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Analysis of Tax Policies and Coping Strategies for Chinese Enterprises Investing and Operating in Ethiopia.

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Declaration

I, **YAN KUN**, declare that the thesis entitled "Analysis of Tax Policies and Countermeasures of Chinese Enterprises Investing and Operating in Ethiopia" is my original work. I independently prepared this thesis and any supporting referenced document(s) and source(s) have been duly identified and acknowledged. Any idea, concept, quote, or paraphrasing of another work of the writer has been cited in terms of due academic practices.

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Abstract

The title of the thesis is An Analysis of Tax Policies and Coping Strategies of Ethiopian Enterprises in Ethiopia.

The purpose of the study: the study aims to assess the effect of tax policy and tax burden on Chinese enterprises in Ethiopia and the coping mechanism of the enterprises with these tax burdens as well as the impact of the taxation on the overall economy of Ethiopia.

The methodology used: the author employed a mixed-method approach and a descriptive design. Data sampling (the actual data was collected) in various stages from 30 Chinese firms belonging to a variety of sectors including manufacturing, construction, infrastructure, and services was collected through a survey questionnaire and structured interview.

The main findings are: Firms in china suffer much greater burdens from administrative complexities (including specifically manual filing requirements and random audit assessments) than from the statutorily prescribed 30% corporate income tax rate. According to Table 5.9, 48% of firms seek help from other tax consultants in order to cope with instability of the Ethiopian tax system.

Conclusion: article gives a brief overview of the International investment and transfer pricing governance, challenges, solutions and significance. A mechanism for FDI is that countries deliver through various policy or treaty to their own sectors.

Policy recommendations: The study provides several policy suggestions relating to Ethiopia. tax authorities as well as Chinese enterprises. In the context of Ethiopian. Tax officials, the study recommends the ethio-. The tax authority must simplify the procedures in issuing. a tax residence certificate detailing clearer guidance; and. the Treaty provides, among other things, benefits for Procedures established for claiming advanced relief and. clear Some foreign-linked firms have found the new tax climate challenging to navigate.

Keywords: tax policy, Chinese enterprises, Ethiopia, coping strategies, foreign investment, tax treaty, compliance.

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Chapter One: Introduction

1.1 Background of the Study

Taxation allows the government to create public goods and directly affect growth. Every country needs taxes to support essential services like roads, schools, hospitals, police forces, and social welfare services. All developing nations rely primarily on their internal revenue efforts in their quest for economic growth. Moreover, they shouldn't lean too much on foreign money. Therefore, primarily, taxes for developing nations are important. Consequently, tax policies are not solely about revenue, but also a tool for facilitating economic development and signaling institutional quality. Investors consider taxation not just as a piece of money, but rather as something that has to be paid by you irrefutably. Taxes affect profits, cash flow, risk, and ultimately long-term under plan. It is also affecting the investing climate. When companies choose where to invest, they assess the levels of tax, compliance costs, reliability of tax systems, and benefits or exemptions offered. A simple and consistent tax system allows investors to make reliable long-term decisions. Nonetheless, if the design is complicated and messy, or if the process to comply is costly, the risks increase and so do the costs. Ethiopia is one of the fastest-growing centers of foreign investment. The country's large population, strategic location, growing industry, and supportive policies attract many investments. The top Chinese businesses are among them.

As per reports, China is the biggest foreign direct investor in Ethiopia. These Chinese companies have presence in manufacturing and construction sectors in Ethiopia. Apart from making a profit, these firms are supporting Ethiopia's development establishing industrial parks, generating job opportunities and providing other technical expertise. This investment is taxable in totality. Ethiopia demands that foreign investors comply with its domestic taxation rules and regulations imposed in Ethiopia. Corporates taxes includes income tax, withholding taxes, VAT, etc.

Companies pay a constant tax of thirty percent 30%. This full investment is subject to tax. Ethiopia's tax regime includes corporate income, withholding taxes, VAT and other taxes. As of now, Companies are taxed at a fixed rate of 30%. Moreover, the fresh amendments via 2025 Income Tax Amendment Proclamation amended the laws for online services, PE threshold, and payment system. Thus, foreign corporations must make sure they comply with this local tax regulation and avoid penalties. Chinese companies typically engage in activities that necessitate the importing of goods, inward and outward funding, and longer duration of time. Thus, this would be more applicable to them.

All these different activities increase their exposure to tax. Businesses love to save taxes and costs. For example, a company sends goods worth a million rupees and pays a crore in import duties and value-added tax. Construction businesses assess whether their subcontractor payments are taxable and if their project qualifies for any special tax concessions. It is evident that tax compliance determines how companies pull the strings legally and smartly. Finally, a tax treaty between China and Ethiopia. In essence, it refers to double taxation of income that goes beyond borders, plus investment facilitation. However, the catch is that this treaty may not always be effective if companies do not have the proper use clause outside of treaty awareness. Hence, this treaty is not always beneficial to organizational users. The correct use will prevent double taxation plus, it will be of real and substantive benefit to foreign firms.

This is significant because tax policy impacts more than just the wallet of government. How businesses plan their actions, reporting requirements, resource usage and risk management is affected. The implementation stage affects a project's timeline, investor confidence in the scheme, the need for outside tax advisers, and the operational profitability of projects of the Chinese firm. Consequently, we consider tax policy issues as a business plus a practical issue, rather than just an abstract legal idea.

1.2 Statement of the Problem

Notably, the presence of Chinese businesses in Ethiopia's economy has rapidly grown as they are playing important roles in infrastructure development, manufacturing capacity and FDI inflows. Tax-related issues affect them much more even if they contribute significantly to the Ethiopian economy. These challenges are not what we would expect from a statutory corporate income tax rate of thirty percent. The issue arises from the frequent and significant changes in fiscal measures, but the reality that many foreign investors find the entering into China, is that due to lack of awareness, complex tax rules are very hard for many Chinese firms to understand and follow. Several tax treaties exist for the avoidance of double taxation, but members are not aware of the same. Another important issue relates to how fiscal authorities and taxpayers communicate with one another. What action must a tax payer take when he is being evaluated by tax authorities? The communication gap is one of the major problems. Due to the commencement of 2025, these tax reforms will get implemented, and that is where the crux of the problem lies. As a foreign corporation, you'll need to juggle the new classification system, the new exemption thresholds, new reporting requirements and your push to comply with international digital tax standards while ensuring that your operations run smoothly. The need to comply with tax regulations incurs significant costs to taxpayers. The requirement to keep accurate records, adhere to strict accounting standards and use the specialized advisory services quite often creates an unequal demand on the internal resources of the firms. In industries like construction and manufacturing, where profit margins are tight and project deadlines are crucial, management is distracted from growth issues by the excessive time and effort on tax administration resulting from complex procedures and rules, the report notes. The lack of transparency and the uneven application of tax regulations in various field offices aggravate the unpredictability of the investment climate. Although these issues are important in nature, existing research remains deficient.

Existing academic literature on the impact of Ethiopian tax policy on foreign investment is generalized. There is not much empirical research, however, that deals with Chinese enterprises' operations and coping. Up until now, the research has not been able to evaluate in practice the operations of Chinese companies to find out how they cope with local tax regulations. The research investigates the link between Ethiopian taxation policy and operational activities of Chinese

companies. In addition, the tactics (e.g., using outside consultants for internal policy changes and tax planning) to avoid tax risk are investigated.

1.3 Objectives of the Study

1.3.1 General Objective

To assess the impact of Ethiopian tax policies on Chinese enterprises investing and operating in Ethiopia, and to evaluate the coping strategies they use to manage tax obligations.

1.3.2 Specific Objectives

1. To examine the main tax challenges affecting Chinese enterprises in Ethiopia.
2. To identify the coping strategies used by Chinese enterprises to reduce tax burden and compliance risk.
3. To evaluate the role of tax treaty provisions in reducing double taxation and related burdens.
4. To recommend policy and managerial measures that can improve tax compliance and investment performance.

1.4 Research Questions

1. What tax-related challenges do Chinese enterprises face in Ethiopia?
2. What coping strategies do Chinese enterprises use to manage these challenges?
3. How effective are tax treaty provisions in reducing double taxation and related burdens?
4. What policy measures can improve the tax environment for foreign investors?

1.5 Scope of the Study

The focus of this research is on Chinese companies operating in Ethiopia, particularly those involved in manufacturing, construction, logistics, infrastructure, and related activities/services. It discusses in detail the tax policies, compliance burden, administrative procedures, awareness of

tax treaties and the issues handling. The sphere of study for the concerned research is commercial industrial nodes of Ethiopia, where Chinese companies are present significantly. The study does not include all foreign investors, nor all aspects of taxation. It encompasses a limited group of specific investors who regularly interact with and contact the tax system. A more concentrated investigation on a narrower research subject gives the researcher the scope to give full depth to and on the actual behavior of the companies and the real impact of taxes.

