

# MONTHLY LEGAL UPDATE

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## World POPULATION Day



This month's update marks July 11th, **World Population Day** – a moment to reflect on the challenges and opportunities of a growing world, and the importance of inclusive policies that ensure health, dignity, and opportunity for all.

## What's Covered this Month?

Welcome to the July 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:

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5. The New Framework for Dematerialization of Government and NBE Securities (Directive No. MFAD/001/2025)
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7. Addis Ababa Revenue Bureau Issues Directive on 2017 E.C. Tax Compliance and Enforcement

## Top Update

### Parliament Enacts Comprehensive Income Tax Reform Under Proclamation No. 1395/2025

This reform updates Ethiopia's tax system by revising tax brackets, corporate tax rules, and enforcement measures to improve compliance and modernize the fiscal framework.



# 1. Ethiopian Parliament Enacts Comprehensive Income Tax Reform Under Proclamation No. 1395/2025

Ethiopia has introduced a major reform to its income tax regime through the enactment of the Income Tax (Amendment) Proclamation No. 1395/2025. This reform marks the most comprehensive overhaul of the country's tax architecture in over a decade and is designed to modernize the tax system by addressing digital commerce, simplifying compliance for small businesses, and closing gaps in anti-avoidance rules.

The amendment establishes new classifications for taxpayers, defines emerging income streams, imposes new compliance obligations, and introduces a minimum alternative tax. It also updates rules on withholding, repatriation, and profit distribution, signaling a broader effort to align Ethiopia's tax regime with international standards and digital realities.

## Reclassification of Taxpayers and Expanded Definitions

Under the new framework, taxpayers are now classified into two categories. Category "A" includes all legal entities and individuals with annual turnover exceeding ETB 2 million. Category "B" applies to individuals with turnover below this threshold and provides a simplified regime based on gross sales. The Ministry of Finance is mandated to review and adjust the turnover thresholds every five years to reflect inflation and economic growth. The Tax Authority also holds discretionary power to reclassify taxpayers based on updated declarations or other relevant information.

In parallel, the amendment introduces expanded definitions to reflect the nature of modern business activities. Digital content creation is now legally recognized and includes income from monetized platforms such as social media, video-sharing websites, and podcasts. Revenue streams may include advertising, sponsorships, donations, subscriptions, product placements, and direct sales. Digital services are broadly defined to encompass any service provided through digital platforms. Further operational classifications and enforcement mechanisms are to be developed by the Council of Ministers.



The amendment also explicitly identifies technical services, such as accounting, legal, engineering, auditing, and IT services, as taxable income streams. Providers of such services are required to maintain full bookkeeping records regardless of turnover. In addition, the threshold for establishing a permanent establishment in Ethiopia has been reduced from 183 to 91 days, thereby expanding the scope of taxation for non-resident entities and short-term projects.

## Taxation of Digital Services and Aggregated Income

The amendment introduces a detailed framework for the taxation of digital services and income derived by content creators. Non-resident digital service providers earning income from Ethiopian sources are now clearly subject to Ethiopian income tax. The income is deemed Ethiopian-sourced, closing previous loopholes that allowed cross-border digital transactions to go untaxed. In cases where individuals earn income from multiple sources, excluding Category "B" business income, the law now requires that all income be aggregated for tax purposes. As a result, employment income in such cases is no longer treated as a final tax. Individuals falling under this category must file comprehensive annual declarations that include all relevant income streams.

Digital content creators are divided into two groups. Those who regularly engage in monetized online activity are required to register as businesses, keep records, and file appropriate tax declarations. Casual earners fall under Schedule "D" and are taxed on other income. To improve compliance, platforms that facilitate payments to Ethiopian creators must report gross payments above specified thresholds and ensure that the creators obtain a valid Taxpayer Identification Number (TIN). To avoid double taxation, the proclamation also introduces foreign tax credits for income taxed abroad, consistent with international best practices.

## **Income Tax Rates and the Category “B” Regime**

The income tax amendment revises tax brackets to increase progressivity and provide relief for low-income earners. For employment income, monthly earnings up to ETB 2,000 are tax-exempt, while income exceeding ETB 14,000 is subject to a 35 percent top marginal rate. In the case of rental income, individuals are exempt up to ETB 24,000 annually, while income exceeding ETB 168,000 is taxed at 35 percent. Legal entities continue to be taxed at a flat rate of 30 percent.

