# Council of Ministers Value Added Tax Regulations No. 79/2002

## General

1. **Short Title**
   These Regulations may be cited as the "Council of Ministers Value Added Tax Regulations No. 79/2002.

2. **Definitions**
   In these Regulations, unless the context requires otherwise:
   1. "Authority", means the Federal Inland Revenue Authority ("FIRA");
   2. "Customs Authority" means the Ethiopian Customs Authority;
   3. "Minister" and "Ministry" shall mean the Minister of Revenue and the Ministry of Revenue, respectively.
   4. "Proclamation" means the Value Added Tax Proclamation No. 285/2002; and
   5. "Tax" or "VAT" means the Value Added Tax Imposed by the Value Added Tax Proclamation.

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## REGULATIONS ISSUED PURSUANT TO THE VALUE ADDED TAX PROCLAMATION

These Regulations are issued by the Council of Ministers pursuant to Article 5 of the Definition of Powers and Duties of the Executive Organs of the Federal Democratic Republic of Ethiopia Proclamation No. 4/95 (as amended) and Article 64 of the Value Added Tax Proclamation No. 285/2002.

### CHAPTER 1

#### General

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   5. "Tax" or "VAT" means the Value Added Tax Imposed by the Value Added Tax Proclamation.
3. Supply of Goods or Rendition of Services

1) For purposes of Article 4, Sub-Article (3) of the Proclamation treats the supply of goods or the rendition of services to employees as supplies in the course or furtherance of a taxable activity; and therefore taxable unless the transaction is exempt under Article 8 of the Proclamation.

2) A supply of goods or services to employees are treated as supplies for consideration and therefore may be taxed, even if the employee did not pay (or paid less than market value) for the goods or services.

3) If an employer:
   (a) provides an employee a cash advance,
   (b) pays a supplier on behalf of the employee; or
   (c) reimburses an employee for the cost of goods or services provided as a fringe benefit, the employer is not entitled to claim any portion of the cost as a tax credit because the goods or services provided to the employee are not used in connection with the employer’s taxable activity.

4) If an employer was denied a tax credit on the purchase of goods or services (such as a passenger vehicle), the supply of those items to an employee is not a supply in connection with a taxable activity and therefore is not subject to tax.

5) If a registered person supplies an exempt service (such as a medical service at a company-run clinic) to an employee, the service is not subject to tax and the employer is not entitled to tax credits under Article 21 of the Proclamation for tax on purchases allocable to the exempt services.

6) Where goods supplied under an installment sale or finance lease (collectively referred to as a credit agreement) are repossessed, the repossession is a supply of the goods by the debtor under the credit agreement to the person exercising the right of repossession, and where such debtor is a registered person, the supply is made in the course or furtherance of the debtor’s taxable activity unless such goods did not form part of the assets held or used by the debtor in connection with that taxable activity.

7) The sale of a lottery ticket by the National Lottery Administration is a supply of services.

8) Where a supply consists both of a supply that is charged with tax at a positive rate and a supply that is charged with tax at a zero rate, each part of the supply is treated as a separate supply, unless one part is incidental to a main supply within Article 5, Sub-Article (1) of the Proclamation.
9. The rendition of services by an employee to an employer by reason of employment is not a supply.
10. The provision of goods on consignment and the transfer of goods to a person in a representative capacity is not a supply.
11. The removal of goods from a bonded manufacturing warehouse or any supply of goods subject to an export trade duty incentive scheme under Proclamation No. 249/2001 is treated as a supply of those goods in the course or furtherance of a taxable activity in Ethiopia. If the goods are sold into the domestic market, the supply is taxable at the standard rate, and if the goods are sold for export within Article 7, sub-Article (2)(a) of the Proclamation, the supply is taxable at the zero rate.
12. A supply of goods or the rendition of services to a person as agent for a principal is treated as a supply to the principal.

4. Taxable Activity
1) For purposes of the definition of a taxable activity under Article 6 of the Proclamation, anything done in connection with the commencement or termination of a taxable activity is treated as carried out in the course or furtherance of that taxable activity.
2) Taxable activity does not include:
   (a) an activity carried on by a natural person essentially as a private recreational pursuit or hobby or an activity carried on by a person other than a natural person which would, if carried on by a natural person, be carried on essentially as a private recreational pursuit or hobby; or
   (b) an activity to the extent that the activity involves the making of exempt supplies.

5. Tax on Imports of Goods
1) Except where the Proclamation provides to the contrary, the provisions of the Customs Proclamation, relating to the import, transit, coastwise carriage, clearance of goods, and payment and recovery of duty, with such exceptions, modificatins, and adaptations as the Minister may by directive prescribe, shall apply, so far as relevant, to the tax charged under the Proclamation on the import of goods.
2) Where tax is payable on an import of goods, the importer shall, upon such entry, furnish the Customs Authority with an import declaration and pay the tax due on the import.
3) The import declaration shall:
   (a) be in the form prescribed by the Customs Authority,
   (b) state the information necessary to calculate the tax payable in respect of the import, and
   (c) be furnished in the manner specified by the Customs Authority.
The Customs Authority-

(a) shall collect at the time of import and on behalf of the Authority, any tax due under the Proclamation on an import of goods and, at the time, obtain the name and the taxpayer identification number, if any, of the importer, and the invoice values in respect of the import; and

(b) shall make arrangements with the Ethiopia Postal Services to perform functions on behalf of the Customs Authority in respect of tax on imports that arrive through the Postal Services.

5) Goods covered by an export trade duty incentive scheme under Proclamation No. 249/2001 are not subject to tax at the time of import, except that tax is payable upon import if the importer is covered by the duty draw-back scheme.

6) **Time of Supply**

1) Article 3, Sub-Article (6) of these Regulations, treats the repossessing of goods under a credit agreement as a supply of the goods. The supply occurs:

(a) on the day that the goods are repossessed, or

(b) when the debtor may, under any law, be reinstated in his rights and obligations under the credit agreement, on the day after the last day of any period during which the debtor may under such law be so reinstated.

2) Article 4, sub–Article (9) of the Proclamation treats, as a supply of goods, the transfer of a taxable activity (or a portion of a taxable activity) as going concern. The supply occurs when the transfer under that sub-Article (9) occurs.

3) Article 3, sub-Article (8) of the Regulations, treats the removal of goods subject to an export trade duty incentive scheme under Proclamation No. 249/2001 (including a sale into the domestic market) as a supply of those goods in the course or furtherance of a taxable activity in Ethiopia. The supply of those goods occurs when the goods are supplied in the domestic market, or when the goods are exported, if they are supplied for export.

7. **Value of a Supply**

1) The value of a supply may be reduced by any price discounts or rebates allowed and accounted for at the time of the supply of goods or the rendition of services. Post-supply price adjustments must be accounted for in accordance with Article 13 of the Proclamation.

2) Where a portion of the price of a supply represents tax imposed by the Proclamation that is not accounted for separately, the value of the supply is the price reduced by an amount equal to the product of the tax.
3) If a registered person converts a portion of, or an entire good or service from use in a taxable activity to a different use and the person was allowed a tax credit in respect of the acquisition of those goods or services, Article 4, Sub-Article (2) of the Proclamation treats the change in use as a supply of the goods or services in the course or furtherance of a taxable activity. The Minister of Revenue may issue directives on the value of a supply resulting from a change in use under this Sub-Article.