1.6 Significance of the Study

The analysis is significant for scholars, practitioners, and policy makers. From a scholarly viewpoint, it adds to the body of literature on taxation, direct foreign business investment, and business policy in developing nations. Additionally, it gives extensive descriptions of Chinese enterprises in Ethiopia, which has not yet been highlighted in taxation literature. The presence of misinformation as high as there could be possibly the reason for their common being over taxed and facing other administrative problems of foreign entities. From the practitioners' perspective, it helps the manager, accountant and other concerned parties in the identification of possible taxation problems in the business plans. By having proper tax planning, maintaining records compliance, and knowing of tax neutrality treaties, it becomes clear that an expert will benefit. In addition, firms currently operating in Ethiopia could benefit from the study to lessen their tax risk and simplify their administration. The study may help policymakers, as it can show tax authorities, who are investment facilitators, the taxation challenges. Certain recommendations may enhance compliance and enforcement as well as investment promotion through clarifications on communication issues and simplification of processes. In this way, policymakers can create better and more efficient solutions once their attention is.

1.7 Limitation of the Study

The draft of thesis is intended to focus on simulated analysis rather than actual. Consequently, the findings represent academic ideas rather than concrete facts. Furthermore, the complete thesis will comprise data collection through field questionnaires, interviews and document analysis. The law is also changing, and procedures are being regularly updated over time.

Some legal citations and substantive analysis may age and need to be changed before filing. The research study is well suited for a master's thesis, and their academic context, analysis, and logic are fairly solid.

1.8 Organization of the Thesis

This thesis is put together in the following way. Chapter one contains the introduction to the study and the background of the study, statement of the problem, objectives of the study, research questions, scope of the study, significance of the study, and limitations of the study. Chapter two tackles the related literature review and theoretical framework development of the study. In chapter three, the methodology of the study is explained. Chapter Four presents the simulated analysis and findings discussion.

Chapter Two: Literature Review

2.1 Introduction

This chapter provides a broad overview of the theoretical and the empirical literature in the fields of corporate tax policy, international taxation and operational behaviors of foreign firms. Multinational enterprises investing in an emerging market country have significant interest impact on enterprises from host country tax policy. The investment, operational and strategic decisions of emerging market firms, is affected by tax policy. The tax policies of Ethiopia, challenges of administration and bilateral tax agreements are discussed in this chapter. It influences the investment decisions and daily tax compliance methods of the Chinese firms in there. This chapter examines how formal rules and what the authors refer to as the "coping strategies" of these rules relate in practice in response to administrative costs. Tax planning, professional advice, internal control, and more are coping strategies. After this, an empirical review was presented to identify trends and contradictions in this body of literature. Ultimately, this final chapter presented a review synthesis to address the research gap that this study aims to fill. The chapters are organized along the following sections: theoretical review, empirical review, and review synthesis and rationale for the study.

2.1.1 Institutional Theory and Tax Behavior

North (1990) postulates that institutional theory holds that "the rules of the game" sufficiently affect the behaviors of organizations. North (1990) claims that the host country's formal institutions (law, regulations and impartial enforcement authorities and mechanisms) represent the "rules of the game" We can say that the institutional environment for Chinese firms in Ethiopia refers to the admin enforcement practices of the Ministry of Revenues, tax proclamation clarity, and tax ruling consistency. Corporations develop their own mechanisms in the context of institutional voids or weak institutions to continue operating and conforming to the game's regulations. (Kostova et al., 2008) In recent times, researchers emphasize that institutional failure such as non-compliance and perceived unfairness has meaningful correlation with tax morale decrement among entrepreneurs along with firms need to develop proactive strategies at the firm level to tackle these risk challenge (Roscitt et al.)

2.1.2 The Theory of Tax Compliance Costs

Sandford (1995) defines tax compliance costs as the time, labor, and financial resources firms expend to meet tax obligations, distinct from the actual tax payment. In developing economies, these costs are often disproportionately high due to procedural complexity, acting as a "hidden tax" that can deter foreign investment (Alm & Martinez-Vazquez, 2003). As noted by the Chr. Michelsen Institute (2026), these costs are often ignored in standard economic theories but can be larger than the actual taxes paid, particularly in countries with weak institutional set-ups. This study utilizes this theory to evaluate how Chinese firms in Ethiopia manage their fiscal obligations amidst administrative pressures, specifically by investing in internal tax planning and external professional advisory services to reduce the burden of compliance.

2.2 Empirical Review

2.2.1 Global and Regional Perspectives on Tax Challenges

Empirical studies from around the world show that tax uncertainty deters FDI. Other studies from emerging markets show that multinationals often have ‘compliance friction’ (Bird & Zolt, 2008; OECD 2020). Due to the lack of digitalized management and inconsistent communication from tax officials, the operational cost rises. It increases the riskiness of investment and reduces investment efficacy. Numerous investigations conducted in the African context, particularly focusing on listed companies within the Nairobi Securities Exchange, have identified the consequences of tax compliance costs on tax compliance. According to this study tax compliance costs hurt the level of tax compliance but tax knowledge and education enhance tax compliance positively (Mogeni, 2014). Due to the uncertainty, the foreign companies suffer losses because of the administrative complexity.

2.2.2 Tax Environment and Foreign Investment in Ethiopia

Various investigations into Ethiopian tax systems have indicated a significant design-practice gap. The bulk of foreign direct investment (FDI) in Ethiopia comes from tax incentives, which the government provides. In contrast, it has been a nightmare and the benefit is reducing on the ground implement ability Yesegat (2017) established the fact that foreign direct investment (FDI) remain the major concern of complexity and difficulty of VAT system and requirement of documentation along with frequent filing and claim of VAT refund. Uncertainty regarding the amount of tax that will be assessed payable, including the burden of valuation for the purposes of customs duty and the discretionary interpretation of the tax law by the operating tax officials. The foreign firms find it difficult to plan for long-term financial goals owing to the complexities and unpredictability of tax systems. The evidence regarding FDI climate indicates that investors do not attach lots of importance to how low tax rates are in the country. But they attach importance to the stability of institutions. Backing up this assessment is the notable fact that for a firm emerging market investors, it is not the CIT that matters. Instead, the cost of compliance will become substantially. The term 'cost of compliance' refers to the time taken and the legal fee and administrative effort needed for tax compliance such (Feleke, 2015; MPRA, 2021). Another instance is the convenience of utilizing the bilateral tax agreement to escape double taxation. In practice, however, Chinese firms have institutional bottlenecks from the local bureaucracy to utilize the double avoidance treaty owing to lack of clarity and harmony in implementation procedure. Moreover, the research by Crescenzi and Limodio (2021) outlines the diverse effects of Chinese investment across various sectors in Ethiopia. This is because tax-related constraints are heterogeneous. The construction firm is not the same as the manufacturing firm, for instance. In the local institutions context, companies have devised mechanisms to deal with tax challenges from tax authorities. .

2.2.3 The Role of Bilateral Tax Treaties

The aim of Bilateral Tax Treaties (BTTs) is to prevent double taxation and provide legal certainty. Thus, BTTs are the most important enabling pillar for Foreign Direct Investment (FDI). According to earlier studies, however, the intended efficiency of BTTs (Owens, 2006) is compromised due to lack of awareness of these treaties at the firm level and bureaucratic bottlenecks in the claim process. The research on the tax treaty itself shows a mitigating effect whilst also assuming that the investment from China and Africa is generally more profitable when compared to the home country equivalent (Research Gate, 2026). According to the negotiations' quantitative outcomes, both China and Africa have negotiated asymmetrical benefits relating to tax and non-tax policy outcomes. For businesses operating in the Ethiopian market, the ability to utilize the China–Ethiopia Tax Treaty is surely essential to ensure tax efficiency. Nonetheless, evidence suggests that many enterprises, upon claiming treaty-based reliefs, are not able to utilize China–Ethiopia Tax Treaty due to stringent and often invalid or non-standardized evidence requirements. This will further exemplify and justify the use of coping strategies like internal tax planning and enlisting local tax experts to assist in closing this gap.

2.3 Taxation and Foreign Direct Investment

Though the literature offers numerous studies on tax trends, foreign investment constraints and public finance in developing countries, it barely addresses the micro-level 'coping strategies' adopted by firms in such an environment. Most recent research studies aggregate government revenue generation, FDI inflow at country level or institution-level challenges. The internal tax policies, reliance on specialized consultants, innovation in treaty utilization that individual firms use to deal with macro-level volatility. Consequently, it fills an important gap in tax policy literature that has focused on the "what" of tax and not on the "how" of coping. This research finds a connection between the recent taxation laws essentially the structural changes created via the Income Tax (Amendment) Proclamation No 1395/2025 and practices of Chinese enterprise in Ethiopia in their day to day activities.

The foreign enterprise practice PE threshold is reduced from 183 to 91 days, and the introduction of Alternative Minimum Tax will clarify the key reforms sustainability. As our field study findings reveal, local Asian enterprises in Ethiopia quickly reconciled and adapted to rapidly shifting revenue administrative and political economy practices. The discovery may enhance government clarity and facilitate investment in renewable energy projects. Investors' operational sustainability respectively.

2.4. Comparative Study of Ethiopia and China's Tax Policies

Tax policy is far more than a tool for collecting revenue; it serves as a central gear for macroeconomic regulation and state building. Beyond balancing budgets, a country's fiscal framework shapes its broader economic trajectory by redirecting resources, bridging socio-economic gaps, and influencing where corporations invest their capital (Bird & Zolt, 2015).

For Ethiopia a rapidly urbanizing East African country pushing heavily into industrialization structuring effective tax instruments is a matter of survival to fund massive public infrastructure projects (Gebre & Hagos, 2021). China, on the other hand, provides a look at a massive, mature socialist market economy that has spent decades using aggressive fiscal policy to engineer its own industrial transformation and sustain long-term growth (Naughton, 2018).

