

Investment Incentives

Council of Ministers Regulation

Regulation No. /2018

Federal Democratic Republic of Ethiopia
Council of Ministers

This Regulation provides the legal framework for the granting, administration, and monitoring of investment incentives in Ethiopia.

Addis Ababa, Ethiopia
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Prepared by: MULTILINK CONSULTING
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About Multilink Consulting

Multilink Consulting is a leading business and investment consulting firm based in Ethiopia, with 18 years of professional experience advising local and international investors, corporations, development partners, and public institutions. The firm provides end-to-end advisory services across investment facilitation, feasibility studies, market research, project development, regulatory and licensing support, financial and tax advisory, public-private partnerships, and policy advisory.

With a strong understanding of Ethiopia's regulatory, economic, and investment landscape, Multilink Consulting is recognized for delivering practical, decision-ready solutions that support sustainable investment, risk mitigation, and long-term value creation.

First Draft

Regulation No. _____

Council of Ministers Regulation Issued on Investment Incentives

WHEREAS Article 105 of the Income Tax Proclamation (as amended) No. 979/2008 provides that income tax incentives to be granted to investors who have obtained investment permits pursuant to the Investment Law shall be determined by a regulation issued by the Council of Ministers;

WHEREAS Article 7 of the Investment Incentives Council of Ministers Regulation (as amended) No. 517/2014 provides that the Council of Ministers may replace the type of income tax incentive established under the regulation with another type of incentive;

WHEREAS the investment incentive currently in force is not results-based; and incentives have been granted without giving special focus to investment sectors that require high capital and make significant contributions to economic growth, thereby failing to promote investment to the desired level;

WHEREAS it has become necessary to change this situation by introducing a results-based investment incentive system that focuses on priority investment sectors and takes into account the capital actually deployed;

WHEREAS it is necessary to strengthen accountability in relation to incentives, ensure alignment with international best practices, and make the incentives granted simple and transparent;

NOW, THEREFORE, in accordance with Article 17 of the Investment Proclamation No. 1180/2012 and Article 129(6) of the Customs Proclamation No. 859/2006 (as amended), the Council of Ministers has issued this Regulation.

PART ONE

GENERAL PROVISIONS

1. Short Title

This Regulation may be cited as the **“Investment Incentives Council of Ministers Regulation No. /2018.”**

2. Definitions

Without prejudice to the meanings given to terms and expressions under the Proclamation, in this Regulation:

1. **“Investment incentive”** means the incentives listed under Article 6 of this Regulation that are granted to an investment eligible for incentives in accordance with this Regulation.
2. **“Investment capital allowance”** means a one-time deductible expense calculated at a specified percentage of the cost incurred for capital assets at the time an investment operation commences.
3. **“Performance agreement”** means a contract concluded between the investor and the appropriate investment authority in accordance with Article 25 of this Regulation.

4. **“Eligible cost”** means an expenditure incurred for the acquisition of capital goods that satisfies the criteria specified in a directive to be issued by the Ministry.
5. **“Proclamation”** means Investment Proclamation No. 1180/2012.
6. **“Capital”** means domestic or foreign currency; negotiable instruments; production or service-provision machinery; buildings; working capital; property rights; intellectual property rights; or other tangible or intangible business assets.
7. **“Capital goods”** means machinery used to produce goods for sale or to provide services, having an economic life of not less than one year, and includes other similar assets of substantial and durable nature.
8. **“Manufacturing”** means the production of goods in Ethiopia by applying industrial processes to raw materials or inputs—by processing, assembling, or changing their form or use—so as to create a product with a new designation, character, or use; and may include the assembly of completely knocked down (CKD) goods imported into the country, as determined by a directive to be issued by the Ministry.
9. **“Construction materials”** means goods used for construction work that form part of a building or construction activity.
10. The terms **“Special Economic Zone,” “Special Economic Zone developer,” “Special Economic Zone sub-developer,”** and **“Special Economic Zone enterprise”** shall have the meanings assigned to them under Special Economic Zone Proclamation No. 1323/2016.
11. The terms **“Startup”** and **“Startup ecosystem builder”** shall have the meanings assigned to them under Startup Proclamation No. 1396/2017.
12. **“Supervisory authority”** means investment institutions; the Ministry of Mines; mining bureaus; the Ministry of Trade and Regional Integration; the tax authority; the Customs Commission; and other bodies legally empowered to supervise the implementation of investment incentives.
13. **“Investment institution”** means the Ethiopian Investment Commission or the investment offices of regional governments, as well as those of the Dire Dawa and Addis Ababa City Administrations.
14. **“Tax authority”** means the Ministry of Revenues or the revenue bureaus of regional governments, as well as those of the Dire Dawa and Addis Ababa City Administrations.
15. **“Income tax”** means the tax imposed on income specified under Schedule “C” of the federal or regional income tax proclamations.
16. **“Customs duty and tax incentive”** means a scheme whereby an investor imports capital goods, construction materials, and vehicles required for the investment either duty- and tax-free or upon payment of reduced customs duty and tax, in accordance with criteria specified in a directive to be issued by the Ministry.
17. **“Customs duty”** shall have the meaning assigned to it under the Customs Proclamation.
18. **“Tax”** means value added tax collected on goods imported into the country.

