

MONTHLY LEGAL UPDATE

WWW.TSEGASOLOMON.COM

August, 2025



Top Update

Council of Ministers Issues Regulation No. 574/2025 on the Implementation of the Concession of Duty Tariff Rates on Goods for the AfCFTA Agreement.

This regulation marks a major milestone in Ethiopia's commitment to the AfCFTA by operationalizing preferential tariff rates and laying out the modalities for tariff liberalization, treatment of levies, and rules of origin.

*This month's update commemorates **International Day of the World's Indigenous Peoples**, observed on August 9th. It is a moment to recognize the rich cultural heritage, rights, and contributions of Indigenous communities across the globe.*

What's Covered this Month?

Welcome to the August 2025 edition of the TSA Legal Update! This newsletter brings you key legal developments to help you stay informed and navigate the evolving legal landscape.

In this issue, we cover:

1. Implementation of AfCFTA Preferential Tariff Regulation
2. Clarification on Quarterly Advance Income Tax Payments
3. VAT Changes on Over-the-Counter (OTC) Medicines
4. Draft Directive on Collective Investment Schemes



1. Council of Ministers Issues Regulation No. 574/2025 on AfCFTA Duty Tariff Concessions

The Ethiopian government has taken a decisive step towards implementing its goods trade commitments under the AfCFTA by enacting Council of Ministers Regulation No. 574/2025. This Regulation provides the detailed legal framework for applying preferential tariff rates to imports from other AfCFTA member states. It operationalizes the broader principles ratified by Proclamation No. 1124/2019, moving the agreement from a policy document to an actionable system for customs authorities and traders.

The Regulation is a direct subordinate instrument to Proclamation 1124/2019. Its core function is to fulfill the mandate of the Proclamation, which authorized the government to implement the Agreement but lacked these specific operational details. The Regulation effectively "switches on" the preferential trading system envisioned by the Proclamation.

Key Provisions

(A) Tariff Liberalization Modality:

The Regulation officially adopts the three-category approach negotiated under the AfCFTA:

- **Category A** (90% of Tariff Lines): Goods subject to full tariff elimination over a 10-year period, starting from January 1, 2021. The annex provides a clear year-by-year reduction schedule (e.g., a good with a 35% duty will see it reduced to zero in equal annual increments by 2030).
- **Category B** (7% of Tariff Lines): "Sensitive" goods granted a longer, 8-year phase-out period, starting from January 1, 2026.
- **Category C** (3% of Tariff Lines): "Excluded" goods, which are not subject to any tariff concessions, allowing Ethiopia to protect its most sensitive industries. The specific tariff lines under Category C will be determined by Ethiopia's official schedule of concessions.

This provides predictability and certainty for businesses. Importers can now forecast their future costs, and domestic industries can understand the timeline for increased competition.

(B) Treatment of Other Levies (Surcharge & SDL):

This is one of the most critical operational aspects:

- **Surcharge:** The existing 10% surcharge on imports will continue to apply to AfCFTA imports but will be phased down in tandem with the base customs duty for Categories A and B. When the base duty reaches zero, the surcharge on those goods will also be zero.
- **Social Development Levy (SDL):** Crucially, the Regulation states that the SDL and "any other duty" will not apply to goods in Categories A and B after the Agreement enters into force. This is a significant incentive, effectively removing a major cost barrier for qualifying imports.

(C) Rules of Origin (RoO)

The Regulation mandates that the Ethiopian Customs Commission is the sole authority for issuing and verifying Certificates of Origin for goods exported under the AfCFTA regime.

It strictly ties preferential treatment to compliance with the RoO criteria detailed in Annex 2 and Appendix 4 of the AfCFTA Protocol on Trade in Goods. This prevents abuse and ensures that the benefits of AfCFTA are reserved for goods genuinely produced within the African continent, fostering regional value chains.

(D) Non-Retroactivity:

The Regulation clearly states that duties paid on imports from member states before its entry into force will not be refunded. This is a standard legal principle that provides administrative clarity and prevents a flood of retrospective claims.

What is Next?

Regulation No. 574/2025 is a foundational piece of legislation that marks Ethiopia's serious commitment to the AfCFTA. It successfully translates the high-level objectives of Proclamation 1124/2019 into a workable, transparent, and rules-based system for preferential trade.

By providing clarity on tariff phase-outs, the treatment of other levies, and the administration of rules of origin, the government has given the private sector the tools it needs to engage with and benefit from the world's largest free trade area. The focus now shifts to effective implementation, awareness campaigns for businesses, and the capacity building of the Customs Commission to administer the new system efficiently.

2. MoF Issued a Circular on the Quarterly Tax Payment Process

The Ministry of Finance has issued two letters clarifying the implementation of advance quarterly income tax payments under the Income Tax (Amendment) Proclamation No. 1395/2017, Article 89(2). The guidance addresses both the timing of payments and the basis for calculation, including special provisions for loss-making and new taxpayers.