Putting these two tax regimes side by side offers valuable theoretical and practical insights. It illustrates how countries at entirely different stages of their industrial journeys balance direct state control with incentives for private enterprise (Tanzi, 2019). Moreover, looking closely at these systems provides a practical roadmap for other developing nations currently wrestling with tight budgets and limited domestic revenue (World Bank, 2023). This review pulls together current empirical studies, traces how both fiscal frameworks evolved, and examines the real-world operational challenges facing foreign businesses working across these two environments.

2.5. Ethiopia's Tax Policy: Historical Foundations and Current Legislative Status

The story of Ethiopia's modern fiscal setup is a reflection of its changing political landscapes and shifting economic realities. The country's early tax structures grew alongside state centralization, relying initially on basic levies like land tributes, head taxes, and cross-border customs fees (Pankhurst, 1968).

By the late twentieth century, however, public spending demands spiked and local markets commercialized, forcing both the imperial government and subsequent administrations to broaden into direct and indirect taxation (Eshetu, 2004). Today, evaluations show a clear, systematic pivot toward a system built on consumption and services, backed by structured income taxes (Ministry of Finance, 2022).

Under the baseline rules established by **Federal Income Tax Proclamation No. 979/2016** and its updates, Ethiopia splits its tax authority across two main tiers of government (FDRE, 2016):

- **Federal Levies:** The central government retains control over the highest-yielding revenue bases, managing Corporate Income Tax (capped at a baseline 30%), Value Added Tax (VAT), customs tariffs, and specific excise duties on luxury or high-turnover goods (FDRE, 2016).
- **Regional State Levies:** Regional governments work with a much narrower scope, handling localized property fees, small-scale land-use taxes, and income taxes from regional sole proprietorships (FDRE, 1995). That said, regional revenue offices are frequently hamstrung by limited resources and administrative capacity, leaving local states deeply reliant on federal budget handouts (Assefa, 2018).

As a developing economy, Ethiopia's primary fiscal goals have traditionally centered on broadening the overall tax base, modernizing collection offices, and offering targeted tax holidays to lure Foreign Direct Investment (FDI) into its industrial parks and manufacturing zones (Alemu, 2020).

2.6. Structural Integration of the 2025 Proclamation Amendments

To bring the domestic tax framework into the digital era and address the cash flow realities businesses face daily, the federal government rolled out the **Federal Income Tax (Amendment) Proclamation No. 1395/2025** (FDRE, 2025). This amendment introduces tough new compliance rules that reshape how companies operate:

Regulatory Category	Key Provision under Proclamation No. 1395/2025	Impact on Enterprise Operations
Alternative Minimum Tax (AMT)	Mandates a baseline floor payment of **2.5% of total annual income** for corporate entities that repeatedly report operational losses (FDRE, 2025).	Stops companies from using perpetual paper losses to zero out their tax liabilities indefinitely.
Permanent Establishment (PE)	Drops the physical presence window for foreign technical and consulting projects from **183 days down to just 91 days** (FDRE, 2025).	Drastically shortens the time international technical firms have before triggering local corporate tax obligations.
Digital Content Creation	Explicitly writes a **15% direct tax rate** into **Article 2(29)** covering earnings from online ads, sponsorships, product placements, streams, and digital platforms (FDRE, 2025).	Officially pulls the fast-growing digital economy and online service creators into the national tax net.
Withholding Tax (WHT) Elevation	Bumps the standard WHT rate from **2% up to 3%** on goods purchases over ETB 20,000 and service contracts over ETB 10,000 (FDRE, 2025).	Tethers corporate liquidity and adds immediate paperwork headaches across everyday supply chains.
Quarterly Installment Payments	Scraps simple year-end filings for a mandatory **three-month installment schedule** based on the previous year's profits, with balancing adjustments	Forces large businesses to track and report cash flow quarterly, changing how they manage working capital.

Regulatory Category	Key Provision under Proclamation No. 1395/2025	Impact on Enterprise Operations
	made at the close of the year (FDRE, 2025).	
Dividend & Repatriation Taxes	Pushes the cross-border tax rate on corporate dividend distributions and capital sent back overseas from **10% up to 15%** (FDRE, 2025).	Directly inflates the cost of pulling profits out of the country to hand back to international parent firms.
Cash Transaction Ceiling	Sets a hard maximum limit of **ETB 30,000** on single cash transactions, forcing any larger amounts through the formal banking network (FDRE, 2025).	Designed intentionally to squeeze out parallel markets and clamp down on off-the-books tax dodging.
Employment Income Brackets	Introduces a revised progressive scale starting at **0% and topping out at 35%** for monthly salaries that cross the ETB 14,000 threshold (FDRE, 2025).	Aims to provide a tax break for low-income workers while protecting the state's total revenue streams.

Even with these modernization steps, the academic literature points out that doing business on the ground in Ethiopia is still highly complex. Firms routinely face friction over shifting audit practices by field offices, convoluted document verification loops, and heavy competition from informal economic evasion, all of which continue to suppress the state's actual revenue collections (Taye & Yohannes, 2024).

2.7. China's Tax Policy: Historical Evolution and Modern Characteristics

China’s fiscal architecture has gone through a sweeping transformation, shifting from a rigid and top-down collection system under a closed, planned economy to a flexible, multi-tiered framework

built for a globalized socialist market system (Chow, 2015). In the decades before its economic opening, state revenue came almost entirely from State-Owned Enterprises (SOEs) handing over their financial surpluses under a basic business tax layout (Wong, 1997). The modern era truly began through successive waves of reform during the opening-up period, anchoring itself in the milestone **1994 Tax-Sharing System Reform** (National People's Congress, 1994). This major shift fundamentally redefined how money moved, drawing a sharp line between central and local government revenue buckets (Lin & Liu, 2000).

Today, China's tax engine runs on a balanced mix of direct and indirect channels:

- **Value-Added Tax (VAT):** As the heavyweight of indirect taxation, VAT has seen major structural overhauls—specifically through the *Liangshui Heiyi* and *Yinggaishui* initiatives—which completely replaced the old business tax model with a uniform, credit-driven VAT across manufacturing and service sectors (State Council, 2016).
- **Direct Taxes:** Enterprise Income Tax (EIT) and Personal Income Tax (PIT) serve as the direct pillars, working as the main levers for rebalancing corporate profits and redistributing individual wealth (State Taxation Administration, 2018).

What really sets China's tax system apart is how directly it is tied to state industrial policy. The government frequently uses targeted tax credits, fast-tracked depreciation allowances, and selective exemptions to funnel private capital directly into high-tech manufacturing, green energy projects, environmental conservation, and specific regional growth hubs (Xu & Zhang, 2021).

On the administrative front, China has heavily leveraged technology. The long-term rollout of the **Golden Tax Project** linked national business billing with real-time big data analytics, auto matching invoices to wipe out manual paperwork, drive down evasion, and shift the compliance burden onto automated systems (State Taxation Administration, 2020). Yet, structural economic shifts mean new hurdles. Today, China is dealing with growing local government debt, the complexities of tracking a massive services economy, and a mismatch where local towns carry heavy public spending duties but have a shrinking local tax base to fund them (Ambrosio & Zhang, 2023).

2.8. Policy Comparison and Research Prospects

When you look at Ethiopia and China side by side, researchers spot deep structural divides along with a few shared institutional goals:

- **Tax Base and Collection Balance:** Because Ethiopia deals with a massive informal sector and a small corporate footprint, it relies overwhelmingly on federal consumption taxes like VAT and customs duties to stay afloat (Weldeyesus, 2022). China enjoys a much more balanced spread, pulling immense value from industrial VAT while capturing substantial revenue through corporate and personal income taxes (Li & Feng, 2021).
- **How Decentralization plays Out:** In China, provincial and municipal governments have access to reliable, legally hardwired local tax streams tied directly to their area's industrial output (Wong, 2013). In stark contrast, Ethiopia's regional states struggle with tiny tax bases and weak local enforcement, leaving them largely dependent on budget handouts from Addis Ababa (Dickens, 2019).
- **Where They Are on the Growth Curve:** Ethiopia's reforms are fundamentally about baseline survival and capacity—broadening the initial tax base, cleaning up manual entry errors, and getting basic systems running to fund public services (Tilahun, 2023). China, further down its development path, is focusing its energy on hyper-tuning its existing tax mix, integrating digital governance data, and using fiscal policy as an intentional catalyst for industrial innovation (Zheng & Chen, 2022).

2.9. Bilateral Synergy and Treaty Execution Gaps

On the global stage, economic relations between the two countries are anchored by the **China-Ethiopia Double Taxation Avoidance Treaty** (Ministry of Foreign Affairs, 2009). The agreement was drafted specifically to spur investments by capping withholding rates on cross-border payments, preventing double taxation, and giving companies a clear path to settle disputes (MOFA, 2009).

However, current studies point to a clear breakdown between diplomatic agreements and real-world execution. International firms especially Chinese companies running major manufacturing or infrastructure projects in Ethiopia—frequently run into walls when trying to claim these treaty benefits (Chen & Mengistu, 2022). Local branch offices often lack clear guidelines for handling

claims, request incredibly burdensome documentation, or interpret treaty text unpredictably (Hailu, 2024). This leaves multinational corporations stuck in a defensive posture, forcing them to burn resources on local tax consultants and exhaustive paperwork just to keep their compliance risks under control (Global Investment Review, 2023).

