

Imports and taxes in Ethiopia

Introduction

Unless exempted by law, items imported into Ethiopia are subject to a number of taxes. Government levies five kinds of taxes on import items. These taxes are assigned priority levels and are calculated in a sequential order. These taxes, in their sequential order, are customs duty, excise tax, VAT, surtax and withholding tax. Taxes on imported goods are collected by the Ethiopian Revenues and Customs Authority (ERCA). These taxes provide considerable revenue to the government. According to the report issued July 2009 by Planning Directorate of ERCA, these taxes provided revenue of 11.8 billion Birr. Divided into six subheadings, the main purpose of this article is thus to raise awareness among the business community of the different kinds of taxes levied on import items.

1, Customs Duty and its Rates

The first of the five taxes levied on import items is customs duty. The term customs duty denotes taxes imposed on goods entering or leaving the country. ERCA collects customs duty only on import items as no tax on export is levied. The government waived taxes on export items on purpose- just to encourage export. However, there is a 150 percent export tax particularly on certain hides and skins of animals.

Customs duty provides significant revenue to the government, for example, in the fiscal year that ended on June 30, 2009, ERCA collected revenue of 3.9 billion Birr from customs duty alone which accounted for 32.4 percent of the total receipts from import taxes. ERCA collects Customs duty based on the rules stipulated in the customs proclamation No. 622/2009 and other regulation and directives.

Customs duty has 6 bands or groups of rates which are applied to imported goods. These bands of rates are 0%, 5%, 10% 20%, 30% and 35%. From these band of rates one can see that the minimum customs duty rate is 0(zero) while the maximum is 35 percent of the CIF(Cost + Insurance + Freight) value of an imported item. According to the Customs Tariff (Amendment volume 1, 1996 edition), the maximum customs duty rate used to be 60 % of the CIF value of an imported item. However, since then the government has taken steps towards reducing customs duty rate in order to support inward investment and the broad business community. Such steps were taken in 2000 and 2002 where the maximum customs duty rate was reduced to 40 and then 35 percent of the CIF. The long run government's aim is to reduce this figure to near zero (0).

To calculate the customs duty, the CIF is multiplied by tariff rate applicable to each imported item.

ERCA collects customs duty on a great variety of goods which can be classified into two categories. The classification is based on the primary purpose of the imported goods. Those import items used for productive purpose, items to be re-exported and for public use are classified in category one while import items for all other (nonproductive) purpose are classified in category two.

Category 1

Accordingly, raw materials, semi finished goods, producers goods, and import items for public use such as minibuses, buses etc fall under category one. Raw materials can be processed or unprocessed materials that would be used as industrial or agricultural input while producers' goods are goods such as capital goods and others imported by business organization for productive purposes. To encourage business organizations involved in activities such as producing goods and services, special privileges are granted to them including the exemption of customs duty and other taxes. As a result, raw material, and producers goods are largely zero (0) rated although there is up to a 10 percent customs duty rate applied to some of them. For example the importation of agricultural production inputs such as a tractor is charged with 10 percent customs duty rate. The importation of raw material and producers goods are highly encouraged for they promote domestically produced goods which replace imported goods and helps to save cash flow out of the country. Generally speaking, the more the imported goods are to be used for productive purpose, the more would get the customs duty rate near to zero.

Semi finished goods are also classified under category one. These goods are imported into the country for further processing and their importation is encouraged next to raw materials and producers goods. ERCA charges semi finished goods at a 10 and 20 percent customs duty rate.

Category 2

Imported goods which are classified in category two are items such as consumer or finished goods imported for personal use or for a nonproductive purpose. Consumer goods may also be sub classified into durable and nondurable goods. Durable consumer goods are goods like automobiles, furniture that have an expected useful life of three or more years. Nondurable goods such as foods, gasoline, articles of clothing etc that are depleted or discarded relatively soon. The highest customs duty rates are usually applied to consumer goods. For example, an automobile is heavily taxed at a 35 percent customs duty rate on the grounds that it is imported for personal use while ambulances which are primarily used for public use is imported free of customs duty and other taxes. The general principle in setting customs rate

in Ethiopia is that the more the imported item is to be used solely for personal use the higher the rate of customs duty and other taxes.

Full information on rates of customs duty on each item to be imported can be obtained from the Ethiopian Customs Tariff prepared based on the harmonized commodity description and coding system (H-S).