Business income earned by individuals is subject to progressive taxation ranging from 0 to 35 percent. Category “B” taxpayers, however, are subject to a simplified gross sales tax regime. Rates range between 2 and 9 percent based on turnover thresholds. Certain categories of businesses and professionals, such as lawyers, accountants, healthcare providers, and VAT-registered businesses, are excluded from the Category “B” regime. These professionals must maintain records consistent with Category “A” standards, even when not formally classified under it.

The reform also provides that Limited Liability Partnerships and Collective Investment Funds are exempt from corporate income tax. However, they are required to withhold tax on profits distributed to partners or investors.

## **Minimum Alternative Tax and Anti-Avoidance Measures**

To minimize revenue leakage, the proclamation introduces a Minimum Alternative Tax (MAT). This provision applies where a taxpayer's business income tax liability is less than 2.5 percent of turnover or equivalent indicators, such as net banking income or gross insurance premiums. In such cases, the taxpayer is required to pay the MAT unless they fall under specific exceptions, such as being in liquidation, debt restructuring, or operating under the gross revenue regime.

Excess MAT payments may be carried forward for up to five years and credited against future liabilities, but only to the extent that the taxpayer does not reduce their liability below the minimum threshold. A 15 percent tax is also imposed on undistributed profits retained for more than 12 months. In the case of non-resident companies operating through a permanent establishment in Ethiopia, repatriated profits are subject to a 15 percent tax. If profits are not repatriated within 12 months, a deemed distribution rule applies, triggering the tax.

The amendment also introduces rules targeting offshore indirect transfers of Ethiopian assets. If more than 20 percent of the share value derives from Ethiopian immovable or other property, the proportionate gain is taxable in Ethiopia. If the Ethiopian asset value exceeds 50 percent of total value, the entire gain is taxable. Failure to disclose such transfers results in penalties and extended tax liability for involved parties.

## **Compliance, Reporting, and Payment Obligations**

The amendment introduces stricter compliance measures. Cash payments above ETB 50,000 are prohibited and must be made via formal banking or approved electronic channels, with violations incurring a 200 percent penalty.

Charitable donations are deductible up to 10 percent of taxable income, with higher contributions requiring approval for priority sectors. Category “A” taxpayers operating multiple business lines must keep separate records for each.

Employees with multiple income sources must file annual tax returns. All taxpayers are required to make quarterly advance payments equal to 25 percent of the previous year's tax. For Category “B” taxpayers, the fiscal year begins on Hamle 1, with first-time filers required to pay in full upon declaration or within that period.

## **Withholding Tax Rules and New Exemptions**

The amendment updates withholding tax rates and introduces a digital services tax of up to 5 percent, applicable to both resident and non-resident providers. Non-residents face a 15 percent withholding tax on dividends, interest, royalties, insurance premiums, and technical or management fees.

Royalties are taxed at 10 percent, reduced to 5 percent for arts and culture. Entertainers, capital gains, and game winnings are taxed at 15, 15 (after a 30 percent deduction), and 20 percent respectively. Repatriated and undistributed profits are taxed at 5 and 15 percent.

New exemptions include income earned by the Ethiopian Deposit Insurance Fund, share issuance premiums, and dividends paid to Ethiopian companies holding at least a 12.5 percent stake in the payer, helping avoid cascading taxes.

## 2. Ethiopian Parliament Enacts Startup Proclamation to Accelerate Innovation and Private Capital Mobilization

The Government of Ethiopia has enacted the Startup Proclamation as part of its national digital transformation agenda. This new legal framework aims to promote innovation-driven, high-growth enterprises by providing formal recognition, institutional support, and access to capital. It addresses key barriers that have long hindered startups, including limited financing, inadequate infrastructure, and regulatory uncertainty. Through a combination of incentives and institutional mandates, the law seeks to attract private investment, foster youth entrepreneurship, and unlock the potential of Ethiopia's digital economy.

### Startup and Ecosystem Builder Designation

The Proclamation introduces two categories of designation: startups and ecosystem builders.