4) The value of a supply of goods under an installment sale or finance lease (a credit agreement) is the cash value of the supply. The “cash value”, in relation to supply of goods under a credit agreement, means:

   (a) where the seller or lessor is a bank or other financial institution, an amount equal to the sum of:
   
   (i) the consideration paid by the bank or other financial institution for the goods, or the market value of the goods, whichever is the greater, and
   
   (ii) any consideration for erection, construction, assembly, or installation of the goods borne by the bank or other financial institution; or

   (b) where the seller or lessor is a supplier, an amount equal to the sum of:

   (i) the consideration for which the goods are normally sold by the supplier for cash; and

   (ii) any consideration for erection, construction, assembly, or installation of the goods borne by the supplier.

5) Where the debtor is deemed to make a supply of goods under Article 3, Sub-Article (6) of the Regulations as a result of the repossessing of goods under a credit agreement, the value of the supply is an amount equal to the balance of the cash value of the supply that has not been recovered at the time of the supply.

6) The balance of the cash value of the supply under sub-Article (5) is the amount remaining after deducting from the cash value so much of the sum of the payments made by the debtor under the credit agreement as, on the basis of an apportionment in accordance with the rights and obligations of the parties to such agreement, may properly be regarded as having been made in respect of the cash value of the supply.

7) The value of goods subject to an export trade duty incentive scheme under Proclamation No. 249/2001:

   (a) that are removed for export, or

   (b) are supplied but not exported is the market value of the goods.

8) Article 4, Sub-Article (11) of the Proclamation provides that where the recipient of a zero-rated transfer of a going concern under Article 7, Sub-Article (2)(d) of the Proclamation, acquired some of the goods in that transfer for a purpose other than to make taxable transactions, the acquisition of those goods is treated as a supply of goods by the recipient in the course or furtherance of a taxable activity.

9) The value of the supply under Article 7, Sub-Article (8) of these Regulations shall be the consideration for the acquisition of the taxable activity, reduced by an amount which bears to the amount of such consideration the same ratio as the intended use or application of the taxable activity for making taxable transactions bears to the total intended use or application of the taxable activity.
8. **Obligatory or Voluntary Registration and Procedure**

1) The Authority may waive the requirement under Article 16 of the Proclamation to register where the Authority is satisfied that the value of a person’s taxable transactions exceeds or will exceed the amount specified under Article 16, Sub-Article (1) of the Proclamation solely as a consequence of-

(a) a cessation, or substantial and permanent reduction in the size or scale, of a taxable activity carried on by the person; or

(b) the supply of capital goods that are being replaced with other capital goods to be used in the taxable activity carried on by that person.

2) Article 18, Sub-Article (4) of the Proclamation provides for the date that registration becomes effective. While the registering person may select the date that the registration is to become effective, the Authority, in its sole discretion, may change that date to the beginning of an accounting period.

9. **Divisional Registration**

1) A registered person and its separately-registered division, and separately-registered divisions of a head office registered person, are “related persons” for purposes of the Proclamation.

2) Article 18, Sub-Article (4) of the Proclamation provides that a registered person may request the registration of some, but not all, divisions to be separately registered, and that such separate registration be treated as part of the entity’s registration.

3) A registered person may apply for divisional registration if a single registration requiring a single VAT return imposes an onerous compliance burden on the registered person. The Authority, in its sole discretion, shall decide if the applicant will experience real difficulties in submitting a single VAT return.

4) A registered person may request that some, but not all divisions be registered separately, and those not registered separately treated as part of the entity’s registration.

5) The Authority may withhold any refund under Article 27, Sub-Article (5)(a) of the Proclamation to a separately-registered division to the head office or between separately-registered divisions are treated as supplies between related persons for tax purposes, the supplier must issue tax invoices for those transactions in accordance with the Proclamation, and the recipient can claim tax credits on the purchases to the extent provided under Article 21 of the Proclamation.
7) Expenses allocated by the head office to a separately-registered division may be treated as taxable supplies by the head office.

8) Transactions between the head office and separately-registered divisions, or between separately-registered divisions may be closely scrutinized by the Authority to prevent the use divisional registration to obtain unintended tax benefits referred to in Article 60 of the Proclamation.

9) Separate divisional registration is discretionary with the Authority and, to be eligible, the head office applicant must satisfy all of the following conditions:

(a) The applicant must be a registered person for VAT purposes, but not a person who voluntarily registered under Article 17 of the Proclamation;

(b) The application must be in writing and include the applicant's taxpayer identification number and VAT certificate number;

(c) The applicant must conduct its operation as an incorporated company;

(d) The applicant will experience an onerous compliance burden if it must submit a single return for its entire business operations. The applicant must describe in detail the problems likely to be encountered if divisional registration is not approved, and the reasons why a consolidated VAT return for the entire business for each accounting period cannot be submitted by the due date for each tax period;

(e) The division for which separate registration is requested must maintain an independent accounting system. This requires the division to record its receipts and payments and produce financial statements separate from its head office and/or other divisions;

(f) The applicant must already be preparing divisional accounts before consolidating them;

(g) The division for which separate registration is requested must be separately identified by reference to the nature of its activities or its location;

(h) Each division must use the same accounting period and the same year-end date as the entity.

10) The Authority may impose additional conditions before approving an application for divisional registration, or may impose different conditions on a newly-registering entity.

11) The registered person must file a separate application for each division seeking separate registration on the form and containing the information required by the Authority, or a newly-registering person must submit an application for registration and an application for divisional registration at the same time.
12) Each separately-registered division will be issued a taxpayer identification number and VAT certificate number that identifies it as a division of the entity.

13) Each registered division must issue tax invoices listing its unique taxpayer identification number and VAT certificate number.

14) For purposes of the registration threshold under Article 16 of the Proclamation, the supplies of each separately-registered division are included as supplies of the entity.

15) The Authority may require the allocation of tax credits under Article 21, Sub-Article (22)(c) of the Proclamation to be made on an entity basis, rather than on a division-by-division basis.

16) The home office registered person may apply in writing for the cancellation of the separate registration of a division, or the Authority may initiate a cancellation of a divisional registration. The following rules shall apply:

(a) Unless the Authority approves a shorter period, the separate registration of a division must remain in effect for not less than two years;

(b) If an entity or a division ceases to satisfy any of the conditions imposed on divisional registration, the entity must notify the Authority in writing of the change within 30 days of the date any condition to be met;

(c) The Authority may cancel a divisional registration if the conditions are no longer satisfied or if the Authority believes that cancellation is necessary for the protection of the revenue;

(d) The Authority shall have sole discretion to determine if the divisional registration shall be allowed to continue;

(e) The cancellation of divisional registration shall be effective from the date specified by the Authority.

10. Cancellation of Registration

1) A registered person must apply for cancellation of registration within 30 days of the date the person ceases to make taxable transactions.

2) The application for cancellation under sub-Article (1) shall be in writing, shall state the date upon which the person ceased to make taxable transactions, and shall state whether or not that person intends to make taxable transactions within 12 months from that date.
11. Tax Credit Rules

1. No tax credit is allowable under Article 21 of the Proclamation unless:

(a) a tax invoice, or debit or tax credit note, in relation to the supply, has been provided in accordance with Articles 22, 23, or 13 of the Proclamation; or claiming the tax credit is holding that supporting document (unless an invoice is not required) at the time any return in respect of the supply is furnished; and

(b) a Customs Declaration as prescribed under the Customs Proclamation, or a document issued by the Customs Authority evidencing payment of tax in relation to an import is held by the registered person claiming the credit at the time any return in respect of the import is furnished.

2) The cost incurred to begin or terminate a taxable or exempt activity are taken into account in calculating the allowable tax credits under Article 21 of the Proclamation.