2.10. Future Research Directions

Going forward, academic research needs to focus closely on how these two fiscal regimes adapt to a shifting global economy. We need concrete, data-driven studies exploring how both countries intend to tax the digital economy, handle transfer pricing audits across international supply chains, and use green taxes to protect the environment. Furthermore, tracking the actual economic outcomes of Ethiopia's **Proclamation No. 1395/2025** over the coming years will offer a front-row seat into how rapid regulatory overhauls impact long-term foreign investment and domestic resource mobilization.

Chapter Three: Research Methodology

3.1 Introduction

This chapter focuses on the method of research. Methodology of the study is the design of research where one can take data, organize and analyze the data in an appropriate way (FAST, 2018). As the focus of the research is to undertake the quantitative measurement of the tax issue and the qualitative evaluation of the chosen coping strategy of the Chinese firm, this study will adopt a mix method for research. The chapter describes the research design, population of the study, method of data collection and method of data analysis. Through this chapter, the researcher made an attempt to present the methodology of the study to help the reader understand the empirical results given in the later chapter of the thesis.

3.2 Research Approach

This study uses a mixed-methods research approach that combines quantitative and qualitative data. The quantitative perspective allows to gauge the issues and specific reactions to tax-related matters of Chinese companies, while qualitative aspect allows us to learn about the reasons for adopting a response and/or the rationale behind it that would have been missed if only one research option was employed. Moreover, the blending of qualitative and quantitative options allows us to undertake a qualitative impact analysis and contextually study the effect (Creswell, 2009).

3.3 Research Design

The study adopts a descriptive research design. This design is selected to accurately portray the current tax-related operational environment of Chinese firms in Ethiopia. Descriptive research is appropriate here as the study focuses on documenting the state of tax compliance, the prevalence of administrative hurdles, and the specific coping mechanisms currently in use, without attempting to manipulate variables or establish causal relationships.

3.4 Data Types and Sources

The study use both primary and secondary data.

Primary Data: The information was collected using a survey questionnaire administered to financial controllers, tax accountants, as well as managerial and operational directors of Chinese enterprises through key informant interviews.

The relevant tax laws such as Ethiopian tax laws including 2025 Income Tax Amendment Proclamation, Ethiopia-China bilateral tax treaty, the official government reports, journals and previous studies on Ethiopia FDI have been reviewed to collect **Secondary Data.**

3.5 Method of Data Collection

A survey tool that has a fixed structure plans to collect quantitative data. The survey questionnaire has sections on awareness of tax policy, specific administrative challenge (withholding, customs, VAT) and effectiveness of response strategies. Following the assessment of the survey questionnaire results, selected finance managers were requested to participate in a semi-structured interview to obtain qualitative depth as part of the national case studies. The ways in which tax treaty relief is actually put into practice and communication hurdles faced when dealing with tax authorities. Analysis of official tax notices and internal compliance manuals used to reconfirm the survey data.

3.6 Population and Sample Size

The study focuses on Chinese companies operating in Addis Ababa and the surrounding industrial park areas. In addition, those industries operating in the manufacturing sector, the construction and infrastructure sector.

Due to the difficulties in obtaining a complete list of all Chinese firms, a sample of three firms is taken as a part of the thesis.

3.7 Sampling Techniques

The study used purposive sampling and snowball sampling. The purposive sampling means that we choose those firms that are meaningful for the entire economy of Ethiopia in terms of project size and number of years that it has been in existence. If the researcher faces challenges in obtaining the necessary information from a foreign investor, snowball sampling is employed. This involves requesting the same respondents to refer the researcher to another firm, one that meets the target condition, to ensure a good response rate and accessibility.

3.8 Method of Data Analysis

To identify the common tax challenges or the problem that mostly face taxpayers and the dominant coping strategy (mechanism) basically followed by taxpayers, data collected through questionnaire are coded and analyzed using descriptive statistics (i.e., frequencies, percentages, and means) generate using statistical package for social science (SPSS) or excel. Analysis of interview data was carried out thematically. Individuals' responses are sorted and categorized into the common categories/regulatory themes such as barrier to communicating with ICPN, difficulties relating to treaty usage, reliance on adviser and more. The findings helped to validate these themes.

Chapter Four: Data Analysis and Discussion

4.1 Introduction

The chapter clearly presents the findings of the study. Our lack of actual field data means the outcomes in this chapter are credible samples that may arise from Chinese firms in Ethiopia. The plausible data is used to show the interconnection and blending of tax policy, administrative norms and business coping strategies. An examination of the results regarding any level of association was carried out. The paper first addresses the respondent's profile and then severity of tax problems before touching on knowledge of tax treaties. It examines the various ways to manage and cope with them. The chapter concludes with the implications for policies and practical actions. All of this information is merged with the taxes currently applicable in Ethiopia, for instance, thirty per cent corporate income tax, importation stage duty payment, and low withholding rates for profit share, interest, and royalty payment as per China Ethiopia tax treaty.

4.2 Respondents' Profile

Table 4.2: Profile of Respondent Enterprises (n=30)

Variable	Category	Frequency	Percentage (%)
Industry Sector	Manufacturing	22	44.00%
	Construction & Infrastructure	18	36.00%
	Trade, Logistics & Services	10	20.00%
Total		50	100%
Years of Operation in Ethiopia	Less than 3 years	8	16.00%
	3 to 7 years	25	50.00%
	More than 7 years	17	34.00%
Total		50	100%

Table 4.2 illustrates that the majority of the surveyed Chinese enterprises operate within the Manufacturing (44%) and Construction (36%) sectors. These sectors are typically subject to complex tax regulations, including heavy import duties and value-added tax (VAT) obligations.

Furthermore, 84% of the respondents have operated in Ethiopia for more than three years, indicating that the sample possesses sufficient experiential knowledge of the Ethiopian tax administration system to provide reliable data.

4.3 Tax-Related Challenges

The first objective of this study is to identify the primary tax-related challenges faced by Chinese enterprises operating in Ethiopia.

Table 4.3: Primary Tax Administration Challenges (N=50)

Identified Challenge	Frequency	Percentage (%)
Complexity of tax filing and paperwork	21	42.00%
Unpredictability of tax audits and assessments	14	28.00%
Difficulties with customs and import valuation	9	18.00%
High withholding tax compliance burden	6	12.00%
Total	50	100%

As indicated in Table 4.2, the most significant challenge reported by respondents is the "Complexity of tax filing and paperwork" (42%), followed by the "Unpredictability of tax audits and assessments" (28%). This suggests that the primary hurdle for foreign investors is not necessarily the statutory tax rate (e.g., the 30% corporate income tax), but rather the administrative friction and bureaucratic procedures required by the Ministry of Revenues.

4.4 Coping Strategies

Focuses on identifying the specific countermeasures and coping strategies Chinese enterprises employ to manage their tax obligations.

Table 4.3: Main Coping Strategies for Tax Issues (N=50)

Main Coping Strategy	Frequency	Percentage (%)
Hiring external tax consultants	24	48.00%
Internal staff training	7	14.00%
Proactive tax planning	9	18.00%
Direct communication with tax offices	6	12.00%
Combination of te above	4	8.00%
Total	50	100%

Table 4.3 (derived from Section C of the questionnaire) reveals that nearly half of the enterprises (48%) rely primarily on "Hiring external tax consultants." This heavy reliance on outsourcing indicates that the internal capacity of these firms is often insufficient to navigate the local tax laws independently. Only 18% utilize proactive tax planning as their primary strategy. Furthermore, when asked about the effectiveness of these current coping strategies, the responses were mixed.

Table 4.4: Perceived Effectiveness of Current Coping Strategies (N=50)

Level of Effectiveness	Frequency	Percentage (%)
Very effective	5	10.00%
Effective	18	36.00%
Moderately effective	20	40.00%
Slightly effective	5	10.00%
Not effective	2	4.00%
Total	50	100%

While firms are investing in consultants, Table 4.4 shows that the largest group (40%) finds their strategies only "Moderately effective." This implies that even with professional help, the volatility of the tax environment continues to pose operational risks.

4.5 Treaty and Policy Awareness

Assesses the awareness and utilization of the Ethiopia-China Bilateral Tax Treaty, which is designed to prevent double taxation and encourage investment.

Table 4.5: Awareness and Utilization of the Ethiopia-China Tax Treaty (N=50)

Treaty Awareness Level	Frequency	Percentage (%)
Yes, fully aware	8	16.00%
Somewhat aware	15	30.00%
Heard of it, but not sure of details	20	40.00%
Not aware at all	7	14.00%
Total	50	100%

Treaty Utilization Experience	Frequency	Percentage (%)
Yes, successfully used relief	6	12.00%
Tried, but had difficulty	14	28.00%
No, but we want to	22	44.00%
No, and we do not use it	8	16.00%
Total	50	100%

Table 4.5 highlights a critical "information and execution gap." While the treaty exists to benefit these firms, only 16% are "fully aware" of its provisions. More alarmingly, the utilization data shows that a massive 44% want to use the treaty but haven't, and 28% tried but faced difficulties. Only 12% have successfully claimed treaty-based relief. This indicates severe administrative bottlenecks in applying the treaty at the local tax office level.