Installment Periods

Quarterly advance income tax must be settled four times per year, within thirty days after the end of each quarter. For taxpayers following the Ethiopian calendar, the first quarter covers Hidar, Tahisas, and Tir, with declarations and payment due in Yekatit. The second quarter spans Yekatit, Megabit, and Miyazia, with payment due in Ginbot. The third quarter covers Ginbot, Sene, and Hamle, with payment due in Nehase. Finally, annual reporting takes place in Tikimt, when the year's income is declared, the final liability calculated, and any outstanding balance paid. If advance payments exceed the final audited liability, the excess may be refunded. The same system applies to companies using the Gregorian calendar, adjusted to their reporting year-ends in December, April, or October.

Basis for Calculation

Quarterly installments, each equal to 25%, are calculated on the total tax paid in the preceding year. This includes not only the final annual income tax but also the 2% withholding tax on domestic payments and the 3% advance withholding tax on imports. If a taxpayer reported a loss or no activity in the preceding year, the advance calculation will revert to the last year in which tax was actually paid. New taxpayers with no history must base their advance payments on the actual results of the current quarter.

Loss-making businesses are not exempt. Even if no profit is reported, they must pay an Alternative Minimum Tax (AMT) of 2.5 percent of turnover. Losses, however, remain usable: they can be carried forward and offset against future tax liability that exceeds the AMT. Where the AMT is paid, the amount becomes the basis for calculating advance quarterly tax in the following year.



The Ministry also confirmed that advance payments made in the form of withholding taxes and import-related taxes are deductible from the final AMT or annual tax liability at year-end, preventing double taxation.

This clarification establishes a predictable system that ties quarterly payments to prior-year performance, while ensuring that all businesses, including those incurring losses, make a minimum contribution. Businesses should pay close attention to their reporting calendar, prior-year tax records, and turnover levels in order to plan their cash flows effectively under this regime.

3. Implementation of Ethiopia's revised Over-the-Counter (OTC) medicines list under the new VAT proclamation 1341/2024

According to the new Value Added Tax (VAT) proclamation No. 1341/2024 and regulation No. 570/2025 Article 58, certain supplies that were exempt from tax under the previous proclamation are now subject to tax, including over-the-counter medicines.

What are OTC medicines?

OTC medicines are legally classified as non-prescription medicines used to treat minor symptoms and self-limiting conditions. These medicines do not need a prescription from an authorized physician but are dispensed under the supervision of pharmacy professionals from medicine retail outlets.

The list is authorized under Proclamation No. 1112/2019, which mandates EFDA to classify and regulate medicines based on safety, efficacy, and public health relevance. The revision aims to improve access to safe, affordable, and effective medicines for minor and self-limiting conditions.

Classification Criteria

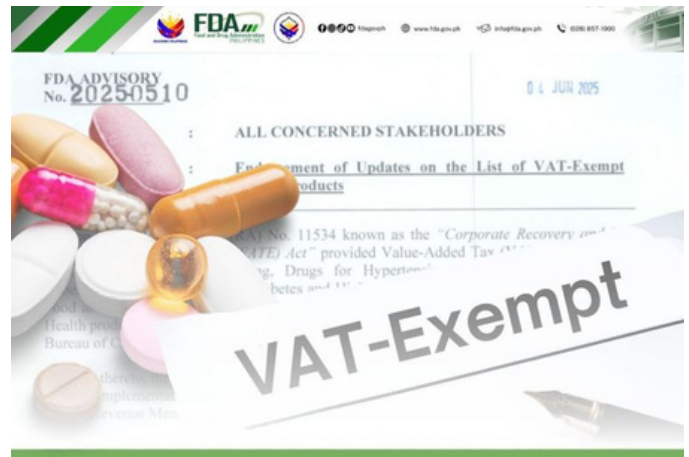
Medicines are classified based on several factors to ensure safe and effective use. The key criteria include their safety profile, the potential risk of misuse or abuse, their suitability for self-medication, and the likelihood of contributing to drug resistance. Additionally, the classification considers the availability and registration status of each medicine within Ethiopia.

Therapeutic Categories

Over-the-counter (OTC) medicines are grouped into 17 therapeutic categories for ease of reference and regulation. These include gastrointestinal drugs, respiratory treatments, analgesics and antipyretics, antimigraine and antirheumatic agents, vitamins and minerals, dermatological preparations, contraceptives, and antiseptics, along with other miscellaneous agents.

Medicine Entry Details

Each listed medicine is documented with comprehensive information to guide proper use. This includes the name and strength of the medicine, its dosage form, and the maximum quantity allowed for dispensing. Furthermore, safety notes and usage precautions are provided to ensure responsible use and minimize risks.