3) Article 21, Sub-Article (3)(a) of the Proclamation, denying a tax credit on the acquisition of a passenger vehicle, does not apply to a commercial truck or other vehicle designed and used primarily for the carriage of goods.

4) For purposes of Article 21, Sub-Article (3)(b) of the Proclamation, a tax credit is not allowed for VAT on the purchase by a registered person of restaurant meals for executives, employees, or customers, or for VAT on the rental of a lodge and the charge for food at a retreat for employees. The disallowance rule does not apply to purchases of "entertainment" by a registered person engaged in the business of selling "entertainment" (such as a restaurant) if the purchases are used directly in the provision of taxable entertainment.

5) The Authority shall approve an application for the cancellation of registration under (2) unless the Authority has reasonable grounds to believe that the person will make taxable transactions at any time within 12 months from the date of cessation.

6) While the cancellation of registration generally takes effect on the date of cessation, if the Authority is satisfied that the registered person did not make taxable transactions from the date the registration took effect, the Authority can cancel the registration retroactive to that effective date.

7) When registration is cancelled, to the extent provided under Article 4, Sub-Article (4) of the Proclamation, the registered person may be deemed to have sold the goods on hand in a taxable transaction.
8) Where a taxable transaction has been made by an agent on behalf of the agent's principal as specified under Article 24, Sub-Article (1) of the Proclamation, and the recipient of the taxable transaction is a registered person, the agent may issue a tax invoice in accordance with the Proclamation in relation to the transaction; and the principal shall not also issue a tax invoice in relation to the taxable transaction.

12. **Reverse Taxation**

1) The value of an import of services taxable under Article 23 of the Proclamation generally is the amount of the consideration that the recipient is obliged to pay for the services, except that if the supplier and the recipient are related persons, the value of the import is its market value.

2) Where a portion of the consideration charged for imported services taxable under Article 23 of the Proclamation represents tax that is not accounted for separately, the value of the import is the consideration under (1), reduced by an amount equal to the tax fraction multiplied by that consideration. The tax fraction is \( \frac{100}{100 + r} \), where "r" is the rate of tax applicable under Article 7, Sub-Article (1) of the Proclamation.

13. **Transactions by Agent**

1) Where a taxable transaction has been made by an agent on behalf of the agent’s principal as specified under Article 24, Sub-Article (1) of the Proclamation, and the recipient of the taxable transaction is a registered person, the agent may issue a tax invoice in accordance with the Proclamation in relation to the transaction; and the principal shall not also issue a tax invoice in relation to the taxable transaction.

2) Where a taxable transaction has been made by an agent on behalf of the agent’s principal and the principal is a registered person, at the request of the agent, a tax invoice in relation to the taxable transaction may be issued to the agent; and a tax invoice shall not also be issued to the principal in relation to the taxable transaction.

14. **Form and Manner of Filing Returns.**

A return required by Article 26 of the Proclamation shall be in the form prescribed by the Authority, and shall:-

(a) state the information necessary to calculate the tax payable for the accounting period in accordance with Article 20 of the Proclamation, and

(b) be furnished in the manner prescribed by the Authority.

15. **VAT Refund**

1) Article 27, Sub-Article (5)(b) of the Proclamation provides the Authority is not obliged to refund excess credits if the amount to be refunded is not more than 50 Birr. If the amount eligible for refund is 50 Birr or less, this amount can be carried forward and credited against tax due in the subsequent accounting period.
2) Where a registered person applying for a tax refund has failed to furnish a required return, the Authority may withhold payment of any amount refundable under Article 27 of the Proclamation until the registered person furnishes such return.

3) If the Authority does not pay the refund in a timely manner as provided under Article 27, Sub-Article (6), the Authority shall pay interest calculated from the date on which the refund was due until the date on which the payment of the refund is made.

16. Assessment of Tax

1) The Authority may issue an additional assessment in a variety of circumstances, including the case where:
   (a) a person fails to furnish a return as required by Article 26 of the Proclamation fails to furnish an import declaration as required by Article 5 of the Regulations;
   (b) the Authority is not satisfied with a return or ;import declaration furnished by a person;
   (c) the Authority has reason to believe that a person has become liable for the payment of an amount of tax but has not paid such amount;
   (d) a person, other than a registered person, supplies goods or services and represents that tax is charged on the supply;
   (e) a registered person supplies goods or services and the supply is not a taxable transaction or is a taxable transaction charged with tax at the rate of zero per cent and, in either case, the registered person represents that a positive rate of tax is charged on the transaction; or
   (f) the Authority has determined the liability of any person in terms of Article 60, Sub-Article (2) of the Proclamation.

2) The person assessed:
   (a) in the case of an assessment under Sub-Article (1)(d) or (e) of this Article, is the person making the supply; or
   (b) in the case of an assessment under Sub-Article (1)(f) of this Article, is the person whose liability has been determined under Article 60, Sub-Article (2) of the Proclamation; or
   (c) in any other case, is the person required to account for the tax under the Proclamation.

3) In making an additional assessment under Article 29 of the Proclamation, the Authority may estimate the tax payable by a person.

4) Where an additional assessment has been made under Article 29 of the Proclamation, the Authority shall serve a notice of the assessment on the person assessed, which notice shall include:
   (a) the tax payable; and
   (b) the date the tax is due.

5) The production of a notice of assessment under Sub-Article (4) of this Article or a certified copy of a notice of assessment is receivable in any proceedings as conclusive evidence that the assessment has been duly made.
1) In this Article:
(a) "qualifying goods" means an import or purchase of goods, including capital goods;
(b) "repealed legislation" means The Sales and Excise Tax Proclamation No. 68/93.

2) The Authority may authorize the delivery of goods seized under Article 31, of the Proclamation to the owner of the goods or the person who had custody or control of the goods immediately before seizure, where that person pays the tax or other amount due that gave rise to the seizure.

18. Transitional Rules

1) In this Article:
(a) "qualifying goods" means an import or purchase of goods, including capital goods;
(b) "repealed legislation" means The Sales and Excise Tax Proclamation No. 68/93; and
(c) "sales tax" means the sales tax imposed under The Sales and Excise Tax Proclamation No. 68/93.

2) The repealed legislation, including the rules governing the levy, payment, assessment, reporting, and recovery of those taxes, continues to apply to a supply or import that takes place prior to the date on which the Proclamation comes into force.

3) Every appointment made under the repealed legislation and subsisting at the date of commencement of the Proclamation shall be deemed to be an appointment made under the Proclamation;

4) Notwithstanding Article 21, Sub-Article (1), of the Proclamation in calculating the amount of tax payable by a registered person in respect of the first accounting period after the tax becomes effective, the registered person may claim as an amount creditable under Article 21, an amount equal to the sales tax calculated in accordance with Sub-Article (6) of this Article and creditable under Sub-Article (7) of this Article.

5) For purposes of Sub-Article (5) of this Article, where a registered person held, at the end of the last business day prior to the date the value added tax comes into force, qualifying goods being acquired not more than six (6) months before the tax comes into force; and
(ii) the Authority is satisfied that sales tax has been charged to the person on a sales invoice and paid on the acquisition or import of those goods, and the sales tax has not been rebated, the amount of the creditable sales tax shall be the amount of such taxes paid on such goods, but with respect to each item qualifying for the tax shall not exceed the amount of tax which would have been payable had the goods been subject to tax chargeable under the Proclamation.