1.1 Export Tax

Customs duty and other taxes on export items are waived purposely to encourage export. However, the government levies export tax on specific semi-prepared hides and skins of animals. This export tax includes taxes on wet blue skin of an ox, wet blue hides of sheep and goat, and pickled hide of a sheep. The tax is 150 percent of the selling price of the hides and skins to be exported. This tax is introduced on January 1, 2010 by a directive no. 25/2009 issued by Ministry of Finance and Economic Development. The government imposed export tax on these items as a method to curb the exportation of the items, and to increase domestic leather products such as shoes, purses, ready-made garments etc.

1.2, Preferential Tariffs

Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA) and it administers preferential tariffs that favor trade with member countries of COMESA: The table below portrays the special customs tariff rates applicable to goods produced in and imported from COMESA member countries as against the regular customs tariff rate which is applicable to goods produced in and imported from non member countries.

s.no	Regular customs tariff rate%	COMESA Tariff Rate%
1	5	4.5
2	10	9
3	20	18
4	30	27
5	35	31.5

2. Excise Tax

Excise tax is the second of the five taxes levied on import items and it is one of the most well known forms of tax in Ethiopia. It is a tax levied on selected goods such as luxury goods and basic goods which are demand inelastic i.e. goods that shows no change at all in

quantity demanded when price goes up or down. Moreover, excise tax is also applied to goods which are considered hazardous to health and that may cause social problems. Additionally, the government uses excise tax as a revenue-producing device. In the fiscal year 2009, excise tax on import items has provided revenue of 1.4 billion birr which represented 11.65 % of the receipt of ERCA from import taxes.

2.1. What are the excisable goods and their rates?

In Ethiopia, both the federal and regional governments collect excise tax. ERCA is responsible for collecting excise tax for the Federal government and collects excise tax levied on locally produced and imported items into the country.

The minimum excise tax rate applied to excisable goods is 10% while the maximum is 100%. Excise tax has 10 bands or groups of rates at which excise can be charged. These band rates are 10%, 20%, 30%, 33%, 40%, 50%, 60%, 75%, 80% and 100%. These rates are used to calculate the payable excise tax.

Below is a table that depicts all 19 categories of excisable items and the rates to be applied to them.

Item	Type of excisable item	Excise tax rate (%)
1	Any type of sugar (in solid form) excluding molasses	33
2	Drinks	
2.1	All type of soft drinks (except fruit juices	30
2.2	Powder soft drinks	30
2.3	Water bottled or canned in a factory	20
2.4	Alcoholic Drink	
2.4.1	All types of beer and stout	50
2.4.2	All types of wine	50

2.4.3	Whisky	50
2.4.4	Other alcoholic drinks	100
3	All types of pure alcohol	75
4	Tobacco & Tobacco Products	
4.1	Tobacco leaf	20
4.2	Cigarettes, cigar, cigarillos, pipe tobacco, snuff and other tobacco products	75
5	Salt	30
6	Fuel- jet fuel, super Benzene, Regular Benzene, petrol, Gasoline and other motor spirits	30
7	Perfumes and Toilet waters	100
8	Textile and Textile products produced in a factory	
8.1	Textile fabrics, knitted or woven of natural silk, rayon, nylon, wool or other similar materials	10
8.2	Textile of any type partly or wholly made from cotton, which is grey, white, dyed or printed, in pieces of any length or width (except mosquito net and "Abudgedid") and including blankets, bed sheets, counterpanes, towels, table clothes and similar articles	10
8.3	Garments	10
9	Personal Adornment made of gold, silver or other material	20
10	Dish washing machines for household use	80
11	Washing machines for household use	30
12	Video Decks	40
13	Television and Video Cameras	40
14	Television broadcast receivers whether or not combined with gramophone, radio or sound receivers and reproducers	10
15	Motor passenger cars, station wagons, utility cars and land Rover, Jeeps pickups, similar vehicles (including motorized caravans), whether assembled, together with their appropriate initial equipment.	

15.1	Up to 1,300 c.c	30
15.2	From 1,301 c.c up to 1800 c.c	60
15.3	Above 1800 c.c	100
16	Carpets	30
17	Asbestos and asbestos products	20
18	Clocks and watches	20
19	Dolls and toys	20

2.2, Who must pay excise tax?