Startups must be less than five years old, tech-enabled, scalable, and majority-owned by founders (minimum 25% equity). Both individuals and entities may apply if they demonstrate innovation-driven value creation.

Ecosystem builders, such as incubators, accelerators, co-working spaces, and financial institutions, must meet standards related to registration, technical capacity, and program delivery.

Applications are processed via a dedicated Digital Startup Portal, serving as a one-stop platform for certification, incentive tracking, and engagement with the Ministry of Innovation and Technology (MInT). Designation decisions are reviewed by a National Designation Committee, to be defined by directive.

### Incentives and Financial Support

**Startup Grant Program:** Managed by MInT and funded through public and donor resources, the grant program supports early-stage operational expenses. Reapplications are restricted for one year after initial funding.

**National Credit Guarantee Scheme:** Supervised by the National Bank of Ethiopia, this scheme provides loan guarantees for startups and ecosystem builders lacking collateral. Misuse results in a 10-year disqualification.

**Startup Fund of Funds (FoF):** Structured as a share company with at least 70% private ownership, the FoF will invest in venture capital funds targeting startups. The Government may temporarily hold full ownership if private capital is unavailable, with EIH managing the state's stake.



### Tax and Trade Privileges

Designated startups receive a five-year exemption from income, dividend, and withholding taxes. Foreign employees enjoy the same personal income tax exemption. Losses during this period can be carried forward for two years. Startups may import capital goods duty-free for four years or claim tax refunds on equivalent local purchases. Investor losses are fully deductible.

### Legal Basis and Institutional Roles

The Proclamation overrides any conflicting laws and establishes a coordinated implementation framework among:

- a) **MInT** for oversight, designation, and grant administration
- b) **National Digital Economy Council** for strategy, coordination, and audit oversight
- c) **EIH** for managing public investments in the Fund of Funds
- d) **National Bank of Ethiopia** for regulating the credit guarantee system and financial sandboxes

Additional directives from the Ministry of Finance, MInT, and the Council of Ministers are expected to operationalize funding and compliance mechanisms.

### Oversight and Dispute Resolution

Designated entities must submit annual reports and may be audited at any time. Misuse of grants, misrepresentation, or inactivity may lead to suspension or revocation of designation. Disputes are resolved through grievance mechanisms managed by MInT. The National Digital Economy Council is empowered to commission independent audits and oversee regulatory sandbox operations.

### 3. New Customs Valuation Directive Issued, Aligning Ethiopia with Global Standards

Ethiopia's customs framework has long faced challenges due to fragmentation, discretionary enforcement, and poor alignment with international trade norms. As part of its economic liberalization efforts and plans to join the World Trade Organization (WTO) and fully engage with the African Continental Free Trade Area (AfCFTA), the government has launched a wide-ranging reform program covering revenue collection, trade facilitation, and investment regulation. Central to this agenda is the overhaul of customs valuation, a traditional hotspot for under-invoicing, transfer pricing abuse, and corruption.

#### Overview of the New Directive

In July 2025, the Ministry of Revenues, acting under Article 180(2) of the Customs Proclamation No. 859/2014 (amended by Proclamation No. 1160/2019), issued Customs Valuation Directive No. 1080/2025. This new Directive replaces the previous Directive No. 158/2019 and other valuation guidelines, emphasizing transparency, objectivity, and consistency by fully adopting the WTO's Agreement on Customs Valuation (ACV).

#### Key Changes in Valuation Methodology

The Directive introduces a clear, rule-based valuation system following the WTO's six-step hierarchy, starting with the transaction value (the actual price paid or payable). Customs officials must apply these methods in order, except when the importer formally requests switching the deductive and computed value methods. Importers now have a binding 15-day window to submit verifiable evidence such as contracts, proforma invoices, or manufacturer certifications. A new Valuation Detail Declaration (VDD) requires digital submission of additional pricing data beyond the standard customs declaration. The Directive also defines key terms—like "base price" and "reference price"—to reduce subjective interpretation and applies stricter rules to related-party transactions to prevent price manipulation. The Ethiopian Customs Valuation System (ECVS-G2) will support enforcement by cross-checking declared values with global and domestic data.