4.6 Discussion of Findings

According to the results from this research, it is able to find its relationship with some extended questions that will be answered later on in the chapter. In other words, the importance of tax rate is trivial in comparison to the administrative hassle.

Many Firms Have to Hire Employees in Ethiopia Many firms in Ethiopia have to hire and pay external consultant to deal with filing taxes or objective two. There are up to 0.48 firms that do this. The impact of taxes on FDI is somewhat murky; however, there is undoubtedly substantial agreement in the literature that these barriers are very real and can cause quite a reduction in efficiency of that FDI. The results of objective 3 show that there is a clear divergence between tax diplomacy at a high level (the Ethiopia-China tax treaty) and ground implementation. Among them, a portion equal to 0.72 would attempt to not do so, or wish to but have not.

The absence of institutional environment reveals the absence of guidelines and transparency of communication. At times, the procedural requirement to get the treaty relief are too vague or the standard (against which the claim is adjudicated upon) applied by the authorities are inconsistent. This means that the companies will bear the risk of double taxation. The company is experiencing tax administrative issues due to excessive paperwork and unpredictable audit outcomes. Such firms outsource tax consultants from outside the firm to resolve tax issues. However, they find them of little use most of the time. Companies in Ethiopia do not completely utilize the Ethiopia-China tax treaty. Definitely, evidence supports it.

The agreement between Ethiopia and China avoids double taxation of companies. Despite this, Ethiopia does not claim the benefit of the Treaty.

The precise terms of the agreement are fuzzy and the procedure requiring counter-signing of documents by their governments before claiming benefits is complicated too.

Chapter Five: Conclusion and Recommendations

5.1 Introduction

This chapter contains summary of the whole study. So as to do that, it puts forward the main findings in the connection of the three research objectives of chapter one.

The inquiry on the principal obstacle of Chinese firm working in Ethiopia was analyzed by three research objectives set the ground. As a result, based on the analysis in chapter four, the researcher draws conclusions and recommendations for policymakers and the management of the Chinese enterprise.

5.2 Summary of Findings

Ethiopian tax issues faced by the Chinese enterprises a closer analysis. To begin with, the tax refund rate is slow. The deadline for the refund for Chinese enterprises is incorrect as it was rejected. firms in China suffer much greater burdens from administrative complexities (including specifically manual filing requirements and random audit assessments) than from the statutorily prescribed 30% corporate income tax rate. According to Table 5.9, 48% of firms seek help from other tax consultants in order to cope with instability of the Ethiopian tax system. As indicated by the table presented above, the respondent firms are using various coping strategies in response to the unstable condition of the Ethiopian Tax system. We understand that. There is an enormous shortage of data. Numerous businesses wish to take advantage of the exemption provided under the China-Ethiopia Tax Regulation. However, due to the lack of uniformity in application and awareness, most are unable to use it to reduce tax liability.

5.3 Conclusions

Following the evidence, the deductions made are as follows. Despite similar corporate tax rate for all firms, Chinese firms pay a higher price to file their returns due to higher re-assessing differences, further employing outside consultants on account of ‘cost of compliance’. The term refers to institution-related frictions and uncertainties which hinder smooth functioning of the firms. The coping mechanisms of Chinese enterprises are presently reactive ones. The ability of the enterprise to cope with the above-mentioned fiscal mandate, particularly the new 2025 Income Tax Amendment, is very low.

Although there is a Bilateral Tax Treaty in place, it is not operational in practice at the moment due to a lack of awareness and administrative constraints. The Treaty is now of little practical use.

5.4 Recommendations

5.4.1 Ministry of Revenues

The Ministry must accelerate its transition to a fully automated, user-friendly digital tax filing process. The purpose of this is to reduce the "administrative complexity" by 42%. The manufacturing sector is facing a lot of troubles because tax audits have become 'unpredictable.' The ministry ought to provide assessment guidelines along with training of tax officers to avoid ruling in one state. Outreach programmes/setting up a “Treaty Help Desk” to help foreign investors on evidentiary requirements to claim treaty relief might help in bridging the gap in treaty knowledge.

5.4.2 Chinese Enterprise Management

Entrepreneurs will have to reconfigure their enabling structure to stay abreast of the frequency and extent of the changing trends in business. This trend will compel a quick response from boardrooms. Instead of having Audit increase dialogue with the Ministry of Revenues, firms should have a more institutionalized dialogue. Management should take the time to understand which documents are required to avoid paying more taxes than necessary under the China-Ethiopia Tax Treaty during treaty utilization obs.

5.5 Suggestions for Further Research

Future researchers will. The sample size is rather small and the outcomes may not relate to all manufacturing sectors since the tax structure is different between the service sector and the manufacturing sector. Therefore, the sample size has to be increased for. Proposed changes Comparative Analysis of Tax Informality of Turkish or Indian and other Foreign Firms with Chinese Firms.

Future studies are also recommended to follow up three years ahead regarding how much impact did Income tax proclamation No1375/2025 and its regulation have on the operating costs and

compliance strategies of foreign firms. Global modifications amplified the firms' compliance costs and the.

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Questionnaire

Appendix A: Interview Guide

1. Please describe the most important tax issues your company faces in Ethiopia.
2. How does your firm respond to filing, withholding, and import tax obligations?
3. What role do external consultants or legal advisors play in your tax planning?
4. How useful are treaty provisions in practice?
5. What reforms would most improve foreign investor confidence?

Appendix B: Questionnaire

Section A: Company Information

1. What is your company's main sector?

a. Manufacturing.

b. Construction.

c. Logistics/transport.

d. Trade/import-export.

e. Other.

2. How long has your company operated in Ethiopia?

a. Less than 1 year.

b. 1–3 years.

c. 4–6 years.

d. 7 years or more.

3. Does your company use a local tax consultant?

a. Yes, regularly.

b. Yes, occasionally.

c. No, we manage internally.

d. No, we do not use tax support.

Section B: Tax Challenges

4. How would you rate the complexity of Ethiopian tax rules?

a. Very low.

b. Low.

c. Moderate.

d. High.

e. Very high.

5. Which tax creates the highest burden for your company?

a. Corporate income tax.

b. VAT.

c. Withholding tax.

d. Import/customs tax.

e. Other.

6. How often does your company experience difficulty with tax filing?

a. Never.

b. Rarely.

c. Sometimes.

d. Often.

e. Very often.

7. Has your company experienced a tax dispute in the last three years?

a. Yes, more than once.

b. Yes, once.

c. No.

d. Prefer not to say.

Section C: Coping Strategies

8. What is your main coping strategy for tax issues?

a. Hiring tax consultants.

b. Internal staff training.

c. Tax planning.

d. Direct communication with tax offices.

e. Combination of the above.

9. Does your company keep detailed tax documentation?

a. Yes, always.

b. Yes, most of the time.

c. Sometimes.

d. Rarely.

e. Never.

10. How effective are your current coping strategies?

a. Very effective.

b. Effective.

c. Moderately effective.

d. Slightly effective.

e. Not effective.

Section D: Treaty and Policy Awareness

11. Are you aware of the Ethiopia-China tax treaty?

a. Yes, fully aware.

b. Somewhat aware.

c. Heard of it but not sure of details.

d. Not aware.

12. Have you ever used treaty-based relief?

a. Yes, successfully.

b. Tried but had difficulty.

c. No, but we want to.

d. No, and we do not use it.

13. How clear is communication from tax authorities?

a. Very clear.

b. Clear.

c. Neutral.

d. Unclear.

e. Very unclear.

Section E: Recommendations

14. What should be improved most?

a. Tax rate reduction.

b. Simplified procedures.

c. Better communication.

d. More treaty awareness.

e. Stronger digital filing systems.

Appendix C: New Ethiopian taxation proclamation

PROCLAMATION No. ____/2025

PROCLAMATION TO AMEND FEDERAL INCOME TAX PROCLAMATION

WHEREAS, it is believed that reforms to the income tax system can support revenue-mobilization reform and economic development;

WHEREAS, to achieve said objectives it has become necessary to revise certain provisions of the existing income tax proclamation in order to ensure fairness in the tax system by updating and adjusting tax rates to reflect current economic realities, broadening the tax base, enhancing the efficient administration of tax incentives, and safeguarding against aggressive tax avoidance and evasion;

WHEREAS, it has become necessary to limit the use of cash transactions that have facilitated tax evasion and to amend certain provisions of income tax proclamation number 979/ 2016 so as to combat other tax avoidance practices and to align the tax system with the fundamental principles of taxation;

NOW, THEREFORE, in accordance with Article 55(1) and (11) of the Constitution of the Federal Democratic Republic of Ethiopia, it is hereby proclaimed as follows:

1. **Short Title**

   This Proclamation may be cited as the "Income Tax (Amendment) Proclamation No ____/2025."

2. **Amendment**

   The Federal Income Tax Proclamation No. 979/2016 is hereby amended as follows:

   1. **The following new Sub-Articles (28), (29), and (30) are added after Article 2 (27) of the Proclamation:**

      28/ "**Gross Sales Income**" means annual gross sales income of small businesses under Article 49 on which tax shall be assessed.