19. **“Customs Proclamation”** means Customs Proclamation No. 859/2006 (as amended).
20. **“Ministry”** or **“Minister”** means, respectively, the Ministry of Finance or the Minister of Finance.
21. Any expression in this Regulation used in the masculine gender shall include the feminine.

3. Scope of Application

1. The provisions of this Regulation shall apply to incentives granted to promote investments undertaken in investment sectors that qualify for tax incentives.
2. Without prejudice to the provisions of Part Four of this Regulation, the other provisions of this Regulation shall also apply to investments in mining; petroleum; natural gas; and geothermal resources.

4. Objectives

The tax incentives granted pursuant to this Regulation:

Objectives (continued)

The tax incentives granted pursuant to this Regulation shall have the objective of promoting:

- a) manufacturing investment;
- b) export trade;
- c) technology transfer;
- d) job creation;
- e) environmental protection and climate safety;
- f) efficient and effective development of the country’s natural resources; and
- g) regional development.

5. Principles

Tax incentives granted to promote investment shall cumulatively adhere to the following principles:

1. be based on law; transparent; and time-bound;
2. be aligned with the Government’s fiscal capacity;
3. be granted without discrimination, based on publicly disclosed written criteria;
4. be subject to monitoring to ensure that the intended results are achieved; and
5. be revocable and give rise to accountability where the law is violated.

PART TWO
PERMITTED INCENTIVES AND PRECONDITIONS

6. Permitted Incentives

In accordance with this Regulation, the following types of incentives may be granted, as appropriate:

1. investment capital expenditure deduction (allowance);
2. reduced income tax rate below the standard rate;
3. exemption from alternative minimum tax;
4. exemption from tax payable on dividends;
5. exemption from capital gains tax;
6. deduction from income tax payable; and
7. customs duty and tax incentives.

7. Conditions for Granting Incentives

The incentives provided under this Regulation shall be granted subject to the following conditions:

1. they apply to new investments that create additional capacity or value;
2. the applicant is registered as a taxpayer, fulfills the required conditions, and maintains separate accounting records for each project or line of business for which incentives are granted;
3. a ring-fenced system is established to ensure that incentives are used only for the eligible income and approved expenditures for which they are granted;
4. unless otherwise permitted under this Regulation, the incentives are not transferable to another party and are limited to a specified period; and
5. overlapping incentives are not permitted, except as provided under this Regulation and directives issued pursuant thereto.

PART THREE
INCOME TAX INCENTIVES

8. Income Tax Incentives for Special Economic Zone Developers and Sub-Developers

1. A Special Economic Zone developer or sub-developer:
 - a) established in Addis Ababa or Oromia Sheger City Administration shall be subject to a reduced income tax rate of **5% (five percent)** on its taxable annual income for **ten (10) years** from the commencement of operations; thereafter, it shall pay business profit tax in accordance with the Income Tax Proclamation;
 - b) established outside the areas specified under sub-paragraph (a) shall be subject to a reduced income tax rate of **5% (five percent)** for **fifteen (15) years** from the commencement of

operations; thereafter, it shall pay business profit tax in accordance with the Income Tax Proclamation;

c) shall be exempt from tax on dividends paid to shareholders for **five (5) years**; and

d) shall be exempt from alternative minimum tax for **ten (10) years**.

2. Unless the Investment Board decides otherwise in special circumstances pursuant to the Special Economic Zone Proclamation, a Special Economic Zone developer or sub-developer shall be eligible for the incentives listed under sub-article (1) only where it is verified that it has deployed at least **USD 75,000,000 (seventy-five million United States dollars)** in capital.

9. Income Tax Incentives for Special Economic Zone Enterprises

1. A Special Economic Zone enterprise established in Addis Ababa or Oromia Sheger City Administration shall be subject to a reduced income tax rate of **15% (fifteen percent)** in accordance with Table 1; thereafter, it shall pay business profit tax in accordance with the Income Tax Proclamation.
2. A Special Economic Zone enterprise established outside the areas specified under sub-article (1) shall be subject to a reduced income tax rate of **10% (ten percent)** for **ten (10) years** from the commencement of operations; thereafter, it shall pay business profit tax in accordance with the Income Tax Proclamation.
3. A Special Economic Zone enterprise may benefit from the incentives under sub-article (1) only if it operates in the sectors specified under Article 13 of this Regulation.