#### Departure from Past Practices

Unlike past practice, which heavily relied on opaque reference price lists and gave customs officers broad discretionary powers to reject declared values without clear justification, the Directive imposes documentation



requirements, rejection criteria, appeal mechanisms, and mandates integration with data systems. While it repeals Directive No. 158/2019, not all previous internal practices have been expressly abolished, leaving some uncertainty about how quickly entrenched customs procedures will adapt.

#### Implications for Stakeholders

For importers, exporters, and customs professionals, the Directive demands a thorough review of import documentation and compliance systems. Importers must now maintain detailed transactional records, including payment proofs and contracts, to meet stricter audit standards. The burden of proof shifts decisively to the importer, with failure to respond or delays leading to automatic revaluation by customs. The new ECVS-G2 system introduces real-time, data-driven audits that will flag inconsistencies and increase compliance risks.

#### Towards a Predictable Trade Environment

Directive No. 1080/2025 represents a major step in Ethiopia's transition to a rules-based customs valuation regime aligned with international standards. Stakeholders should expect more rigorous enforcement, higher penalties for non-compliance, evolving dispute resolution processes, and short-term disruptions as new systems take hold. To navigate this, importers and brokers must upgrade their compliance frameworks, especially regarding related-party transactions. Trade bodies should advocate for clear transitional guidance, while the Customs Commission should provide explanatory materials to promote transparency. Despite initial operational challenges, the Directive signals Ethiopia's commitment to strengthening trade governance and fostering a more predictable business environment.

# 4. Ethiopia Launches AEO Program to Incentivize Compliant Trade with Tiered Privileges

In July 2025, the Ministry of Revenues issued Directive No. 1081/2025 under Article 180(2) of Customs Proclamation No. 859/2006 (as amended), launching Ethiopia's Authorized Economic Operator (AEO) Program. This program is part of the country's broader customs modernization efforts and aligns with the WCO SAFE Framework and the WTO Trade Facilitation Agreement. Its primary goal is to reward compliant economic operators with tiered customs privileges that reflect their investment in legal conformity, internal controls, and supply chain security.

## The AEO Program and Eligibility Criteria

The AEO Program provides certification for importers, exporters, logistics providers, and other supply chain actors, recognizing them as low-risk and high-compliance operators. Certification is granted at three levels, Silver, Gold, and Platinum, with each tier offering progressively greater privileges based on the operator's compliance history, financial capacity, and contribution to the national economy.

Applicants undergo a comprehensive evaluation covering legal and tax compliance, economic contribution, financial strength, internal governance, ICT infrastructure, and physical security. Only those scoring at least 80 percent, the minimum for Silver status, and passing site inspections and audits, are granted certification.

## Certificate Levels and Associated Benefits

Silver certification marks the entry-level and provides benefits such as priority service, reduced inspection frequency, access to bonded warehouse and transit permits, expedited clearance with minimal documentation, deferred payments backed by guarantees, use of the AEO logo, and fast-track access to audit information. Gold certification builds on Silver benefits by allowing holders to manage their own bonded warehouses and defer tax and duty payments without upfront deposits. Platinum certification, reserved for operators of national economic importance, includes all prior privileges plus dedicated professional support and the ability to dispatch goods directly from bonded storage to final delivery points without customs escort. These benefits enhance operational efficiency, reduce transaction costs, and improve predictability throughout the supply chain.



## Legal Foundation and Institutional Collaboration

Directive No. 1081/2025 is grounded in Customs Proclamation No. 859/2006 and Customs Regulation No. 518/2014. Successful implementation requires coordinated action between the Customs Commission, Ministry of Revenues, security agencies, port authorities, and investment regulators. This integrated approach supports risk-based enforcement and effective information sharing.

## Oversight, Auditing, and Appeals

The Customs Commission holds exclusive authority to administer the AEO Program, including vetting applications, conducting audits, issuing certificates, and monitoring compliance. Audits are risk-based and occur both before and after certification. Decisions by the Commission can be challenged through internal appeals or judicial review under applicable administrative law.

Ethiopia's AEO Program is a vital step toward secure and facilitative trade governance aligned with global standards. Nonetheless, challenges persist, including limited inter-agency coordination, stringent qualification standards for smaller operators, and the absence of mutual recognition agreements. To maximize impact, the program must be supported by transparent procedures, digitized systems, inclusive outreach, and swift negotiation of mutual recognition arrangements. When fully realized, Ethiopia's AEO Program can become a cornerstone of credible, efficient, and predictable customs administration.