Implications of the OTC List for VAT Regulation No. 570/2025

Under Regulation No. 570/2025, the over-the-counter (OTC) medicines listed by the Ethiopian Food and Drug Authority (EFDA) are no longer exempt from Value Added Tax (VAT). This represents a major shift in Ethiopia's tax policy on pharmaceuticals, altering how these products are categorized and treated for tax purposes.

Key Implications

All medicines included in the official OTC list are now classified as taxable supplies, meaning VAT will be applied to their sale. In contrast, prescription-only medicines remain VAT-exempt because of their essential nature and critical role in healthcare. This regulatory shift suggests an effort to broaden the tax base and improve government revenue collection, while still safeguarding access to vital treatments that require medical supervision.

Who Is Affected?

The new regulation has direct consequences for multiple stakeholders. Consumers are likely to face higher prices for OTC products due to the added VAT. Pharmacies and suppliers must revise their pricing structures and adjust tax reporting systems to ensure compliance. Additionally, EFDA's OTC list now functions as an important tax classification tool, assisting the Ministry of Revenues in identifying which pharmaceutical products fall under the scope of VAT.

4. Ethiopia Issues Draft Directive on Collective Investment Schemes for Public Consultation

The Ethiopian Capital Market Authority (ECMA) has released a draft Directive on Collective Investment Schemes (CIS) for public consultation, marking a key step in operationalizing the Capital Market Proclamation No. 1248/2021. Once enacted, the Directive will govern the formation, management, and oversight of pooled investment vehicles, introducing regulated investment fund structures to Ethiopia for the first time.

The Directive outlines rules for various fund types, including money market funds, mutual funds, real estate investment funds, and alternative investment funds, and sets standards for governance, custody, valuation, disclosure, and investor protection.

What is CIS?

A CIS is pooled investment vehicle that allows investors to combine their funds to invest in diversified portfolios managed by professionals. The investors benefit from income or profits generated by securities or property, without direct control over day-to-day management. The Management is delegated to a licensed CIS operator, enabling retail investors to access professional fund management and diversified portfolios.

Fund Structures and Requirements

Public Money Market Funds: Must be structured as share companies and invest in short-term, high-quality instruments (e.g., treasury bills, commercial paper). Subject to limits on instrument types, investment concentration, borrowing, and average maturity. Designed to offer liquidity and capital preservation.

Public Mutual Funds: Also structured as share companies, these funds invest in diversified portfolios of securities. Subject to borrowing limits, diversification requirements (excluding government instruments), and investment restrictions. Intended to broaden retail access to capital markets and support long-term savings.

Real Estate Investment Funds (REIFs): Structured as share companies, REIFs pool capital to acquire and manage income-generating properties. REIFs must meet minimum investment thresholds in income-producing assets, conduct independent asset valuations, and comply with income source diversification rules.

Alternative Investment Funds (AIFs): May be structured as share companies, PLCs, or Limited Partnerships. Units are issued via Exempt Offers and restricted to private investors. AIFs are prohibited from public solicitation and

must file offer documents with ECMA prior to any fundraising. Property-focused AIFs are subject to additional limitations and disclosures. This structure ensures participation is limited to investors with sufficient expertise and risk tolerance. AIFs are categorized into two types, Qualified Investor AIF (Established through a Qualified Investor Offer) and Privately Held AIF (Established through a Private Placement).

Foreign Fund Registration

Foreign funds may be registered if they meet specified conditions, including maintaining a registered office in Ethiopia, appointing an ECMA-approved external auditor, having at least one Ethiopian resident board member, and providing a letter of good standing from their home regulator.

Governance and Operational Standards

All schemes must have a governing body (Board or equivalent) with at least five voting members and dedicated audit, risk, and compliance committees. A licensed Operator is required to oversee scheme management and appoint key professionals, including property managers, Shariah advisors (for Islamic funds), investment advisors, external auditors, and securities appraisal firms.

Fees must be authorized and transparently disclosed in the establishment documents, assets of a scheme must be held by independent custodians and Minimum disclosure requirements, valuation and performance calculation methods are prescribed under the draft directive.

Mergers, acquisitions, or other combinations must be approved by ECMA. If the resulting entity from the merger ceases to qualify as a CIS, the scheme must undergo a formal winding-up process and relinquish its registration.

What is Next?

This draft Directive represents a foundational development in Ethiopia's capital market framework. It introduces regulated investment vehicles, mobilizes long-term savings, and enhances investor protection. A full legal update will be provided once the Directive is formally enacted.



Contact Us



www.tsegasolomon.com



+251-926 354 220



tsolomon@tsegasolomon.com



Africa Avenue, Getu Commercial Center, 6th Floor

Addis Ababa