10. Income Tax Incentives for Startups

A startup recognized under the relevant law:

a) shall be subject to a reduced income tax rate of **5% (five percent)** on its taxable income for **ten (10) years** from the commencement of operations; thereafter, it shall pay business profit tax in accordance with the Income Tax Proclamation; and

b) shall be exempt from tax on dividends paid to shareholders for **five (5) years**.

11. Incentives for Startup Ecosystem Builders

A startup ecosystem builder recognized under the relevant law:

a) shall not be liable to capital gains tax on gains realized from the sale of its ownership interest in a startup; and

b) shall be exempt from tax on dividends received from startups for **five (5) years**.

c) A startup investor who can demonstrate that they have incurred a loss as a result of their investment in a startup shall be exempt from the **alternative minimum tax** for **three (3) years**.

12. Incentives for Environmental Protection

1. Companies that participate in the carbon trading market or greenhouse gas emissions trading schemes and that are accredited by the environmental protection authority shall, from the commencement of operations, pay **business profit tax at a rate of 15% (fifteen percent)** on their taxable income for **ten (10) years**.
2. Any investor whose production or operational process uses **at least fifty percent (50%) renewable energy** shall, for **five (5) consecutive years** from the commencement of operations, pay **business profit tax at a rate of 15% (fifteen percent)** on their taxable income.
3. To qualify for the incentive, the investor shall obtain a **renewable energy utilization certificate** issued by the Ministry of Water and Energy, and shall submit **annual energy audit reports** confirming compliance with the prescribed renewable energy utilization threshold.

13. Income Tax Incentives for Investors Operating Outside Special Economic Zones

1. Investors operating outside Special Economic Zones in the following sectors shall be entitled to the **reduced income tax rate specified in Table 1 of this Regulation**:
 - leather and textile manufacturing industries;
 - chemical and chemical products industries;
 - basic pharmaceutical manufacturing and pharmaceutical industries;
 - basic metal industries (including machinery manufacturing);
 - non-metallic mineral products industries;
 - computer, electronics, and optical products industries;
 - electrical equipment industries;
 - manufacture and/or assembly of motor vehicles and other transport equipment;
 - wood products industries;
 - paper industries;
 - agro-processing;
 - packaging;
 - information technology development;
 - electric power generation, transmission, and distribution.
2. The Ministry shall, by directive, determine the **sub-sectors** falling under the sectors listed in sub-article (1) that qualify for income tax incentives.

14. Investment Capital Allowance

1. For the investment sectors listed in **Table 2 annexed to this Regulation**, an **investment capital allowance** shall be granted on eligible expenditures incurred for capital goods, in accordance with the Table.

2. Only investors who deploy **at least one million United States dollars (USD 1,000,000)** in an investment project shall be eligible to benefit from the investment capital allowance.
3. The investment capital allowance shall be granted subject to the following conditions:
 - a) the capital asset is owned in the name of the taxpayer or held under a capital goods lease arrangement;
 - b) the capital asset is used wholly and exclusively to generate taxable income; or, where it is not used wholly or exclusively for taxable income, the allowance shall be granted only in proportion to the part used to generate taxable income;
 - c) the allowance applies only to capital expenditures and not to ordinary operating expenses;
 - d) the allowance shall be claimed only for the period during which the capital asset is actually used to generate income, and not from the date of acquisition or periods of non-use; and
 - e) the taxpayer maintains proper accounting records.

15. Income Tax Incentives for Exporting Investors

1. An investor operating outside a Special Economic Zone who exports goods or services shall pay **business profit tax at a rate of 10% (ten percent)** on taxable income for that tax year.
2. An investor operating within a Special Economic Zone who exports products manufactured in its factory shall pay **business profit tax at a rate of 5% (five percent)** on taxable income for that tax year.

16. Incentives for Scientific Research

1. Any expenditure incurred by an investor during a tax year for **scientific research related to the investor's business activities** shall be deductible from taxable income.
2. For the purposes of this Article:
 - a) **"Scientific research"** means any activity conducted in the field of natural or applied sciences for the purpose of advancing human knowledge;
 - b) **"Scientific research expenditure"** means contributions made by a business operator to scientific research institutions for research conducted to promote the business, but shall **not include**:
 - i) expenditures on depreciable assets or assets lacking substantial durability;
 - ii) expenditures on land or buildings;
 - iii) expenditures incurred to determine the existence, location, quantity, or quality of natural resources; and
 - c) **"Scientific research institution"** means an association, institute, or higher education institution established to conduct scientific research.

17. Declaration of Income During the Income Tax Incentive Period

1. Any investor benefiting from income tax incentives under this Regulation shall be eligible only upon submitting proper accounting records to the appropriate tax authority in accordance with the Income Tax Proclamation.
2. Where an investor operates in **two or more investment sectors** that qualify for income tax incentives, the income of each investment shall be **declared separately** for incentive purposes.
3. An investor benefiting from income tax incentives who fails to submit accounting records as required under the Income Tax Proclamation shall **lose entitlement to the incentive** for the tax period in which the obligation was not fulfilled.
4. Sub-article (3) shall not apply where the failure to comply with the obligation under sub-article (1) is due to **force majeure or circumstances beyond the investor's capacity**, as determined by a directive issued by the Ministry.