6) If, in any tax period, a registered person has sales tax creditable under Sub-Article (5) of this Article, the amount creditable is deemed to be tax creditable under Article 21 of the Proclamation and is subject to the provisions of Article 27 of the Proclamation relating to the excess of credits over the amount of tax charged for the accounting period.

7) No credit shall be allowed under Sub-Article (5) of this Article for any sales tax paid in respect of the acquisition of any goods if the VAT imposed on a supply or import in acquisition of those goods after the effective date of the Proclamation would not be creditable under Article 21 of the Proclamation.

8) A person may claim a credit under Sub-Article (5) of this Article for sales tax paid on qualifying goods on hand on the date on which the Proclamation comes into force, only if the person is a registered person as of such date.

9) A person claiming a credit under Sub-Article (5) of this Article shall submit with the first VAT return after the tax comes into force an inventory of all qualifying goods on hand at the beginning of the first day on which the Proclamation comes into force, supported by documentary evidence of the payment of sales tax.

10) A disallowance of a credit for sales tax imposed before the date on which the Proclamation comes into force, shall not be treated as a disallowance for purposes of Article 4, Sub-Article (5) of the Proclamation.

11) Where a contract is concluded between two or more parties before the Proclamation comes into force, and no provision relating to tax is made in the contract, the supplier shall recover from the recipient, tax due on any taxable transaction made under the contract and made after the date on which the Proclamation comes into operation.

12) Where a contract concluded after the date on which the Proclamation comes into operation does not include a provision relating to tax, the contract price shall be deemed to include tax and the supplier under the contract shall account for the tax due.

13) Subject to Sub-Article (16) of this Article, if in connection with a supply of goods or services, (a) title to goods passes, delivery of goods is made or services are rendered after the date on which the Proclamation comes into force; and payment is received or an invoice issued within nine months before that date, for the purposes of determining the accounting period in which the supply occurs or a tax credit is allowable, the payment is treated as having been made or the invoice is treated as having been issued on the date on which the Proclamation came into force.

14) If services subject to sales tax were rendered before the date on which the Proclamation came into force and payment is made within four months after the Proclamation came into force, VAT is not imposed on the supply of the services.
15) If goods are leased under an agreement that provides for periodic payments or if services subject to sales tax were rendered during a period that began before and ended after the Proclamation came into force, VAT is imposed on the consideration for the services rendered after the Proclamation came into force, except that to the extent the consideration for the services rendered before the Proclamation came into force is paid more than four months after the Proclamation came into force, the consideration is treated as consideration for the rendition of services on the day after the end of that four month period.

16) Notwithstanding Sub-Article (13) of this Article, if construction, manufacture or extension of building or civil engineering work is performed under a written agreement executed before the Proclamation came into force and the property is made available to the recipient after that date, VAT is imposed only on the value of work performed after that date if the value of the work on the day before the Proclamation came into force is determined in a manner approved by the Authority and is submitted to the Authority by the end of the supplier’s first VAT period after VAT comes into force.

17) If immovable property is provided under a rental agreement, for a period that commences before and ends after the date the Proclamation comes into force, the consideration for the rental shall not include the amount attributable to the period that ends before the effective date of the Proclamation.

CHAPTER 2
Exemptions

19. Dwellings

1) A “dwelling,” defined in Article 8, Sub-Article (1)(b) of the Proclamation, includes that area surrounding or appurtenant to the dwelling that is necessary for its enjoyment, but not farm land adjacent to a dwelling. The land surrounding a dwelling complex, including the driveway, paths, gardens and landscaped grounds for the use and enjoyment of residents is part of the dwelling.

2) A registered person who purchases a new or used property for lease as a dwelling is denied tax credits for tax on any costs attributable to the exempt lease of the dwelling.

3) If an employer provides a dwelling to an employee as a fringe benefit, the exemption for the supply under Article 8, Sub-Article (2)(a) of the Proclamation takes priority over Article 4, Sub-Article (3) of the Proclamation treating fringe benefits provided to employees as supplies by the employer in the course or furtherance of a taxable activity. The employer under Article 21 of the Proclamation is denied tax credits for tax on costs attributable to the exempt fringe benefit.

4) A sale of a parking space that is part of the dwelling to the purchaser of a dwelling, or the lease of a parking space as part of a lease of a dwelling is exempt from tax.
20. Financial Services

1) Financial services as defined in these regulations are exempt from tax under Article 8, Sub-Article (2)(b) of the Proclamation, whether provided for explicit or implicit fees.

2) The financial services exempt from tax include the following:

(a) granting, negotiating, or dealing with loans, credit, credit guarantees, or any security for money, including management of loans, credit, or credit guarantees by the grantor; or

(b) transactions concerning money (including the exchange of currency), deposit, savings, and current accounts, payments, transfers, debts, cheques, or negotiable instruments, other than debt collection and factoring; or

(c) provision of credit under a hire purchase agreement or sale of goods, but only if the credit is provided for a separate charge, and the separate charge is disclosed to the recipient of the goods; or

(d) to the extent provided in this regulation, provision, or transfer of ownership, of an insurance policy, or the provision of reinsurance in respect of any such policy; or

(e) provision, or transfer of ownership, of an interest, of an interest in a scheme whereby provision is made for the payment or granting of by a benefit fund, provident fund, pension fund, retirement annuity fund, or preservation fund; or

(f) the arranging of any of the services in (a) to (d); or

(g) provision of intermediation services by a buy-aid society or medical-aid fund;

3) For purposes of these regulations, the following definitions apply:

(a) “cheque” includes a postal order, a money order, a traveller’s cheque, or any order or authorization (whether in writing, by electronic means, or otherwise) to a financial institution to credit or debit any account;

(b) “currency” means any bank note or other currency of any country, other than when used as a collector’s piece, investment article, item of numismatic interest, or otherwise than as a medium of exchange;

(c) “insurance policy” means insurance covered under a policy treated as general insurance business or as long term insurance business under Proclamation No.86/1994: Licencing and Supervision of Ins,urance Business (the “Insurance Proclamation”);

(d) “merchant’s discount” means a charge made to merchants for accepting a credit or debit card as payment for the supply of goods or services, or a similar charge made by a buying organisation.
4) In addition to the definition of financial services under these regulations, the Minister may issue a directive listing financial services and specifying their treatment as taxable, exempt, or zero-rated supplies. The Minister may modify any such list, including changes required by the introduction of new financial services or modification of the nature of the services specified in the list, with any such modification or cancellation having prospective effect only.

5) Financial services that are listed as exempt under these regulations are exempt, whether rendered by a registered bank or financial institution or by any other person.

6) Some services are not exempt under Article 8, Sub-Article (2)(b) of the Proclamation, whether or not they are rendered in connection with an exempt financial service. They include, but are not limited to the following:
   (a) Legal, accounting and record package services, actuarial, notary, and tax agency services (including advisory services) when rendered to a supplier of financial services or to a customer of that supplier of financial services;
   (b) Safe custody for cash, documents or other items;
   (c) Data processing and payroll services;
   (d) Debt collection or factoring services;
   (e) Management services, such as management of a superannuating fund;
   (f) Trustee, financial advisory, and estate planning services, and
   (g) Leases, licenses, and similar arrangements relating to property other than a financial instrument.

7) For purposes of Article 20, Sub-Article (6) of these Regulations, accounting and record package services include a financial clearing system that may be part of the settlement process, the posting of financial transactions to customers' accounts the maintenance of customers' accounts, and the rendering of services ancillary to the services just described.