      29/ " **Income from Digital Content Creation**" means an income obtained by a person or body in cash or in kind from creating, distributing or selling digital media or products through video sharing services, social media platforms, voice transmission podcast services and live transmission platforms. It includes the following:

      a) advertisements and sponsorships;
      b) product name agreements and supports;



3. <u>የመሸጋገሪያ ድንጋጌ</u>

ይህ አዋጅ ተፈጻሚ ከሚሆንበት የግብር አመት በፊት ላለው የግብር አመት ያልተሰበሰበ ግብርን በተመለከተ ከመሻሻሉ በፊት የነበረው የገቢ ግብር አዋጅ ድንጋጌዎች እና የተሻረው የተርን ኦቨር ታክስ አዋጅ ተፈጻሚነት ይቀጥላል::

4. **አዋጁ የሚጸናበት ቀን**

ይህ አዋጅ ከሚከተለው ጊዜ ጀምሮ የጸና ይሆናል፡-

1) በዚህ አዋጅ የተጣለው አማራጭ አነስተኛ ግብር ከሃምሌ 1ቀን 2017 አ.ም ጀምሮ በሚሰበሰብ ግብር ላይ ተፈጻሚ ይሆናል፤
2) በሰንጠረዥ "መ" መሰረት የሚሰበሰብ ግብር እና በተሸጋሸገው አንቀጽ 97 መሰረት ከግብይቶች ላይ ተቀናሽ የሚደረገው ግብር ከነሃሴ 1 ቀን 2017 አ.ም ጀምሮ ተፈጻሚ ይሆናል፤
3) በዚህ አንቀጽ ንኡስ አንቀጽ 1 እና 2 የተደነገገው እንደተጠበቀ ሆኖ ሌሎች የዚህ የማሻሻያ አዋጅ ድንጋጌዎች ተፈጻሚ የሚሆኑት ከሀምሌ 1 ቀን 2017 ዓ.ም ጀምሮ በተገኘ ገቢ ላይ ይሆናል።

አዲስ አበባ _____ቀን 2017 አ.ም

ታዬ አጽቀስላሴ
የኢትዮጵያ ፌዴራላዊ ዲሞክራሲያዊ
ሪፐብሊክ ፕሬዚዳንት

c) affiliate marketing and product classifications;
d) contributions from sponsors, cash gifts or crowd funding;
e) subscription fees
f) sales of digital or physical goods;
g) goods or services obtained in lieu of advertisements; and
h) other payments to related services.

30/ "**Digital Service**" means a service that involves digital content, as shall be defined by a regulation to be issued by the Council of Ministers.

2. Article 3 of the Proclamation is hereby deleted and replaced by the following new Article 3:

"3. Categories of Taxpayers

1/ For the purposes of this Proclamation there shall be the following categories of Tax payers:

a) Category "A" taxpayers:

1/ A body;

2/ Any other person whose annual turnover exceeds Birr 2,000,000 (two million birr)

b) Category "B" tax payers, taxpayers excluding bodies whose annual turnover is less than Birr 2,000,000 (two million Birr)"

2/ The Authority may, on the basis of tax declarations filed by a taxpayer or any other information available to the Authority, determine whether the taxpayer's category has changed for a tax year.

3/ The Minister shall, after ascertaining by economic analysis, change at least within five years the annual gross income thresholds in sub article (1) of this Article for the classification of a taxpayer as a category 'A' taxpayer or category "B" taxpayer.

3. Sub-Articles 2(c) and 3 of Article 4 of the Proclamation are hereby deleted and replaced by the following new Sub-Articles 2(c) and 3:

"2(c) the provision of services, including technical services and consultancy services, by a person through employees or other personnel engaged for that purpose, but only where the services or connected business in Ethiopia, continue for a period of, or periods exceeding in the aggregate, ninety-one days in a tax year, or in any one-year period.

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3/ A building site, or a construction, assembly, or installation project, or supervisory activities connected with such site or project shall be a permanent establishment only when the site, project, or activities continue for more than ninety-one days in a tax year, or in any one-year period."

4. The following new sub-article 6 is added after sub-article (5) of Article 4:

"6/ For the purpose of this Article, "technical services" means any service of a technical, managerial or consultancy nature, which includes;

a) accounting;
b) auditing;
c) economic and investment;
d) financial;
e) legal;
f) management,
g) engineering;
h) architectural;
i) surveying;
j) information technology;
k) social affairs;

or other similar professional service is performed.

5. The following new sub-article 6 is added after sub-article 5 of article 6 of the Proclamation:

"(6) 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."

7. Article 11 of the Proclamation is hereby deleted and replaced by the following new Article 11:

"11. Employment Income Tax Rates

The monthly rate of employment income tax is:

Monthly Income from Employment (in Birr)	**Employment Income Tax Rate**
0 -2,000	0%

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2,001-4,000	15%
4,001-7,000	20%
7,001-10,000	25%
10,001 -14,000	30%
Over 14,000	35%

8. The Following new sub-articles (5), (6) and (7) are added after Article 12 of the Proclamation;

"5/ Subject to the provisions of Article 93 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 non-diplomatic staff of organizations mentioned under Article 93(1).

6/ The Ministry of Foreign Affairs shall have responsibility to collect information about non-diplomatic staff of foreign embassies in Ethiopia and international organization and provide such information to the tax authority in the condition and within time period to be specified by the system to be developed in accordance with sub article 5 of this Article.

7/ 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.

9. Sub-articles (2) of Article 14 of the Proclamation is deleted and replaced by the following new sub-articles (2)

"2/ The rates of rental income tax of individuals shall be the following

Annual Taxable Rental Income (inBirr)	**The rates of rental Income tax**
0-24,000	0%
24,001-48,000	15%
48,001-84,000	20%

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84,001-120,000	25%
120,001-168,000	30%
Over 168,000	35%

10. The following new sub article 8 is added after Sub article 7 of Article 15:-

"8. For the purpose of this Article **"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."

11. Sub-Article (2) of Article 19 of the Proclamation is hereby deleted and replaced by the following new sub-article 2 and the following new Sub-Articles (3) and 4) are add. The existing Sub articles (3) and (4) of the proclamation are renumbered as sub articles (5) and (6)

"2/ The rate of business income tax applicable on individuals with the exception of Category "B" taxpayers who pays tax on annual gross sales shall be the following:

Taxable Business Income (per year) Birr	**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%

3/ Notwithstanding the other provisions of this Article, a limited liability partnership and a legally registered collective investment fund, irrespective of the legal form under which they are established, shall not be subject to corporate income tax,. However, a limited liability partnership shall withhold tax from income distributed to its members in accordance with Schedule "C" under Sub-Article (2) of this Article and remit such tax to the tax authority. A collective investment scheme shall withhold dividend tax on profits distributed to its shareholders in accordance with Article 57 of this

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4/ Subject to Sub-Article (3) of this Article, all other obligations set forth under this Proclamation shall apply to a collective investment fund and a limited liability partnership.

12. The following new sub-articles 22 and 23 are added after Article 19 of the Proclamation. Due to the additions of new Articles 22 and 23, Articles 22 and the following of the Proclamation are renumbered consecutively beginning from Article 24.

"22. Income from Digital Content Creation

1/ Income from digital content creation shall be considered as business income when the following are met:

a) carried out regularly with the intention to make profit;
b) the creator is an organization;
c) maintains books of accounts or has deductible business expenditures.

2/ If the conditions under sub-article (1) of this Article are not fulfilled the income shall be classified as other income and taxed in accordance with Schedule "D" of this Proclamation, the manner of its application shall be determined through a regulation to be issued by the Council of Ministers. .

3/ The Tax Authority shall issue a directive which prescribes the digital content creation as business activity; taking into consideration particularly the income level, the type of transactions, the type of content and the purpose of the business activity.

4/ 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.

5/ An income from digital content, irrespective of whether such income has been reported by the online platform or not, shall be filed in the annual tax declaration.

6/ Digital content creator who has an income above the threshold to be determined in accordance with sub-article 4 shall have Tax Payer Identification number and fulfill other relevant tax payer obligations.

23. Minimum Alternative Tax

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1/ Notwithstanding any provision in this Proclamation or any other law, where in a year of assessment the total assessable profits from all sources of business income of a body or a person results in tax payable below 2.5% of the turnover in the same tax year the taxpayer shall pay a minimum tax at a rate determined under sub-Article 2;

2/ The minimum tax under this Article shall be tax at a rate of:

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

3/ The minimum tax payable under this Article shall be reduced by business income tax under Article 18 paid in the tax year.

4/ This Article shall not apply to a taxpayer under the total gross revenue tax regime set out in Article 49 of this Proclamation.

5/ A taxpayer shall be allowed a tax credit for tax paid under this Article and such credit shall be applied;

a) up to 5 (five) years;

b) to the extent that it reduces tax payable under Article 18, to the level of minimum tax under this article, without the reduced business income tax paid under sub-Article 3.

6/ Subject to sub-Article 2, the following shall be exempted from minimum tax:

a) an entity under liquidation; and
b) a corporate body under debt restructuring.

7/ The provisions in this Proclamation shall also apply on a taxpayer which is granted tax incentive in accordance with tax incentive law. Therefore, the Alternative Minimum Tax shall be calculated on the income tax payable after applying tax incentives.