Excise tax on the above mentioned goods is levied whenever these goods are imported into the country or when they are locally produced. Therefore the excise tax on goods locally produced is paid by the producer whereas excise tax on imported items is paid by the importer.

2.3, What is the base of computation for excise tax?

Each taxpayer is liable to compute his or her tax liability-the amount of money he or she owes. The base of calculation for goods locally produced is the cost of production multiplied by its excise tax rate. However, the cost of production means direct labor and raw material cost incurred in the production process, cost of indirect inputs and overhead costs, but does not include depreciation costs of machineries.

In calculating excise tax payable on textile and textile products locally produced in a factory and vehicles assembled locally, the tax paid on import of inputs that are used to produce such goods shall be deducted.

Likewise, cost + insurance + freight (CIF) + customs duty multiplied by excise tax rate is the base of computation for goods imported into the country.

2.4, when is the time of payment for excise tax?

Excise tax on imported items is paid at the time of clearing those

goods from customs area. According to sub article 2(a2) of article 6 of the proclamation 307, excise tax on locally produced goods is to be paid, not later than 30 days from the date of production. However this provision is amended by the directive No 18/2009, which allows for the excise tax to be paid within 30 days of the next month following production.

3. Value Added Tax (VAT)

VAT is the third of the five taxes to be levied on import items. In Ethiopia, VAT is levied at a flat percentage rate. To the exclusion of goods detailed in article 8 of the proclamation No. 285/2002 and goods exempted from VAT by the directive issued by the Ministry of Finance and Economic Development(see below), VAT is levied on every imported item. Importers are liable to pay 15 percent of the sum of cost, insurance, freight, customs duty and excise tax. In the fiscal year 2009, VAT on import items generated revenue of 4.2 billion birr which accounted 34.54 percent of the receipt of ERCA from taxes imposed on imported items.

However, the following types of supplies of goods, services and imports are exempted from payment of VAT.

No	Type of goods or services exempted from payment of VAT	The law that allows exemption of goods and services from payment of VAT
1.	The sale of dwelling used for at least two years and the lease of a dwelling	Value Add Tax Proclamation No 285/2002
2.	The rendering of Financial services	Value Add Tax Proclamation No 285/2002
3.	The Supply or import of national or foreign currency (except for that used for numismatic purposes) and or securities	Value Add Tax Proclamation No 285/2002
4.	The import of gold to be transferred to the National Bank of Ethiopia	Value Add Tax Proclamation No 285/2002
5.	The rendering by religious organizations of religious or church related services	Value Add Tax Proclamation No 285/2002
6.	The rendering of educational services provided by educational institutions as well as child care services of children at pre-school institutions	Value Add Tax Proclamation No 285/2002
7.	The supplies of electricity, kerosene and water	Value Add Tax Proclamation No 285/2002

	(except for those supplies of water bottled by a factory).	
8.	Supplies by the post office authorized under the Ethiopian postal proclamation, other than services rendered for a fee or commission	Value Add Tax Proclamation No 285/2002
9.	The provision of transport	Value Add Tax Proclamation No 285/2002
10.	Permits and license fees	Value Add Tax Proclamation No 285/2002
11.	The supply of goods or services by a workshop employing disabled individuals if more than 60 percent of the employees are disabled	Value Add Tax Proclamation No 285/2002
12.	supply of books	Value Add Tax Proclamation No 285/2002
13.	Supply of food grain e.g. Teff, Wheat, Maize, Sorghum and other cereal.	Circular Ref. No. አመ3/16/28/635 Dated 09/07/2000 E.C.
14.	Materials for making mosquito net such as fiber (thread), label, plastic for packing and polypropylene bag	Circular Ref. No አመ3/16/28892 dated 08/07/2001 E.C.
15.	Pickled, wet blue and crusts of hides and leathers Purchased by leather factories.	Circular Ref. No አመ./16/26/28/860 dated 10/02/2001 E.C.
16.	Import of mosquito net and import of cloth, immersed in chemical, for sewing mosquito net	Circular Ref. No አመ3/16/28/785 ቀን 10/02/2001
17.	Import of wheat by the government	Circular Ref.No.አመ3/16/28/914 Dated 11/02/2000 E.C.
18.	Import of palm oil	Circular Ref. No .አመ3/16/28/9644 dated 25/07/1994 E.C.
19.	Supply of bread and milk	Circular Ref.No. .አመ3/16/28/889 dated 09/05/1995 E.C.
20.	Medicine, Medical supplies, and medical kits	Circular Ref. No .አመ3/16/28/889 dated 09/05/1995 E.C.