8) The mere acquisition of a debt is not a taxable transaction, including debt acquired by a factor. The services related to debt recovery, litigation, and the management of the recovery of the amount due from debtors are taxable, including sales accounting services under a factoring arrangement and other services related to factoring.
9) Zero-rated exports of financial services include:
(a) financial services rendered in connection with an export of goods;
(b) financial intermediation services rendered in connection with a loan to an unregistered, non-resident person to finance the export of goods; and
(c) fees imposed by an Ethiopian bank on banking services rendered to a non-resident who is outside Ethiopia when the banking services are rendered, if they do not come within the exceptions in Article 35 of these Regulations.

10) If an exempt or zero-rated financial service is incidental to a main supply, or if such a financial service is the main service, the rules in Article 5 of the Proclamation on mixed supplies apply.

11) Financial institutions and others providers of financial services that make both taxable (including zero-rated exports) and exempt supplies may claim tax credits under Article 21, Sub-Article (2) of the Proclamation only on purchases (including rentals) and imports used in making taxable transactions.

12) The provisions under Article 21, Sub-Article (2) of the Proclamation on the allocation of tax credits between exempt and taxable transactions do not apply (and full tax credits are allowed) to a registered person who derives more than 90 percent of the person’s total supplies in an accounting period from taxable transactions (Article 21, Sub-Article (3) of the Proclamation). For this purpose, when calculating the value of the taxable and total supplies, the supplier should use gross figures for supplies other than intermediation services and use net interest amounts (interest income less interest expense) for financial intermediation services.

13) The Value Added Tax Directive to be issued by the Minister of Revenue may give the Authority discretion to determine the allocation of tax credits between taxable and exempt supplies on a bases that the Authority considers reasonable.

14) Regardless of method used to allocate tax credits under Article 21 of the Proclamation, the registered person must retain records to substantiate the method used. The Authority may require financial service providers to submit statistical data on various product lines.

15) The exemption for financial services extends to the premiums for insurance cover under an insurance policy.

16) Premiums attributable to riders attached to an insurance policy that is exempt from tax constitute exempt services if the riders are only incidental to the provision of the insurance cover.
17) Services covered in riders to exempt insurance policies that are not incidental to the insurance coverage are taxable to the extent that the independent supply of those services would be taxable.

18) The Authority shall have the sole discretion to determine whether a non-insurance rider is incidental to the main insurance policy.

19) The premium on an insurance policy is exempt only if the premium is charged on a policy issued by a person who is licenced to issue such policies under the Insurance Proclamation.

20) Commissions and other fees earned by brokers/agents who provide insurance coverage for their customers do not come within the exemption for insurance as a financial service.

21) An insurance policy does not include insurance cover on a warranty in respect of the quality, or performance of tangible property.

21. Supply or import of securities

1) The exemption for securities under Article 8, Sub-Article (2)c of the Proclamation covers:
   (a) transactions relating to the issuance, transfer, or receipt of, or any dealing with shares, stocks, bonds, treasury bills, or other debt or equity securities, other than custody services;
   (b) transactions relating to financial derivatives, forward contracts, options, or similar arrangements, and
   (c) transactions relating to the creation, issue, transfer, assignment or receipt of, or dealing with, an option or warrant relating to securities included in (a).

2) The underwriting of the issuance of securities generally is exempt from tax. However, the exemption for underwriting services does not extend to other services obtained in connection with an underwriting, such as advertising and printing costs, accounting, legal, and advisers’ fees.

3) The exemption for securities or for financial services does not include management or administrative services provided to a business whose principal activity is investing funds for shareholders, members, or other persons.

4) For purposes of this Article,
   (a) “currency” means any banknote or other currency of any country, other than when used as a collector’s piece, investment article, or otherwise than as a medium of exchange;
A) “provisions” means any provisions or conditions that are, or are to be, imposed or applied in respect of any supply of goods or services.

B) “purchaser” means any person who receives goods or services from another person.

C) “provisions” means any provisions or conditions that are, or are to be, imposed or applied in respect of any supply of goods or services.

D) “purchaser” means any person who receives goods or services from another person.

22. Import of gold for National Bank of Ethiopia

The exemption for the import of gold to be transferred to the National Bank of Ethiopia under Article 8, Sub-Article (2)(d) of the Proclamation applies to imports by or for the National Bank, regardless of the level of purity of the gold or the form in which it is imported.

23. Religious or Church-related Services

1) The supply of religious or church-related services by a religious organization is exempt under Article 8, Sub-Article (2)(e) of the Proclamation. Generally, services rendered by a religious organization that are integral to the practice of that religion come within the exemption.

2) The activities of a religious organization that compete with the private sector or that are not integral to the practice of the religion do not come within the exemption. If the value of these taxable supplies exceed the threshold under Article 16 of the Proclamation, the religious organization must register separately.

3) Article 8, Sub-Article (2)(p) of the proclamation exempts books and other printed material. This exemption for books applies to supplies of books or other printed material by a religious organization.

4) The donation in kind or money (such as church plate donations) or services are not subject to tax if there is no direct link between the payment and any benefit received by the donor.

5) A receipt by a religious organization from a business is not a supply for consideration if the receipt merely entitles the transferor to be mentioned in a brochure or program, but if a religious organization receives payment when it sells space in a brochure or program, the receipt is a supply for consideration that does not come within the exemption for religious or church-related services.

6) A religious organization that operates taxable activities through a development commission or similar entity or through a division or branch may apply for or be required to separately-register one or more of the commissions, divisions, or branches as provided under the Value Added Tax Minister of Revenue Directive.

(b) “debt security” means any interest in or right to be paid money that is, or is to be, owing by any person, but does not include a cheque or an interest or right that is a lease, licence or other similar arrangement in respect of immovable property; and

c) “equity security” means any interest in or right to a share in the capital of a juridical person or the interest in a close corporation of a member thereof.
24. Medical Services and Prescription Drugs

1. Article 8, Sub-Article (2)(f) of the Proclamation exempts the rendering of medical services, and the import and supply of prescription drugs specified in the directives issued by the Minister of Health. Medical services are exempt, whether provided with or without charge and whether paid by the patient or resident or any third party, if the medical services meet two conditions:

(a) they are rendered in a qualified medical facility or by a qualified medical practitioner, or both, and

(b) they qualify as exempt medical services in this Article of the Regulations.

2. To be exempt, medical services must be rendered at a qualified medical facility. For purposes of this Article, a qualified medical facility includes the offices of a qualified medical practitioner, a hospital, maternity home, or clinic.

3. A qualified medical service is exempt if it is provided by a qualified medical practitioner. A qualified medical practitioner includes a doctor, healer, dresser, health officer, physical therapist, and other health care provider who is required to register and registered with the Ministry of Health.

4. To qualify for the exemption, medical services must consist of qualified services (including meals and accommodations) in a qualified medical facility, and must involve the rendering of medical services by a qualified medical practitioner. Medical services involve the diagnosis, treatment, prevention, or amelioration of a disease, including the promotion of mental health.

5. For purposes of Sub-Article (1) of this Article, services that qualify as exempt medical services include the services provided to a resident or patient by a qualified medical practitioner, in a qualified facility, as well as meals and accommodations, nursing and personal care, and assistance with daily living activities to meet the needs of the resident or patient.