18. Commencement of the Income Tax Incentive Period

1. The income tax incentive period shall commence from the date on which the investor starts operations or from the date the business license is obtained.
2. For the purpose of implementing sub-article (1) of this Article, the appropriate authority shall notify the tax authority of the date on which the investor commenced operations or obtained the business license.
3. Where an investor has already commenced manufacturing or service provision and paid tax, and subsequently submits a letter indicating eligibility for income tax incentives, the investor shall **not** be entitled to claim a refund of the tax already paid.

19. Limitation on Repeated Entitlement

An investor who has benefited from investment incentives and subsequently closes that investment, and then re-engages in an investment eligible for incentives, shall **not** be entitled to income tax incentives for a period equivalent to the incentive period previously enjoyed under the closed investment. The details shall be determined by a directive to be issued by the Ministry.

PART FOUR

CUSTOMS DUTY AND TAX INCENTIVES

20. Customs Duty and Tax Incentives for Special Economic Zone Developers, Administrators, and Enterprises

1. Licensed developers, administrators, and enterprises may import **capital goods, construction materials, raw materials, and spare parts** required for their investment projects into the country while benefiting from customs duty and tax incentives.
2. Licensed developers, administrators, and enterprises may import construction materials and capital goods procured for their own investment purposes—directly, through their

contractors, or via registered logistics operators—into Special Economic Zones while benefiting from customs duty and tax incentives.

3. Goods imported under sub-articles (1) and (2) may be imported **without time or quantity limitations** after the issuance of the business license.

21. Customs Duty and Tax Incentives for Capital and Construction Goods

1. An investor engaged in one of the business sectors listed in **Table 3 annexed to this Regulation** may import capital and construction goods into the country while benefiting from customs duty and tax incentives.
2. For the implementation of sub-article (1), the investor shall submit to the authorized body:
 - a list of capital and construction goods to be imported under the incentive scheme, or supporting documents describing such lists; and
 - an approved bill of quantities indicating the type and quantity of inputs required for construction.
3. Where an investor benefiting from customs duty and tax incentives purchases capital or construction goods from domestic manufacturers or importers, the customs duty paid on raw materials or inputs used in the production of such goods shall be **refunded**.
4. The Ministry shall, by directive, determine the list of capital and construction goods eligible for customs duty and tax incentives under sub-article (1).
5. An investor may import capital and construction goods under customs duty and tax incentives **only up to the time the business license is issued**.
6. Notwithstanding sub-article (5), where an investment is implemented in phases and different capital or construction goods are required at different times for each phase—and where this is clearly provided for in the investor’s business plan and the performance agreement concluded pursuant to Article 25—the investor may continue to import such goods for subsequent phases under the incentive scheme after obtaining the business license.
7. Prior to granting incentives under sub-article (6), it shall be verified that:
 - the customs duty and tax incentives granted for the previous phase were used for their intended purpose; and
 - the investor has complied with the performance agreement.

22. Eligibility of Vehicles for Customs Duty and Tax Incentives

1. The conditions under which vehicles imported for investment purposes may benefit from customs duty and tax incentives shall be determined by a directive issued by the Ministry, taking into account the type and nature of the investment project.

2. Under sub-article (1), the Ministry may permit customs duty and tax incentives **only for vehicles other than pickup trucks and station wagons.**
3. Notwithstanding sub-articles (1) and (2), the Ethiopian Investment Board may permit the importation of **pickup trucks and station wagons** under customs duty and tax incentives for enterprises operating in remote areas in the fields of mining, petroleum, natural gas, agriculture, and tourism.

23. Transfer of Goods Imported Under Customs Duty and Tax Incentives

1. Capital or construction goods imported under customs duty and tax incentives may be transferred to a person not entitled to such incentives **only upon payment of the applicable customs duty.**
2. An investor may re-export capital or construction goods imported under customs duty and tax incentives.
3. Goods imported under customs duty and tax incentives may be transferred to another person who is entitled to such incentives.
4. Transfers under sub-article (3) shall be permitted only where the conditions specified in a directive issued by the Ministry are fulfilled.
5. Any investor who violates the provisions of this Article shall be held liable in accordance with the applicable Customs Proclamation.