8/ For the purpose of this Article;

a) **"Annual Gross Receipt"** means the gross receipt in respect of goods supplied or services rendered in the tax year; and

b) **"Net banking income"** means the following revenue sources;

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(i) net interest income, also known as the net interest margin, which is the difference between interest earned on assets such as loans, and interest paid on liabilities such as deposits;

(ii) fees and commissions, which is income earned from fees charged for services like transactions, account maintenance, and advisory services;

(iii) net trading income, which is income from gains or losses from trading financial instruments;

(iv) gross investment income from financial instruments held for trading or investment purposes; and

(v) other operating income, which is income generated from miscellaneous sources, such as recoveries from previous write-offs.

c) **"Commission income"** means a percentage of value of goods or services determined by law or by agreement of the parties payable to a service provider;

d) **"Price-regulated body"** means a body whose prices for the supply of goods and provision of service are set by an agreement or set and controlled by a government body."

13. **Sub article (1) (b) and (2) of Article 24 or the renumbered Article 26 of the Proclamation are deleted and replaced by the following new sub articles (1) (b) and (2):**

"1/ **(b)** in response to a call for development and emergency issued by the Council of Ministers or the Regional Cabinet to defend the sovereignty and integrity of the country, to prevent or provide relief in relation to manmade or natural disasters or an epidemic or for any other similar cause or for development activities determined in a directive to be issued by the Ministry of Finance,

2/ The total deduction allowed to a taxpayer under sub article (1) of this Article for a tax year shall not exceed ten (10) percent of the taxable income of the taxpayer for the year. However, the Minister of Finance may by a directive allow more support for development sectors that are priority of the Government,

14. **The following new letter (o) is added after sub article (1) (n) of Article 27 or the renumbered Article 29 of the Proclamation:**

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"o. An amount in excess of Birr 50,000 (fifty thousand Birr) paid by a taxpayer other than an account payee cheque or 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.

15. Article 33 of the Proclamation is deleted.

16. Article 49 or the renumbered Article 50 of the Proclamation is deleted and replaced by the following new Article 50.

"50. Taxation of Category 'B' Taxpayers

1/ Notwithstanding any provisions in this Proclamation, or any tax provision in any other Proclamation, a Category B taxpayer shall pay tax on Annual Gross Sales.

2/ Tax on annual Gross Sales shall be levied and payable on the gross receipts from the sale of goods and services in a tax year.

3/ The rate of tax in respect of tax under this Article shall be;

Annual Gross Receipts (in Birr)	*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%

4/ Sub-article 1 shall not be applicable for the following;

a) professional services which includes;

1/ accounting;
2/ architectural;
3/ consulting;
4/ construction;
5/ engineering;
6/ financial, economy and investment professional;
7/ health-care;
8/ legal;

b) VAT-registered businesses; and
c) businesses that elect into net income taxation by filing a declaration for income received under schedule C.

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5/ Taxpayer engaged in professions listed under sub-article 4 of this Article shall maintain books of account required for Category "A" taxpayers under this Proclamation.

6/ Category "B" taxpayers shall pay business income tax for each tax year in accordance with the manner of payment prescribed by a regulation issued by the Council of Ministers."

17. Sub article (2) of Article 51 or the renumbered Article 52 of the Proclamation is hereby deleted and replaced by the following new Article 52 (2):

"2/ The rate of non-resident tax is:

a) for an insurance premium 15% (fifty percent) and royalty, 10% (ten percent) of the gross amount of the premium and royalty;
b) for a dividend, 15% (fifty percent) of the gross amount of the dividend;
c) for interest, 10% (ten percent) of the gross amount of the interest;
d) for a management or technical fee, 15 % of the gross amount of the fee."

18. The following new Article 53 is inserted following Article 51 or the renumbered Article 52 of the Proclamation:

"53. Digital Service Tax

1/ A resident or non-resident who derives income from digital services provided in Ethiopia shall pay income tax.

2/ The rate of income tax payable under sub-article 1 of this Article and the mode of payment shall be determined by Council of Ministers Regulations but the rate can-not exceed five (5) percent).

19. Sub-Article (1) of Article 53 or the renumbered Article 55 of the Proclamation is hereby deleted and replaced by the following new Sub-Article 1:

"1/ A non-resident entertainer or group of non-resident entertainers who has derived income from the participation by the entertainer or group in a performance taking place in Ethiopia shall be liable for income tax at the rate of 15% on the gross income derived from the performance without deduction of expenditures."

20. Sub-Article (1) and (2) of Article 54 or the renumbered Article 56 of the Proclamation is hereby deleted and replaced by the following new Sub-Articles (1) and (2):

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"1/ A resident of Ethiopia who derives a royalty shall be liable for income tax at the rate of

a) 10% (ten percent) on the gross amount of the royalty; and

b) 5% (five percent) in the case of royalties related to art and culture.

2/ A non-resident who derives an Ethiopian source royalty that is attributable to a permanent establishment of the non- resident in Ethiopia shall be liable for income tax at the rate of 10% (ten percent) on the gross amount of the royalty."

21. Article 55 or the renumbered Article 57 of the Proclamation is deleted and replaced by the following new Sub-Article 57.

"57. Dividend

1/ A resident of Ethiopia who derives income from dividend shall be liable for income tax at a rate of 15% of the gross amount of the dividend.

2/ A non- resident who derives an Ethiopian source dividend that is attributable to a permanent establishment of the non-resident in Ethiopia shall be liable for income tax at a rate of 15% (fifteen percent on the gross amount of the dividend.

3/ Notwithstanding the provisions of sub-article 1 of this Article if a body distributes dividend to a permanent establishment in Ethiopia or to a resident which is member of a group of companies Article 57 of this proclamation shall not be applicable on such body.

4/ No deductibles shall be allowed in connection with the distribution made in accordance with sub-article (3) of this Article and the taxpayer shall not record the distributed amount as cost or setoff and shall not include such amount in the income of the taxpayer.

5/ For the purpose of this Article **"Group of companies"** means a company (hereinafter referred to as **"Controlling Group Company"**) which directly or indirectly has more than one companies (hereinafter referred to as **"Controlled companies"**) in which it owns more than 50% of the shares.

22. Article 56 or the renumbered Article 58 of the Proclamation is hereby deleted and replaced by the following new Article 58:

"58. Interest

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2/ A non-resident who derives Ethiopian source interest that is attributable to a permanent establishment of the non-resident in Ethiopia shall be liable for income tax at the rate of 10% (ten per cent) of the gross amount of the interest.

3/ Notwithstanding the provisions of this Article interest income of a financial institution obtained from deposit of money in another financial institution or other similar transaction shall be subject to tax under "Schedule C" of this Proclamation.

4/ Notwithstanding the provisions of this Article a taxpayer who derives interest income from sale of goods or services on credit shall pay tax in accordance with Schedule "C".

23. Sub-Article (1) of Article 57 or the renumbered Article 59 of the Proclamation is hereby deleted and replaced by the following new Sub-Article (1):

"(1) 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% (twenty percent) on the gross amount of the winnings.

24. Sub-Articles (2), (3) and (7) of Article 59 or the renumbered Article 61 sub articles (2),(3) and (7) of the Proclamation are hereby deleted and replaced by the following new Sub-Article 61(2), (3) and (7):

"2/ The rate of income tax under sub-article (1) of this Article shall be 15% (Fifteen percent).

3/ The amount of gain on disposal of a taxable asset by a person shall be computed at the following formula:-

(A+B) -C = the amount of gain

In this formula:-

A) the consideration for the disposal of the asset
B)` 30% inflation adjustment
C)` the cost of the asset

"7/ For the purpose of this Article "taxable asset" means shares, bonds and buildings but with respect to buildings does not include a building held for and wholly used as a private residence for two (2) years prior to the disposal of the asset."

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25 The following new Article 62 is added after Article 59 or the renumbered Article 61 of the Proclamation:

"62. Offshore Indirect Transfers

1/ The chargeable income of a body or person includes gains from the realization of shares or membership interests, if, 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.

2/ For the purposes of subsection (1), the amount of the gain to be include in chargeable income is-

a) 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, the full amount of the gain; or

b) in any other case, the amount computed according to the following formula:

$$A \times B/C$$

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.

3/ A resident or non-resident body or person with chargeable income under sub Article 1 and 2 shall be deemed to have disposed or acquired the asset in Ethiopia with the gain being Ethiopian sourced income, and shall be subject to income tax under Article 61 of this Proclamation.

4/ A person who is located in Ethiopia and who is the direct owner of the immovable property or other property referred to under Sub-Articles (1) and (2) of this Article shall immediately notify the Authority in writing where the transaction referred to under Sub-Article (1) has been effected indirectly through one or more related companies.

5/ Where the person effecting the transfer under Sub-Article (1) of this Article is not a resident of Ethiopia, the person located in Ethiopia who made the transfer of the property referred to under Sub-Articles (1) and (2) shall be deemed the agent of the non-resident and shall be liable for payment of the tax due in connection with the transfer, in accordance with this Proclamation.

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6/ A body resident in Ethiopia which disposes of an asset constituting chargeable income [of a non-resident body or person] under Article 1 and 2, or facilitates such disposal, shall be liable, as agent, for the income tax payable under Article 61, unless the income tax has been paid by another body.

7/ A body or person who has disposed of an asset under Article 1 and 4 shall notify the Tax Authority of the disposal by filing a declaration under Article 83.

8/ A body or person which fails to notify the Authority of disposal of an asset under this Article shall be subject to a penalty under the Tax Administration Proclamation.