# 5. The New Framework for Dematerialization of Government and NBE Securities (Directive No. MFAD/001/2025)

The National Bank of Ethiopia (NBE) issued Directive No. MFAD/001/2025 to establish a new framework for dematerializing government and NBE securities. The directive mandates converting all physical securities into electronic book-entry form, maintained in a Central Securities Depository (CSD). This transition aims to improve market efficiency, enhance security and transparency, boost investor confidence, and reduce systemic risks to maintain stability in the securities market.

## Scope and Legal Validity of Dematerialized Securities

The directive covers all government and NBE securities, whether traded on licensed exchanges or over-the-counter. Ownership is evidenced solely through electronic records held by the CSD, which serve as definitive proof in transactions and ownership claims. Transfers occur electronically via book-entry within the CSD system. These electronic registers are the authoritative record, making dematerialized securities legally valid, fungible, and interchangeable with other securities of the same class and issuer.

## Roles and Responsibilities of Stakeholders

Key stakeholders have clearly defined roles under the directive. The NBE oversees the dematerialization process, verifies certificates, and coordinates communication among parties. The CSD operator manages the electronic system, issues National Securities Identification Numbers (NSIN) and International Securities Identification Numbers (ISIN), maintains data integrity, and handles investor accounts. CSD Members act as intermediaries, facilitating investor onboarding, conducting Know Your Customer (KYC) checks, collecting physical certificates, and submitting them to the CSD operator. Investors are responsible for submitting physical certificates, providing accurate information, completing KYC procedures, and monitoring their accounts.

## Importance of KYC Compliance

The directive underscores strict KYC compliance to prevent unauthorized access and fraud. Investors must submit government-issued identification, a unique identifier, and tax-related information. Trading in dematerialized government securities requires opening a government securities account registered with the CSD in the name of the beneficial owner or a CSD member.

## Dematerialization Procedures, Pledged Securities, and Untendered Holdings

Dematerialization starts with record reconciliation by the NBE and Ministry of Finance, verification of pledged securities, and issuance of NSIN/ISIN codes. Investors submit physical certificates to CSD Members, and once verified, securities are credited electronically. Physical certificates are kept for two years before destruction. Pledged securities remain flagged as "pledged" in the pledger's account, restricting transfer until obligations are met. The Ministry of Finance maintains special accounts for untendered securities and their benefits, transferring untendered holdings after five years.

## Enforcement and Penalties

Non-compliance carries penalties. Failure to submit certificates, falsifying information, or unauthorized transfers can lead to fines up to five percent of the securities' face value, alongside potential legal actions. Pledgees delaying certificate surrender face a penalty of 10,000 Birr plus 1,000 Birr for each day of delay.

## Key Implications

The directive ushers in a fully electronic securities system where physical certificates lose validity post-dematerialization. This enhances market security by reducing risks related to loss, forgery, or damage of physical documents and speeds up settlement and transfer processes. Compliance is mandatory; investors must open securities accounts and complete KYC verification. Failure to tender physical certificates within the prescribed period results in penalties and transfer of securities to a special untendered account. Pledged securities remain non-transferable until pledge conditions are met. The NBE assumes central authority over the dematerialization process, with the CSD operator managing records and investor accounts, improving regulatory oversight and transparency. This system aligns Ethiopia with international standards, promoting investor protection and opening avenues for foreign investment. Financial institutions and CSD members bear responsibility for ensuring proper KYC and smooth investor onboarding, with penalties for lapses.

## 6. Parliament Enacts Landmark Law Allowing Foreigners to Own Residential Property



On June 24, 2025, Ethiopia's House of People's Representatives enacted a landmark proclamation granting foreign nationals the right to own residential immovable property. The law repeals Articles 390–393 of the 1952 Civil Code and overrides the USD 10 million capital threshold previously imposed by Article 18(2) of Investment Proclamation 1180/2020 and Article 17 of Investment Regulation 474/2020.

Under the new regime, foreigners may own or lease residential property for personal or rental use, provided they meet specified capital requirements and secure a permit from the Ministry of Urban and Infrastructure Development.