6. For purposes of Sub-Article (1) of this Article, exempt medical services include the following:

(a) medicines and drugs that are issued in a hospital or clinic for which there is no separate charge;

(b) laboratory, X-ray, or other diagnostic service;

(c) medical devices as defined in Sub-Article (7) of this Article that are provided as part of the supply of qualified medical services;
(d) the use of operating rooms, case rooms, or anesthetic facilities, including necessary equipment or supplies;
(e) the use of radiotherapy, physiotherapy, or occupational therapy facilities in rendering exempt medical services;
(f) accommodation and meals (except in a restaurant or cafeteria available to persons other than patients or residents) provided to patients or residents in the course of receiving exempt medical service;
(g) services rendered by the medical facility staff (including orderlies or technicians) in connection with exempt medical services;
(h) dental, periodontal, and endodontal services rendered in connection with a disease, trauma, or congenital deformity, but not for general dentistry or for cosmetic reasons; and
(i) psychoanalytic services.

7) For purposes of Sub-Article (6)(c) of this Article, medical devices means devices that are supplied to a resident or patient in a qualified medical facility, supplied to a qualified medical facility, or supplied on prescription in connection with the rendition of qualified medical services, including:
(a) a respiratory or heart monitor, dialysis machine, or feeding utensil for use by an individual with a disability;
(b) a medical or surgical prosthesis or orthopedic aid provided as part of the rendition of qualified medical services; and
(c) medical or surgical equipment supplied to a qualified medical facility, or the sale or rental of such equipment to a patient or resident.

25. Education Services
1) Article 8, Sub-Article (2)(g) of the Proclamation exempts education services rendered by educational institutions, and child care services at pre-school institutions. Qualified charges for education services are exempt if the services meet two conditions:
(a) they are specified in these regulations; and
(b) they are provided to students by a qualified educational institution.
2) To qualify for the exemption, the services must be provided to students by an accredited:
(a) pre-primary, primary, or secondary school;
(b) technical college or university; or
(c) institution established to promote adult education, vocational training, technical education, or education or training of physically or mentally handicapped persons.
3) An educational institution in (2) is qualified, whether it is a private school operating on a for-profit basis, or a non-profit organization, church, or charity, or a department of government.

4) An educational institution in sub-Article (2) is a qualified institution only if the institution is accredited or is being evaluated for accreditation by the accrediting agency at the time the services are rendered.

5) The following categories of services qualify as exempt education services:
   (a) course of instruction provided to students at a qualified education institution;
   (b) qualified meal plans, and other associated goods or services provided in kind as part of the education program of a qualified provider of education services;
   (c) instruction in, or the administration of examinations, if provided by the educational institution; and
   (d) instruction or tutoring related to a qualified course.

6) School bus transportation to and from pre-primary, primary, or secondary schools is an exempt education service if it is provided by the school authority, not if provided by a private company under contract with the school authority.

7) Qualified charges for exempt education services include:
   (a) charges for tuition, facilities, and curriculum-related activities and instruction;
   (b) compulsory levies for facilities are part of a supply of exempt education services;
   (c) student council fees, athletic fees, and other mandatory fees related to course registration;
   (d) charges for reports, library services, identity cards, record keeping and other administrative services provided by the educational institution and directly related to the supply of education courses;
   (e) charges for course materials, the rental of curriculum-related goods by the supplier of the education (e.g., the rental of musical instruments), field trips directly related to the curriculum if not predominantly recreational; and
   (f) student accommodations (including hostels) supplied by the supplier of the education.

8) Qualified facility charges include charges for buildings, grounds, libraries, and computer, science and other laboratories.
9) The exemption for education services does not cover the following education courses:
(a) course in sports, games, video recording or photography or other hobbies or recreational pursuits, unless they are part of a degree-or diploma-granting program;
(b) course, such as picture framing, cooking, and personal investment, that are designed to improve knowledge for personal purposes; and
(c) music lessons that are not part of a school curriculum.

10) Religious workers receiving education are treated as students for purposes of this Article of the Regulations.

11) In addition to services exempt under (4), exempt education services rendered by a pre-primary, primary, or secondary school include:
(a) basic instruction, including special education courses;
(b) fees or charges for a pre-school or after-school program operated by the school;
(c) charges for the use of school musical instruments or sports equipment;
(d) services rendered by students or their teachers as part of the instructional program; and
(e) charges for students to attend a school play, dance, field trip, or other school-sanctioned activity primary for the students.

12) Exempt education services rendered by a university of technical college include courses, including correspondence courses, that qualify for credit toward a degree or diploma, whether or not the student is pursuing a degree or diploma program.

13) The education exemption for adult education, vocational training, technical education, and education or training of physically or mentally handicapped persons includes charges for:
(a) adult education courses leading to a degree or diploma or courses that are likely to enhance employment-related skills of the students enrolled in the courses;
(b) courses of study at a vocational school that develop or enhance a student’s occupational skills;
(c) courses leading to, or to maintain or upgrade, a professional or trade accreditation or designation recognized by the appropriate government accrediting agency; and
(d) a certificate or examination in a course or program for accreditation or designation.

14) Courses enhance employment-related skills if the course objectives specify those skills that students will acquire, and there is a reasonable expectation that the skills taught will be used by the students in their employment, businesses, professions, or trades, rather than for recreational, hobby, artistic, or cultural purposes.
The exemption for education services does not include:
(a) The rental of facilities by an educational institution to an outside group;
(b) The sale of admission to school athletic events open to the general public;
(c) Commissions and other fees received from the placement of coin-operated machines on the institution’s property; and
(d) The sale of non-course material, such as items containing the school logo.


1) The exemption for supplies of humanitarian aid under Article 8, Sub-Article (2)(h) of the Proclamation applies to goods imported or purchased locally by organizations registered as humanitarian organizations, for such purposes.

2) The exemption under Article 8, Sub-Article (2)(h) of the Proclamation covers the import of goods or purchase of goods locally in connection with an announcement or declaration of a natural disaster, industrial accident, or catastrophe by the Disaster Prevention and Rehabilitation Commission.

27. Water

A supply of water is exempt from tax under Article 8, Sub-Article (2)(i) of the Proclamation, unless it is processed in a factory.

28. Imports Exempt by Law or Agreement

1) Article 8, Sub-Article (2)(j) of the Proclamation exempts imports of goods by the government, organizations, institutions or projects only to the extent that they are exempt from duties and other import taxes by law or by agreement.

2) An exemption by law covers an exemption for certain imports granted by a Proclamation or, when specifically delegated by a Proclamation, granted by a Regulation or Directive.

3) An exemption by agreement covers tax exemptions for certain imports of goods only if the agreement is entered into by the government or the agreement is entered into with permission granted by the government.

4) The exemption by agreement includes an exemption provided under:
(a) A technical assistance or humanitarian assistance agreement entered into between the Government of any country;
(b) The Diplomatic Immunities and Privileges Registrations,
(c) An international convention having the force of law in Ethiopia;
(d) Any other multilateral agreement to which Ethiopia is a party;
29. **Transport**

1) The exemption for transport services under Article 8, Sub-Article (2)(1) of the Proclamation is a broad exemption covering the charges imposed for the transport of passengers or freight by any mode of transport.

2) If a transaction involving the international transport of goods or passengers qualifies for exemption under Article 8, Sub-Article (2) (I) of the Proclamation, Article 8, Sub-Article (4) treats the transaction as zero-rated.

30. **Permits and Licenses**

1) The exemption for permits and license fees under Article 8, Sub-Article (2)(m) of the Proclamation is limited to fees charged for permits and licenses issued by a government agency.

2) The exemption in (1) does not apply to licenses of intangibles and other licenses or permits, such as the right to use property, granted by private parties.