PART FIVE

MINING, PETROLEUM, AND GEOTHERMAL OPERATIONS

24. Incentives for Mining Investment

1. Mining operations

a) Any exploration license holder or its contractor may import goods required for its operations in accordance with the approved work program;

The **equipment, construction materials, machinery, and consumables** that are imported from abroad into Ethiopia shall be eligible for **customs duty and tax incentives.**

b) Any holder of a **small-scale or large-scale mining production license**, or its contractor, shall be entitled to customs duty and tax incentives for **equipment, construction materials, machinery, and consumables** imported from abroad into Ethiopia, in accordance with the approved work program, which are necessary to commence production operations.

c) Where a holder of a small-scale or large-scale mining production license intends to **expand production to a higher level**, and the expansion plan is approved by the licensing authority, the license holder may import **equipment, construction materials, machinery, and consumables** required for the expansion while benefiting from customs duty and tax incentives.

d) A **traditional mining license holder**, or any construction-mineral mining license holder authorized to produce **sand or aggregate**, shall **not** be entitled to the customs duty exemption privileges provided under sub-paragraphs (a), (b), and (c) of this sub-article.

e) A **mineral exploration license holder** may, with the approval of the supervising authority, import into the country **aircraft, helicopters, drones**, and/or other relevant survey instruments required for collecting data relevant to mineral exploration, while benefiting from customs duty and tax incentives.

f) Where a license holder is unable to import the approved equipment and machinery during the **pre-production phase**, the license holder may import such items **within five (5) years after commencement of mining production**, while benefiting from customs duty and tax incentives.

2) Value Addition to Mineral Products

a) Any **cutting/artisanal processing license holder** or **refining license holder** that produces mineral products for export markets shall be entitled to customs duty and tax incentives for **equipment and machinery** imported from abroad in accordance with the approved work program.

b) Notwithstanding sub-paragraph (a), the right to import goods under customs duty and tax incentives shall remain valid **only for three (3) years** from the date the license is issued.

3) Petroleum, Natural Gas, and Geothermal Operations

a) Any exploration license holder or its contractor shall be entitled to customs duty and tax incentives for **equipment, construction materials, machinery, and consumables** imported from abroad into Ethiopia in accordance with the approved work program.

b) Any petroleum or geothermal production license holder or its contractor shall be entitled to customs duty and tax incentives for importing **drilling, geological, geophysical, production, processing, refining, transportation equipment**, including **air, sea, and other transport vehicles and their spare parts**, as well as **fuel, chemicals, oils, lubricants, spare parts, films, seismic tapes, mobile housing units, mobile offices, prefabricated structures, dismantled components**, and other materials necessary for petroleum operations.

c) Household goods and personal effects imported into Ethiopia by **foreign employees** of petroleum license holders or contractors shall be eligible for customs duty and tax incentives in accordance with applicable laws.

4) Notwithstanding the above provisions, the **Ethiopian Investment Board** may grant **additional incentives** for strategic mining or petroleum products and activities that significantly contribute to **value addition**.

5) Biofuel Operations

a) A biofuel development license holder shall be entitled to customs duty and tax incentives for **equipment and machinery** imported from abroad in accordance with the approved work program and the type of license issued.

b) Notwithstanding sub-paragraph (a), the right to import goods under customs duty and tax incentives shall remain valid **only for five (5) years** from the date the license is issued.

6) Goods imported into Ethiopia under customs duty and tax incentives pursuant to this Article **may not be transferred** without prior approval of the Ministry and without payment of the applicable customs duty. However, with prior approval from the supervising authority, such goods may be **re-exported without payment of customs duty** or transferred to another person entitled to similar duty-free privileges.

7) For the purposes of this Part, **“consumables”** means chemicals, dynamite, and other materials required for mining, petroleum, and geothermal operations, as specified by a directive issued by the Ministry.

8) Any agreements or work programs concluded between the investor and the supervising authority under this Article shall, **prior to approval**, be submitted to the Ministry for comments in accordance with the Customs Proclamation.

PART SIX

ADMINISTRATION OF TAX INCENTIVES

25. Performance Agreement

1. The appropriate investment authority shall conclude a **performance agreement** with investors operating in investment sectors eligible for tax incentives under this Regulation.
2. The performance agreement shall include **performance indicators**, such as:
 - investment phase and capital amount;
 - number of jobs created;
 - export targets;
 - level of domestic raw material utilization;
 - technology transfer; and
 - reporting mechanisms.
3. The agreement shall stipulate that the **Government may suspend incentives** if the taxpayer fails to fulfill the obligations undertaken.

26. Control of Construction Materials

1. An investor authorized to import construction materials under customs duty and tax incentives shall submit, **every three months**, verified evidence issued by the relevant

government office that granted the construction permit, confirming that the materials were used for their intended purpose.

2. Sub-article (1) of this Article shall **not apply** to construction undertaken within Special Economic Zones.
3. The **types of construction materials** imported duty-free and the **types of documents required** to be submitted under sub-article (1) shall be determined by directive.