### Eligibility and Capital Requirements

A foreign investor with an investment permit and at least USD 150,000 in paid-up capital may acquire or lease one residential property. Each additional property requires a new allocation of at least USD 150,000, covering construction and lease costs. Individual foreign nationals must also commit a minimum of USD 150,000 for a single residential unit.

Ownership is contingent upon a clean criminal record, with specific disqualifying offenses to be defined by a forthcoming joint directive from the Ministry and the Ministry of Justice. The maximum number of properties a foreigner may hold, as well as permissible property size and value, will also be set by directive.

### Rights and Obligations

Foreign nationals enjoy the same property rights as Ethiopian citizens and may obtain a residence permit or a five-year multiple-entry visa. They are entitled to repatriate profits, subject to future regulations by the National Bank of Ethiopia. However, they must settle all government service charges related to the property in foreign currency acceptable to the government.

### Key Restrictions

Ownership is barred in border areas and other restricted zones to be designated by directive. Government-subsidized condominiums are off-limits, except where part of PPP or market-based residential developments. Foreigners are prohibited from using local credit to finance purchases or leases. A reciprocity clause may be activated by regulation, imposing special rules based on how other countries treat Ethiopian nationals.

This reform signals Ethiopia's gradual liberalization of its property regime, targeting foreign capital while maintaining protective safeguards. By tying ownership to minimum capital, limiting access to domestic finance, and restricting property types and locations, the law aims to expand investment opportunities without distorting the local housing market. Whether this balance holds will depend on the implementation directives and regulatory enforcement that follow.

## 7. Addis Ababa Revenue Bureau Issues Directive on 2017 E.C. Tax Compliance and Enforcement

In July 2025, the Addis Ababa City Government Revenue Bureau released an administrative letter outlining tax declaration and enforcement guidelines for the 2017 Ethiopian fiscal year. The directive targets Category “A” and “B” taxpayers, reaffirming the legal obligation under Articles 21, 33, and 82 of the Income Tax Proclamation No. 979/2016 (as amended), and Article 17 of the Tax Administration Proclamation No. 983/2016, to declare and settle income tax based on accurate bookkeeping and documentation.



### Temporary Relief for Specific Taxpayer Segments

The Bureau acknowledged compliance burdens faced by certain taxpayer groups and extended administrative relief applicable solely to the 2017 fiscal year. Government-linked associations providing services such as school feeding, sanitation, waste removal, and city beautification will be taxed as Category “C” taxpayers, based on payment records from the government institutions that engaged them.

Similarly, Sheger Dabo vendors affiliated with the Trade Bureau will be treated as Category “C” taxpayers. However, where additional business activities occur at the same premises, an on-site audit will determine any further tax liabilities. Vehicle rental businesses registered under Code 02 and 03, and technology-supported urban transport providers, including meter taxis, will be taxed under Schedule “C” on a presumptive basis.

Legal professionals practicing solely on professional licenses (without commercial business licenses), along with insurance agents, brokers, claims adjusters, and private residential property lessors not engaged in other business activities, are to be assessed under Regulation No. 410/2017 and Directive No. 138/2017. These provide a fixed presumptive assessment using a 35 percent deductible cost ratio, subjecting the remaining 65 percent of gross income to tax.

### Enforcement Measures Against Non-Compliant Taxpayers

Taxpayers not covered by the above relief measures remain fully subject to record-based income tax obligations. Non-compliance will be treated as intentional evasion and met with strict enforcement. The Bureau will apply presumptive assessments under Article 80 of the Income Tax Proclamation, using inflating adjustments via non-deductible cost ratios. In addition, penalties under Articles 109 and 110 of the Tax Administration Proclamation will be imposed, including a 40 percent surcharge on unpaid tax and further fines for failure to comply.

These enforcement measures are final and not subject to administrative adjustment, reinforcing the Bureau’s commitment to maintaining equity and integrity in the city’s tax administration system.

### Looking Ahead

The Bureau’s approach for the 2017 E.C. fiscal year combines narrowly tailored relief for structurally burdened sectors with a strong enforcement stance for the broader taxpayer base. Exempted taxpayers are advised to treat the relief as transitional and prepare for future compliance requirements. Meanwhile, all other taxpayers must maintain complete records or face punitive presumptive assessments going forward.



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