31. **Imports Exempt under Schedule 2 “B” of Customs Tariffs Regulations.**

The exemption granted under Article 8, Sub-Article (2)(n) of the Proclamation for imports of goods exempt under Schedule 2 of the Customs Tariffs Regulations is limited to the exemptions granted under part (B) of Schedule 2 of Customs Tariffs Regulations and under Directives issued pursuant to those Regulations.

32. **Workshops for Disabled**

1) The exemption under Article 8, Sub-Article (2)(o) of the Proclamation, applies to goods sold and services rendered by workshops employing physically or mentally disabled individuals.

2) To qualify for the exemption under Sub-Article above more than 60 per cent of the workshop’s employees must be disabled. The 60 per cent threshold is measured by the number of disabled and total employees in the previous 12 months, except that if the workshop has been in existence for less than 12 months, then the threshold is measured for the number of months the workshop has been in existence.

33. **Books and other Printed Materials**

1) The exemption under Article 8, Sub-Article (2)(p) of the Proclamation applies to a printed book or an update of a book. The exemption applies to a bound or unbound printed version of scripture of any religion.

2) The exemption for books generally does not apply to an audio recording that is a spoken reading of a printed book, except that the exemption under Article 8, Sub-Article (2)(p) of the Proclamation applies to import and supplies of talking books (in cassettes or other forms of recording) specifically designed for the blind or severely handicapped.
CHAPTER 3
Supplies Subject to Zero Tax Rate

34. Substantiation of Zero Rating

Where a registered person has applied the rate of zero percent to a supply under these regulations, the registered person shall obtain and retain such documentary proof acceptable to the Authority substantiating the person’s entitlement to apply the zero rate to the supply.

35. Export of Goods or Services

1) In this Article—

(a) ‘‘export country’’ means any country other than Ethiopia and includes any place which is not situated in Ethiopia, but does not include any specific country or territory that the Minister of Finance and Economic Development may by Directive designate as one that is not an export country;

(b) ‘‘exported from Ethiopia’’ in relation to any movable goods supplied by any registered person under a sale or credit agreement, means- consigned or delivered by the registered person to the recipient at an address in an export country as evidenced by documentary proof acceptable to the Authority; or

2) The following supplies are zero-rated exports within Article 7, Sub-Article (2)(a) of the Proclamation:

(a) a supply of goods where the supplier has entered the goods for export, pursuant to the Customs Proclamation, and the goods have been exported from Ethiopia by the supplier;

(b) a supply of goods where the Authority is satisfied that the goods have been exported from Ethiopia by the supplier;

(c) a supply of goods where the goods are not situated in Ethiopia at the time of supply and are not to be entered into Ethiopia for home consumption pursuant to the Customs Proclamation by the supplier of the goods;

(d) a supply of services directly in respect of

(i) movable property situated outside Ethiopia at the time the services are rendered;

(ii) goods temporarily imported into Ethiopia under Chapter 5 of the Customs Proclamation; or

(iii) a supply of goods referred to in (a) or (b) of the definition of ‘‘exported from Ethiopia’’;

(e) a supply of goods in the course of repairing, renovating, modifying, or treating any goods to which Sub-Article (2)(d)(ii) of this Article applies and the goods supplied

(i) are worked into, affixed to, or otherwise form part of those other goods; or

(ii) being consumable goods, become unusable or worthless as a direct result of being used in that repair, renovation, modification, or treatment process;
(f) a supply of services directly in connection with land, or any improvement thereto, situated outside Ethiopia;

(g) a supply of services to a non-resident person who is not a registered person comprising the arranging for the person of a supply of goods referred to in (a) and (b) of the definition of “exported from Ethiopia”;

(h) a supply of services physically rendered elsewhere than in Ethiopia;

(i) a supply of services to a non-resident person who is outside Ethiopia at the time the services are supplied, other than a supply of services;

(j) directly in connection with movable property situated in Ethiopia;

(k) directly in connection with movable property situated in Ethiopia at the time the services are supplied unless the movable property is exported from Ethiopia subsequent to the supply of services;

(l) comprising the refraining from undertaking any taxable activity in Ethiopia; or

(m) comprising the tolerating of another person undertaking any taxable activity in Ethiopia;

3) To obtain zero rating for the export of goods and related services under this Article, the exporter, at the port of exit, must identify the goods and present documentary proof required by the Authority.

4) Zero-rating for exports under Article 7, Sub-Article (2) (a) of the Proclamation does not apply to any export of goods which have been or will be re-imported to Ethiopia by the supplier for export.

5) A supply of tangible personal property (including natural resources, but not including spirits, beer or tobacco) made by a registered person to a registered recipient who will export the goods in zero-rated, if all of the following conditions are met:

(a) the recipient exports the property as soon after the goods are delivered to the recipient as is reasonable having regard to the facts of each situation, including the type of goods involved and, where applicable, the normal business practice of the recipient;
(b) the recipient has not acquired the goods for consumption, use or supply in Ethiopia before exportation;

(c) the goods must not be further processed, transformed or altered in Ethiopia, except to the extent reasonably necessary or incidental to its transportation, after delivery and before its exportation; and

(d) the supplier must maintain evidence satisfactory to the Authority of exportation of the goods by the recipient.

6) For purposes of Sub-Article (5),—

(a) the recipient must intend to export the goods and must in fact export the goods;

(b) a supply to a recipient who intends to sell to a registered person who will export the goods is not treated as a supply to a recipient who will export the goods;

(c) processing, transformation, or alteration includes preparation, handling or other activity that causes a physical or chemical change in the property, other than natural growth, but generally does not include services such as inventory-taking, refrigeration, warehousing, export packing or repacking, export labeling, export crating, loading or unloading; and

(d) evidence of exportation can be satisfied with documents satisfactory to the Authority, such as an export certificate from the recipient of the goods in a form acceptable to the Authority.

36. International Transport of Goods or Passengers

1) In this Article—

(a) "ancillary transport services" means stevedoring services, lashing and securing services, cargo inspection services, preparation of customs documentation, container handling services, and storage of transported goods or goods to be transported;

(b) "foreign-going aircraft" means any aircraft engaged in the transportation for reward of passengers or goods wholly or mainly on flights between airports in Ethiopia and airports in export countries or between airports in export countries;

(c) "international transport services" means:

1. the services, other than ancillary transport services, of transporting passengers or goods by land, water, or air.

   (i) from a place outside Ethiopia to another place outside Ethiopia where the transport or part of the transport is across the territory of Ethiopia;

   (ii) from a place outside Ethiopia to a place in Ethiopia; or

   (iii) from a place in Ethiopia to a place outside Ethiopia;
2. The following supplies are zero-rated supplies within Article 7, sub-Article (2)(b) of the Proclamation

(a) a supply of goods delivered to the owner or
(b) a supply of goods under a rental agreement, or
(c) a supply of goods under a charter agreement for chartering, where the goods are used exclusively in an export country;
(d) a supply of goods comprising the repair, maintenance, cleaning or reconditioning of a foreign-going aircraft; or
(e) a supply of services comprising the repair, maintenance, cleaning or reconditioning of a foreign-going aircraft when the aircraft is flying to a destination in an export country and the goods are to be used international transport services;
(f) a supply of services to a non-resident person who is not a registered person comprising the arranging for the person of-
(i) a supply of services to which sub-Article (2)(d) or (e) of this Article applies; or
(ii) a transport of goods, including any ancillary transport services, of transporting goods from a place in Ethiopia to another place in Ethiopia;
(g) a supply of services to a non-resident person who is not a registered person comprising the arranging for the person of-
(i) a supply of services to which sub-Article (2)(d) or (e) of this Article applies; or
(ii) a transport of goods, including any ancillary transport services, of transporting goods from a place in Ethiopia to another place in Ethiopia;