...and **the Ministry shall determine, by directive, the specific body to which such documents must be submitted.**

27. Joint Duties and Responsibilities of Supervising Authorities

Supervising authorities shall:

1. Provide the Ministry with the following confirmations to enable an investor to benefit from income tax incentives:
 - o **a)** that the investor has obtained a business license and is operational;
 - o **b)** the date on which the investor commenced production or service provision.
2. Submit to the Ministry a **recommendation** regarding the **list of goods** essential for the investment that the investor may import under customs duty and tax incentives, together with their **accurate and current values**.
3. Participate in the preparation of **criteria** used to select investment sectors eligible for investment incentives.
4. Submit to the Ministry, **on a quarterly basis**, a report indicating the **value of goods imported** by each investor under customs duty and tax incentives and the **amount of foregone customs duty**.
5. Submit to the Ministry, **within three (3) months after the end of each fiscal year**, a report showing:
 - o the investment incentives granted to each investor; and
 - o the benefits obtained by the country from each investor, particularly in terms of **job creation** and **foreign exchange earnings**.

28. Duties and Responsibilities of Investment Authorities

Without prejudice to the general provisions of Article 18 of this Regulation, investment authorities shall have the following duties and responsibilities:

1. In respect of investors to whom they have issued investment permits:
 - o **a)** receive applications submitted through the established system for customs duty and tax incentives; verify compliance with applicable laws and the accuracy of submitted documents; and forward the application to the Ministry with recommendations for decision;

- **b)** receive applications for income tax incentives submitted through the established system; verify legal compliance and document accuracy; conclude an appropriate **performance agreement** with the investor pursuant to Article 27; and forward the application to the Ministry for decision together with a letter of support.
- 2. Conduct **continuous monitoring**, through field inspections, reports, assignment of supervisors, or other appropriate means, to ensure that capital goods, construction materials, and vehicles imported under customs duty and tax incentives are used for their intended purposes; and submit an **annual consolidated performance report** to the Ministry.
- 3. Establish a **reporting system** capable of verifying whether the performance indicators set out in the performance agreement concluded under Article 25 have been fulfilled.
- 4. Where it is confirmed that the investor has failed to meet obligations under the performance agreement, submit a **recommendation to the Ministry** for suspension of the income tax incentive and customs duty and tax incentives granted.

29. Duties and Responsibilities of the Tax Authority

The Tax Authority shall:

1. Examine whether the approved income tax incentives comply with applicable laws and **implement the incentives accordingly.**
2. Maintain a register showing:
 - the list of investors granted income tax incentives;
 - the **duration** of the incentive period; and
 - the **date of expiry** of the incentives.
3. Maintain records showing the **amount of income tax revenue foregone** due to the income tax incentives granted under this Regulation.
4. Submit to the Ministry, **within two (2) months after the end of each fiscal year**, a report showing:
 - the list of investors benefiting from income tax incentives;
 - the investment sectors in which they operate; and
 - the amount of revenue foregone as a result of the income tax incentives.

30. Powers and Duties of the Customs Commission

The Customs Commission shall:

1. Examine whether the approved customs duty and tax incentives comply with applicable laws and facilitate the importation of goods into the country in accordance with the incentives granted.
2. Maintain records showing:

- the list of investors granted customs duty and tax incentives;
 - the investment sectors in which they operate;
 - the value of goods imported under the incentive scheme; and
 - the amount of revenue foregone.
3. Conduct **regular monitoring and post-clearance audits** to verify that goods imported under customs duty and tax incentives are used for their intended purposes.
 4. Where audits confirm that imported goods were **not used for their intended purposes**, take legal action in accordance with applicable laws.
 5. Submit to the Ministry:
 - a **quarterly report** within thirty (30) days after the end of each quarter; and
 - an **annual report** within two (2) months after the end of the fiscal year, detailing activities carried out under this Article.

31. Duties and Responsibilities of the Ministry of Finance

The Ministry of Finance shall:

1. Where it determines that doing so fulfills the objectives of this Regulation and is supported by adequate economic justification, authorize—by directive—appropriate investment incentives for investors operating in **investment sectors not expressly covered** by this Regulation.
 2. Grant investment incentives, including **income tax incentives** or **customs duty and tax incentives**, to investments eligible under this Regulation.
 3. Issue directives specifying:
 - additional criteria for granting investment incentives;
 - lists of goods that may be imported or purchased domestically under customs duty and tax incentives; and
 - documents required to be submitted by investors applying for such incentives.
 4. Regularly supervise and evaluate the activities of each supervising authority to ensure that investment incentives are **used for their intended purposes**.
- 5)** Consolidate the revenue foregone as a result of granting investment incentives, and submit to the **House of Peoples’ Representatives**, as part of the **annual government financial report**, a report showing the consolidated accounts and the benefits obtained as a result of granting the investment incentives; and publish this report annually and make it available to the public.
- 6)** Establish a **database** that enables the analysis and monitoring of approved investment incentives.
- 7)** In order to monitor and ensure transparency of investment incentives granted, maintain the following information by **sector and industry level**:
- **a)** the investment incentives granted to registered investors;

- **b)** the estimated investment incentive requests expected to be submitted by investors for the next fiscal year;
- **c)** the investment incentives planned to be approved during the current fiscal year;
- **d)** the investment incentives planned to be approved for the next fiscal year.