21.	Supply and import of agricultural raw materials such as fertilizer, seeds of superior quality, insecticides	Circular Ref. No re3/16/28/930 Dated 28/06/1995 E.C.
22.	payment of pension	Circular Ref. No .አመ3/18/28/961 Dated 01/09/1995 E.C.
23.	The sale of air-tickets to customers by travel agents	Circular ref. No. አመ3/16/28/13 Dated 01/25/1996 E.C.
24.	Enjera (local staple food)	Circular Ref. No. አመ3/16/28/171 Dated 11/10/1997 E.C.
25.	Publication of books	Circular Ref. No. አመ3/16/28/185 Dated 05/09/1997 E.C.
26.	Animal skin or hides sold to shoe factories by a leather factory after the tanning process is done.	Circular Ref. No. አመ3/16/28/227 Dated 08/11/2000 E.C.
27.	The supply or import of fuel gas	Circular Ref. No. .አመ3/16/28/227 Dated 25/12/2007 E.C.

4. Surtax

Surtax is the fourth of the five taxes imposed on import items. Surtax was introduced in the Ethiopian tax system on April 9, 2007. The council of Ministers issued a regulation to levy 10 percent surtax on imported goods. The imposition of surtax was necessitated to build the financial capacity of the government for interventions to solve the rise in the cost of living which is affecting consumers with low and medium income level. The government has been exerting effort to make grain available at a low price for urban dwellers with medium and low income level until the market is stabilized. Hence, the government required additional budget to pay for the subsidy and this is financed by surtax on import items. Necessary care has been taken so that the imposition of surtax over the imported goods wouldn't result in a rise in the cost of living and in the cost of goods for investment.

Ten percent of the sum of cost, insurance, freight, customs duty, excise tax, and VAT is the base of computation for surtax on all goods imported into the country.

However, the following items and services are exempted from payment of surtax.

- ☞ Fertilizer, Petroleum and lubricants, Motor vehicles for freight and passenger and other special purpose motor vehicles, Air craft, spacecraft

and part thereof, capital (investment goods) and some medicines, raw materials and other goods which are already decided by law to be tax free.

5, Withholding tax

Withholding tax is the last tax on import items and was introduced in Ethiopia on December 30, 2000. Proclamation No 227/2001 introduced withholding tax. Later on, this proclamation was replaced by income tax proclamation No 286/2002 and the Council of Ministers Income Tax Regulation No 78/2002. The latter proclamation made effective a withholding tax of 3 percent on import items and a 2 percent on payments made in return for the purchase of goods and services. However this subheading would like to limit itself to explaining briefly on withholding tax on import items.

5.1, Withholding tax on imports

Income tax is collected on the import of goods for commercial use and the collected amount is treated as a tax which is withheld and is creditable against the taxpayers' income tax liability for the year. Therefore, withholding tax is not a tax in the traditional sense.

The amount collected on imported goods shall be three percent of the sum of cost, insurance and freight (CIF value). If the amount of income tax collected on the imported goods results in underpayment of business income tax due for the year, as determined at the time of declaration of income tax, the tax payer is required to pay the difference with the declaration. If the amount represents an overpayment of income tax due for the year, the tax authority shall, after ensuring the accuracy of the books and records, refund the taxpayer the amount overpaid within three months. The tax authority does this pursuant to article no. 76 of the proclamation no. 286/2002. According to this article, refund to the taxpayer is made after compensating for other taxes he/she owes the tax authority.

Goods imported by the following individuals and firms are exempted from the 3 percent withholding tax imposed on commercial import items. The individuals and firms that enjoy such privilege include:

5.1.1, Federal and regional offices covered in the definition of public offices stipulated in the Federal Government of Ethiopia Financial Administration Proclamation No.648/2009.

5.1.2, Nonprofit and nongovernmental organizations and associations, subject to the

provision of registration certificate issued by Ministry of Justice or an authorized body.

5.1.3, Privileged individuals to import their personal effects free of duty pursuant to the directive issued by ERCA

5.1.4, Individuals and organizations allowed to import duty-free items pursuant to category two of the customs tariff.