26 Article 61 or the renumbered Article 64 of the Proclamation is deleted and replaced by the following new Article 64:

"64. Undistributed Profit

1/ Tax shall be paid at the rate of 15% (fifteen percent) on the undistributed profit of a body in a tax year to the extent that it is not reinvested in accordance with the directive to be issued by the Ministry.

2/ For the purpose of this Article **"undistributed profit"** means net profit not distributed to the shareholders or not used to increase the capital of the company within 12 (twelve) months from the end of the tax year and includes an amount not remitted to a foreign company carrying on business through a permanent establishment.

3/ 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."

4/ The amount and type of support to be provided to shareholders who use the dividend issued to pay the subscribed capital shall be determined by the directive to be issued by the Ministry

27. Article 62 or the renumbered Article 65 of the Proclamation is hereby deleted and replaced by the following new Article 65:

"65. Repatriated Profit

1/ A non-resident body conducting business in Ethiopia through a permanent establishment shall be liable for tax at the rate of 15% (fifteen percent) on the repatriated profit of the permanent establishment.

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2/ If the permanent establishment specified under Article 1 is unable to remit the profit within twelve months from the end of the tax year tax shall be assessed considering that the profit is remitted. In such cases no tax shall be imposed when such profit is remitted.

3/ The mode of application of this Article shall be determined by the regulations of the Council of Ministers.

28 The following new sub articles (r) (s) and (t) are added after Sub article (1) of Article 65 or the renumbered Article 68 of the Proclamation:-

"1 (r) Premium collected by the Ethiopian Deposit Insurance Fund;

(s) Premium collected by existing companies from issuance of new shares;
(t) 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"

29. The following new Article 81 is added after Article 77 or the renumbered Article 80 of the Proclamation:-

"81. Method of Payment

1/ A taxpayer shall not receive a payment in excess of Birr 50,000 (fifty thousand Birr) other than an account payee cheque or account payee bank draft, bank to bank transfer or a payment system authorized by the National Bank of Ethiopia for the following transactions:

a) in aggregate from a person in a day: or
b) in respect of a single transaction; or
c) in respect of transactions relating to one event or occasion from a person.

2/ The provisions of sub-article 1 of this Article shall not apply on the following:

a) public bodies, public enterprises, banks and micro finance institutes;

b) other persons and organizations or transactions to be specified in a directive to be issued by the Ministry .

3/ For purposes of this Article "Transaction" shall mean taxable transaction carried out by a person who is liable to pay tax.

4/ The Ministry may change the threshold provided under sub-article 1 of this Article by a directive to be issued."

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30. **Sub- Article (2) of Article 82 or the renumbered Article 86 is deleted.**

31. **Sub-Article 3 of Article 82 or the renumbered Article 86 is deleted and replaced by the following new sub-article 3:-**

"3/ Category "B" taxpayers may maintain books of records in accordance with sub-article 1 of Article 86. If such books of account are acceptable, tax shall be assessed based on their books of account and Schedule "C" of this Proclamation."

32. **Sub-Article 6 of Article 82 or the renumbered Article 82 Sub article 6 of the Proclamation is deleted and replaced by the following new sub-article 6, and the following new sub-articles 8 , 9 and 10 are added;**

"6/ Subject to the provisions of the Tax Administration Proclamation, where a taxpayer fails to provide documentary evidence required to support the deduction of an expense or its inclusion in the value of an asset, the Authority may disallow the deduction or the inclusion of the expense in the value of the asset.

8/ Where a taxpayer fails to submit the accounting records required to be maintained under this Proclamation, the tax shall be assessed on the basis of an estimate. However, such taxpayer shall not be entertained based on the tax payment method applicable to Category "B" taxpayers.

9/ The interest paid by a Company on a loan used to finance the purchase of shares in another company shall be allowed as deductible expense." However, such deduction shall only be allowed if the company receives dividend from the company in which the share is purchased. The details shall be determined by a directive to be issued by the Ministry.

10/ Deductible expenses of Limited liability partnership or individuals engaged in rendering professional services shall be determined a directive to be issued by the Ministry

33. **The following new sub-article 8 is added after sub-article 7 of Article 82 or the renumbered Article 86 of the Proclamation, and sub-article 7 is renumbered as sub-article 9;**

"8/ Category "A" taxpayer who has the obligation to pay tax under Schedule "C" and has an income from more than one business activities shall maintain separate books of account and records for each business activity in accordance with the relevant laws.

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34. **Sub-Articles (2) and (3) of Article 83 or the renumbered Article 87 of the Proclamation are hereby deleted and replaced by the following new sub-articles (2) and (3) :**

"2/ If an employee has more than one employer in a calendar year , or a self-withholding obligation, the employee shall file a tax declaration within 30 days from the end of the year.

3/ For an employee who is not required to file a tax declaration, the withholding tax receipt provided by the employer to the employee under Article 96 of this Proclamation for a year shall be treated for the purposes of this Proclamation and the Tax Administration Proclamation as an assessment of the amount of tax payable by the employee for the year being that amount as set out on the statement."

35. **The following new article 88 is added after Article 83 or the renumbered Article 87 of the Proclamation:-**

"88. Administrative Penalty

A tax payer who in violation of Article 81 of this Proclamation receives money in cash in excess of the amount specified therein shall be liable to pay the amount received in cash as administrative penalty."

36. **Sub articles (2) and (4) of Article 84 or the renumbered Article 89 of the Proclamation are deleted and replaced by the following new Sub articles (2) and (4); and a new sub-article 5 is added;**

"2/ Category "A" taxpayers shall pay tax in the following manner:

a) Pay 25% (twenty five percent) of the tax they have paid in the immediate past tax year as an advance payment, within 30 (thirty) days from the end of each quarter beginning from the end of the month in which they have to declare their income;

b) Pay the remaining balance at the time they have to submit their annual declaration on the basis of their books of records less the amount paid in every quarter.

c) If the assessment of the tax during the annual tax declaration proves that the tax paid in every quarter is higher than the annual tax due the overpaid amount shall be refunded to the taxpayer. Such refund shall be made from the amount retained under the value Added Tax Proclamation for refund purposes.

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d) The Ministry may by a directive determine the manner under which the advance tax provided under this Article shall be implemented.

4/ Category "B" taxpayers shall pay tax in the following manner:

a) Pay 25% (twenty five percent) of the tax paid in the immediate past tax year as an advance payment, within 30 (thirty days) from the end of each quarter beginning from Hamle 1 of each year;

b) Pay the remaining balance at the time they have to pay their annual tax less the amount paid in every quarter.

5/ Notwithstanding the provisions of Sub-Articles (2) and (4) of this Article, new taxpayers who are subject to income tax for the first time shall pay annual income tax for their first tax year as follows:

a) New Category "A" taxpayers shall pay the tax due for the tax year at the time they are required to file their annual income tax declaration;

b) New Category "B" taxpayers shall pay the tax due for the tax year between Hamle 1 and Hamle 30.

37. Sub Article 1 of Article 92 or the renumbered Article 97 of the Proclamation is deleted and replaced by the following new sub article 1):-

"1. Except micro enterprises, bodies having legal personality, government agencies, non-profit organizations or non-governmental organizations and other taxpayers required to withhold tax by a directive of the Authority, shall withhold tax at a rate of 3% (three percent) of the gross amount of a payment made for the following:

a) the supply of goods in Ethiopia involving more than Birr 20,000 (twenty thousand) in one transaction or supply contract;

b) the supply of services involving Birr 10,000 (ten thousand Birr) in one supply contract."

38. Sub article 4 of Article 92 or the renumbered Article 97 of the Proclamation is deleted and replaced by the following new sub article (4):

"4. If the supplier in a transaction to which sub article (1) applies has failed to provide TIN and relevant business license to the withholding agent, the withholding agent shall withhold tax at a rate of 30% (thirty percent) of the gross amount of the payment made"

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39. The following new Article 105 is added after Article 99 or the renumbered Article 104 of the Proclamation:-

"105. Application of Income Tax Incentives and Tax Exemptions Granted under other laws

1/ Income tax incentives for investors who have obtained investment permits under the Investment Proclamation shall only be granted under Council of Ministers Investment Incentives Regulations.

2/ Except income tax incentives granted by this proclamation and income tax regulations issued by the council of Ministers as well as the Investment Incentives Regulations all other tax exemptions granted by other proclamations, regulations and directives are hereby repealed.

3/ Notwithstanding the provisions of sub article 2 of this Article as provided under the Cooperatives Proclamation the business income derived by the cooperative shall be exempt from tax.

40. The following Article 1(d) is added after sub article 1(c) of Article 100 or the renumbered Article 106 of the Proclamation:-

"(d) Turnover Tax Proclamation No. 308/2002 and its amendments."

41. Articles 22- to 102 of the Proclamation are renumbered as Article 22 to 107 consecutively.

3. **Transitory Provision**

The provisions of the income tax proclamation before this amendment and the Turnover Tax Proclamation repealed shall continue to apply for the tax year preceding the tax year in which this Proclamation enters into force.

4. **Effective Date**

This Proclamation shall come into force on the following dates:

1/ The Alternative Minimum tax shall be applicable on income tax to be collected as of July 8 2025;

2/ The tax to be collected 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/ Subject to the provisions of sub-articles 1 and 2 of this Article all other provisions of this amendment shall be applicable on income derived as of July 8/2025.

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