8) Conduct an **assessment** showing the incentives granted and the benefits obtained as a result thereof, in order to determine the impact of investment incentives on the national economy.

Part Seven

Miscellaneous Provisions

32. Suspension and Recovery of Tax Incentives

1. An investor whose investment permit has been revoked shall be required to **refund the investment incentives** obtained.
2. The manner in which **unduly obtained investment incentives** are to be recovered shall be determined by a **directive issued by the Minister**.

33. Penalty for Failure to Submit Reports

1. Any government official or employee who, **without sufficient justification**, fails to submit reports or information required under this Regulation regarding the implementation of tax incentives shall, without prejudice to criminal or administrative liability under applicable laws, be punished by a **monetary fine equivalent to up to three (3) months' salary**.
2. The Ministry is vested with the power to **impose and collect** the monetary penalty provided for under sub-article (1) of this Article.

34. Criminal Liability

The following persons shall be **criminally liable** in accordance with applicable laws:

- **a)** an investor who submits false documents to obtain investment incentives, as well as the responsible official of a supervising authority and the professional who forwarded or certified such documents without verifying their accuracy;
- **b)** an investor who requests approval of investment incentives for a project that is **not operational**;
- **c)** an investor who submits **false reports** regarding the use of investment incentives for their intended purpose.

35. Power to Issue Directives

The Ministry may issue **directives necessary for the implementation** of this Regulation.

36. Transitional Provisions

1. Investment incentives granted pursuant to **Council of Ministers Regulation No. 270/2005 (as amended)** and **Investment Incentives Regulation No. 517/2014 (as amended)**— which provided investment incentives and reserved sectors for domestic investors—shall **remain effective until the expiry of the tax incentive period** granted.
2. Rights to customs duty and tax exemptions granted under **mining, petroleum, geothermal, biofuel, and natural gas agreements** approved by the Council of Ministers prior to the effective date of this amendment shall **remain in force**.

37. Repealed and Inapplicable Laws

1. **Council of Ministers Investment Incentives Regulation No. 517/2014 (as amended)** is hereby **repealed**.
2. Any regulation, directive, or practice **inconsistent with this Regulation** shall have **no effect** with respect to matters covered herein.

38. Effective Date

This Regulation shall **enter into force on the date of its publication** in the Federal Negarit Gazette.

Done at Addis Ababa, on ____ Hamle 2018 E.C.

Abiy Ahmed (Dr.)

Prime Minister of the Federal Democratic Republic of Ethiopia

Table 1**Investment Sectors Eligible for a 15% Reduced Income Tax Rate for Investments Made Outside Special Economic Zones**

No.	Investment Sector	Addis Ababa and Surrounding Oromia Sheger Special Zone (years)	Other Areas (years)
1	Manufacturing Industry		
1.1	Leather and Textile Manufacturing Industry	4	6
1.2	Chemical and Chemical Products Industry	5	6
1.3	Basic Pharmaceutical Production and Pharmaceutical Industry	6	8
1.4	Basic Metal Industry (including machinery manufacturing)	5	6
1.5	Non-metallic Mineral Products Industry	4	6
1.6	Computer, Electronics, and Optical Products Industry	5	6
1.7	Electrical Equipment Industry	3	5
1.8	Manufacturing and/or Assembly of Motor Vehicles and Other Transport Equipment	5	6
1.9	Paper Industry	5	6
1.10	Wood Products Industry	2	3
1.11	Packaging	3	5
2	Information Technology Development and Services Sector	3	4
3	Electric Power Generation, Transmission, and Distribution	6	8
4	Agro-processing (or Commercial Agriculture)	5	6

Note: The figures indicate the **number of years** during which the **15% reduced income tax rate** applies, depending on the location of the investment.

Table 2**Investment Sectors Eligible for Capital Allowance and Applicable Rates**

Investment Sector	First-Year Allowance	Subsequent Depreciation Rate	Conditions
Agricultural Mechanization Equipment	50% of capital cost in the first year	25% annually on the remaining capital cost	Applicable only to expenditures directly related to agricultural activities
Buildings – factory buildings; hotel buildings; buildings for agricultural product processing	50% of construction cost in the first year	25% annually on the remaining construction cost	Applies when selected construction items are first put into use
Buildings – schools; commercial buildings; industrial buildings; dry ports	No first-year allowance; 10% of cost annually	10% annually until depreciation is fully exhausted	Straight-line depreciation
Machinery and Equipment – manufacturing machinery and assembly lines; hospital equipment; vehicles, aircraft, and parts	50% of capital cost in the first year	25% annually on the remaining capital cost	Priority machinery and equipment