3. The services, including any ancillary transport services, of transporting goods from a place in Ethiopia to another place in Ethiopia to the extent that those services are supplied by the same supplier as part of the supply of services to which (a) of this definition applies; or

4. The services of insuring or the arranging of the insurance or the arranging of the transport of passengers of goods to which (a) to (c) of this definition applies;

2. The following supplies are zero-rated supplies within Article 7, sub-Article (2)(b) of the Proclamation

(a) a supply of goods delivered to the owner or
(b) a supply of goods under a rental agreement, or
(c) a supply of goods under a charter agreement for chartering, where the goods are used exclusively in an export country;
(d) a supply of goods comprising the repair, maintenance, cleaning or reconditioning of a foreign-going aircraft; or
(e) a supply of services comprising the repair, maintenance, cleaning or reconditioning of a foreign-going aircraft when the aircraft is flying to a destination in an export country and the goods are to be used international transport services;
(f) a supply of services to a non-resident person who is not a registered person comprising the arranging for the person of-
(i) a supply of services to which sub-Article (2)(d) or (e) of this Article applies; or
(ii) a transport of goods, including any ancillary transport services, of transporting goods from a place in Ethiopia to another place in Ethiopia;
(g) a supply of services to a non-resident person who is not a registered person comprising the arranging for the person of-
(i) a supply of services to which sub-Article (2)(d) or (e) of this Article applies; or
(ii) a transport of goods, including any ancillary transport services, of transporting goods from a place in Ethiopia to another place in Ethiopia;

3. The services, including any ancillary transport services, of transporting goods from a place in Ethiopia to another place in Ethiopia to the extent that those services are supplied by the same supplier as part of the supply of services to which (a) of this definition applies; or

4. The services of insuring or the arranging of the insurance or the arranging of the transport of passengers of goods to which (a) to (c) of this definition applies;

2. The following supplies are zero-rated supplies within Article 7, sub-Article (2)(b) of the Proclamation

(a) a supply of goods delivered to the owner or
(b) a supply of goods under a rental agreement, or
(c) a supply of goods under a charter agreement for chartering, where the goods are used exclusively in an export country;
(d) a supply of goods comprising the repair, maintenance, cleaning or reconditioning of a foreign-going aircraft; or
(e) a supply of services comprising the repair, maintenance, cleaning or reconditioning of a foreign-going aircraft when the aircraft is flying to a destination in an export country and the goods are to be used international transport services;
(f) a supply of services to a non-resident person who is not a registered person comprising the arranging for the person of-
(i) a supply of services to which sub-Article (2)(d) or (e) of this Article applies; or
(ii) a transport of goods, including any ancillary transport services, of transporting goods from a place in Ethiopia to another place in Ethiopia;
(g) a supply of services to a non-resident person who is not a registered person comprising the arranging for the person of-
(i) a supply of services to which sub-Article (2)(d) or (e) of this Article applies; or
(ii) a transport of goods, including any ancillary transport services, of transporting goods from a place in Ethiopia to another place in Ethiopia;

3. The services, including any ancillary transport services, of transporting goods from a place in Ethiopia to another place in Ethiopia to the extent that those services are supplied by the same supplier as part of the supply of services to which (a) of this definition applies; or

4. The services of insuring or the arranging of the insurance or the arranging of the transport of passengers of goods to which (a) to (c) of this definition applies;

37. Supply of Gold to the National Bank of Ethiopia

A supply of gold to the National Bank of Ethiopia is zero-rated under Article 7, Sub-Article (2)(c) of the Proclamation, and the import of gold to be transferred to the National Bank exempt under Article 8, Sub-Article (2)(d) of the Proclamation.
38. **Transfer of a Going Concern**

1) The transfer of all or portion of a taxable activity as a going concern is a supply in the course or furtherance of the taxable activity under Article 4, Sub-Article (9) of the Proclamation. If the transfer meets the requirements of Article 4, Sub-Article (10) and Article 7, Sub-Article (2)(d) of the Proclamation, the transfer can be zero-rated. In appropriate cases described in Article 4, Sub-Article (11), a portion or the entire transfer that is zero-rated to the supplier may be treated as a taxable transaction to the person acquiring the going concern.

2) To obtain zero-rating, the parties must comply with the following requirements:

   (a) The transfer must be of a going concern between registered persons;

   (b) A notice of the transfer must be submitted in writing and signed by the transferor and transferee;

   (c) The notice must be furnished to the Authority within 21 days after the transfer takes place; and

   (d) The notice must include the essential details of the supply.

3) A going concern is an income-producing activity capable of separate operation that is in fact operational and capable of being carried on without interruption after the transfer, but not a dormant or prospective business.

4) A transfer can be of a going concern even if the transferred business is not profitable, or is being transferred to a liquidator, receiver, trustee in bankruptcy, or other persons appointed upon the insolvency of registered person.

5) The transfer is zero-rated only if it takes place on or after the effective date of the VAT.

6) A transfer of a going concern comes within the zero rating of Article 7, Sub-Article (2) (d) of the Proclamation if the transfer is to a person with no previous interest in the business, or is a transfer of an existing business involving only a change of legal entity or form of doing business, such as from a partnership to an incorporated company.

7) It is not necessary for the transferee to operate the particular income-producing activity acquired, so long as it is capable of separate operation.

8) The supply of farmland alone is not a supply of a going concern if it can be separately operated.
Unless the transferor and transferee both are registered persons and both sign and file in a timely manner to treat the transfer as a supply of a going concern as required under Article 7, Sub-Article (2)(d) of the Proclamation, the transfer is not zero-rated, even if in fact it is a transfer of a going concern.

The 21-day period within which the notice must be filed is determined under the time of supply rules in Article 11 of the Proclamation.

If the transferee previously was not a registered person, the supply can qualify for zero rating only if the transferee is registered by the date the transfer takes place.

If the parties file the required notice and the transfer does not qualify as a zero-rated supply of a going concern under Article 7, Sub-Article (2)(d) of the Proclamation, the consideration charged for the supply is treated as being exclusive of VAT, the transfer is subject to tax, and the transferee can claim a tax credit to the extent allowable under the Proclamation.

The notice to the Authority required under this Article must include a complete list of the assets transferred, the market value of each asset transferred, the nature of the business conducted by the transferor and the business to be conducted by the transferee with the acquired assets, and the length of time the transferor’s business has been operated with the assets transferred. The Authority may require additional information from the transferor or transferee, or both.

If the transferor cancels its registration as part of the transfer of a going concern, then goods not transferred as part of the going concern generally constitute a supply of the goods by the transferor at their market values, except that this rule does not apply to goods for which the transferor has not been allowed a tax credit under Article 21 of the Proclamation.

The transferor and transferee, upon written application signed by both, may request a transfer of taxpayer identification number and certificate of registration, and the Authority has the sole discretion to grant or deny the request.

If the application under (7) is approved:—

(a) the transferor must transfer VAT records to the transferee, and the transferee must retain those records for the time required for the retention of records under Article 37 of the Proclamation; and

(b) both parties are legally obliged to pay any VAT liability incurred while the transferor owned the business.
39. Directives
The Minister of Revenue may issue directives for the proper implementation of these Regulations.

40. Effective Date
These Regulations shall come into force as of the date the Proclamation comes into force.

Done at Addis Ababa this 31st day of December, 2002.

MELES ZENAWI
PRIME MINISTER OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA