **the draft of the revised VAT proclamation could be one of the biggest steps taken since VAT was introduced in 2002.**

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### 2. Key changes

The draft proclamation expands the tax base, increases the threshold for VAT registration and introduces a threshold for voluntary registration. However, the tax rate remains 15%.

Persons carrying out taxable activities as defined under Art. 6 of the draft proclamation must register for VAT if they have ETB 2 million or more of taxable supplies – an increase of ETB 1 million over the previous threshold.

Furthermore, the tax base/taxable activities now include new business

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<sup>1</sup> 2019/2020 survey of the Ethiopian tax system (available [here](#)), p. 11.

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ventures, e-commerce, fees on public services, private transportation, and other sectors. This proposed change has prompted other proposed changes, such as the repeal of Directive 773/2021 and its amendment as well as Directive 898/2022<sup>2</sup> on tax and duty exemption for vehicles rendering taxi transport services.

The draft proclamation envisages VAT exemption for medical services, prescribed medicines, public transport, medical equipment, financial services, religious services, educational courses, and agricultural products.

In the previous proclamation, persons carrying out a taxable activity could voluntarily register for VAT if they regularly provided at least 75% of their goods/services to a VAT registered person. However, the new draft introduces a threshold of ETB 1 million in turnover generated from the provision of goods/services to be eligible for voluntary registration.

The draft VAT proclamation has undergone public consultation and will be enacted if, as expected, it successfully passes through the Council of Ministers and subsequently the House of Peoples' Representatives.



## Ethiopia Team

The team is a constellation of skills in different practice areas with a focus on Ethiopian matters.

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<sup>2</sup> Please see the directive available [here](#).