5.1.5, International organizations, foreign diplomat, consular missionaries, and their members who, in line with diplomatic and other international agreements, are exempted from profit tax

5.1.6, Individuals and organizations who are exempted from income tax by federal and regional investment authority. However these Individuals and organizations are subject to provide evidence that authenticate privileges of such a kind,

5.1.7, raw materials and capital inputs like spare parts used by individuals and organizations licensed to engage in the activities of production are exempted from a three percent withholding tax provided that the inputs are not directly used for commercial purpose. However an industry owner, as read in the proclamation no.286/2002, shall pay a two percent withholding tax when the item produced using the foregoing inputs is made available for sale in the market.

5.1.8, capital goods imported into the country for the establishment or development of industry or power generation or transportation facilities. However, the importer is subject to provide evidence, from the Ethiopian Investment Authority or from concerned bodies, that authenticates the imported items are capital goods and are not to be directly used for commercial purpose,

5.1.9, gift items, advertising items, sample of goods,

5.1.10, individuals and organization engaged in the activities of mining and petroleum for they are governed pursuant to a special tax law.

6, exemplary way to calculate customs duty and other taxes on an automobile imported for personal use

Consider a typical example: an importer brought in an automobile with 1300 cc for personal use. How do you think the total customs duty and other taxes can be calculated? To determine customs duty and other taxes on the automobile the importer may use the following seven key steps. The first step is to identify the duty paying value of the automobile. The duty paying value of any import item is the actual total cost of the goods i.e. cost + insurance + freight. Cost stands for the transaction value and other related costs or payment made in exchange for the purchase of an item. Insurance represents the money or premium that is paid to

deliver the item to be imported up to a prescribed customs port. Freight is money paid for the commercial means of transport for delivering the imported item up to the first customs port.

Once the duty paying value of the imported item is calculated, the next step is to calculate customs duty payable on the automobile. Suppose the duty paying value of the imported item is 60,000 birr, the importer is liable to pay customs duty of 21 thousand birr. This figure is obtained by multiplying customs duty rate with the duty paying value of the imported item i.e. $60,000 \times 35\%$.

Having calculated customs duty next is the third step used to reflect how excise tax is calculated. In this step, the importer multiplies the sum of duty paying value and customs duty by excise tax rate $(60,000 + 21,000) \times 30\%$. This gives the importer 24,300 birr which is the payable excise tax.

The fourth step shows the way value added tax is calculated. In this step, the importer multiplies the sum of duty paying value, customs duty, excise tax by value added tax $(60,000 + 21,000 + 24,300) \times 15\%$ which is VAT rate. The result of this calculation is 15,795 birr which is VAT to be paid on the automobile.

The fifth step, to calculate surtax, involves multiplying the sum of duty paying value, customs duty, excise tax, VAT, by surtax rate $(60,000 + 21,000 + 24,300 + 15,795) \times 10\%$ which is surtax rate. Accordingly the payable surtax is 12,109.5 birr.

The sixth step is to calculate withholding tax. In this step, the importer multiplies the duty paying value by withholding tax rate i.e. $60,000 \times 3\%$. The result is 1800 birr which is the withholding tax to be paid.

The last step involves adding the payable customs duty, excise tax, value added tax, surtax, and withholding tax to arrive at the figure of the total payable customs duty and other taxes. Accordingly the calculation results in a sum of 75,000.5 birr i.e. $21,000 + 24300 + 15,795 + 12,109.5 + 1800$.

The formula for calculating customs duty and other taxes:

DPV = Cost + Insurance + Freight

DPV x CUDU = A

(DPV + A) x EXTA = B

(DPV + A + B) x VAT = C

(DPV + A + B + C) x SURTAX = D

DPV x WHT = E

Total payable = A + B + C + D + E

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Where DPV = Duty Paying Value

CUDU = Customs Duty Rate

EXTA = Excise Tax Rate

SURTAX = Surtax

WHT = Withholding Tax

Reference

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- Income tax proclamation No 286/2002
- Customs proclamation No. 622/2009*
- Proclamation No. 285/2002
- Training material on withholding tax issued in March 2010
- Customs tariff amendment no.1, 1996 edition
- Ethiopian Customs Tariff, Volume 1 and 2, 2007 Version

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