Table 3**Investment Sectors Eligible for Customs Duty and Tax Incentives****1. Manufacturing Sector****1.1 Food Industry**

- 1.1.1 Meat and meat products processing and preservation
- 1.1.2 Fish and fish products processing
- 1.1.3 Fruit and vegetable processing and preservation
- 1.1.4 Edible oil production
- 1.1.5 Milk processing and/or dairy products manufacturing
- 1.1.6 Manufacture of food additives, ingredients, starch, and starch products
- 1.1.7 Processing of cereal products (excluding flour milling)
- 1.1.8 Sugar manufacturing
- 1.1.9 Macaroni, pasta, and similar products manufacturing
- 1.1.10 Iodized salt production
- 1.1.11 Artificial honey production
- 1.1.12 Roasted and ground coffee, instant coffee, and tea manufacturing

- 1.1.13 Animal feed processing

1.2 Beverage Industry

- 1.2.1 Alcoholic beverages manufacturing
- 1.2.2 Wine production
- 1.2.3 Beer and/or malt production
- 1.2.4 Mineral water and other bottled water production
- 1.2.5 Soft drinks manufacturing

1.3 Textile and Garment Industry

- 1.3.1 Preparation, spinning, weaving, finishing, and printing of textiles (excluding garments)
- 1.3.2 Dyeing, bleaching, washing, finishing, coating, reinforcing, and decorating of textiles
- 1.3.3 Manufacture of made-up textiles, knitted fabrics, towels, or carpets (excluding garments)
- 1.3.4 Manufacture of garments (including sportswear) and related accessories

1.4 Leather and Leather Products Industry

- 1.4.1 Tanning and finishing of leather and hides (excluding pre-tanning operations)
- 1.4.2 Pre-tanning of leather and hides
- 1.4.3 Manufacture of leather products and accessories
- 1.4.4 Manufacture of leather or synthetic leather footwear

1.5 Wood Products Industry

- Manufacture of wood products (excluding sawmilling, timber production, and assembly of prefabricated wood products)

1.6 Paper and Paper Products Industry

- 1.6.1 Pulp and/or paper manufacturing
- 1.6.2 Manufacture of paper products

1.7 Printing Industry

1.8 Chemical and Chemical Products Industry

- 1.8.1 Basic chemicals (including ethanol, synthetic fibers), hydrogen, and ammonia
- 1.8.2 Fertilizers and/or nitrogen compounds manufacturing
- 1.8.3 Basic plastics and/or synthetic rubber raw materials and rubber products
- 1.8.4 Pesticides and agricultural chemicals manufacturing
- 1.8.5 Paints, varnishes, adhesives, and other non-basic chemicals manufacturing
- 1.8.6 Hygiene and cosmetics products and inputs manufacturing

1.9 Basic Pharmaceutical Production and Pharmaceutical Industry

- 1.9.1 Basic pharmaceutical ingredients manufacturing
- 1.9.2 Human medicines manufacturing (including vaccines)
- 1.9.3 Veterinary medicines manufacturing (including vaccines)
- 1.9.4 Packaging materials directly related to pharmaceuticals

- 1.9.5 Pharmaceutical packaging services

1.10 Plastic Products Industry

- Manufacture of plastic products (excluding plastic bags)

1.11 Non-Metallic Mineral Products Industry

- Glass, ceramic, and related products manufacturing
- Cement manufacturing
- Clay and cement products manufacturing
- Cutting, shaping, and finishing of stone, marble, granite, and limestone (excluding quarrying)
- Lime, gypsum, and similar materials manufacturing

1.12 Basic Metal Industry (*excluding mining activities*)

- Iron, steel, and alloy products manufacturing
- Basic precious and non-ferrous metals manufacturing
- Smelting and casting of ferrous and non-ferrous metals

1.13 Structural Metal Products Industry

- Manufacture of metal structures and fabricated metal products (excluding roofing sheets and nails)

1.14 Computer, Electronics, and Optical Products Industry

- Computers, peripherals, and electronic components manufacturing
- Communication equipment and consumer electronics manufacturing
- Measuring, testing, navigating, control instruments, and watches
- Medical equipment and supplies manufacturing
- Assembly of medical devices
- Optical, photographic, magnetic, and optical media products manufacturing

1.15 Electrical Equipment Industry

- Electrical equipment manufacturing

1.16 Manufacturing / Service Machinery and Equipment Industry

- General-purpose machinery manufacturing
- Special-purpose machinery manufacturing

1.17 Transport Equipment Manufacturing

- Motor vehicles manufacturing
- Vehicle parts, trailers, semi-trailers, and accessories manufacturing
- Railway and tram locomotives, wagons, and related equipment
- Motorcycles, bicycles, and three-wheeled vehicles manufacturing
- Boat building

1.18 Household and Office Furniture Manufacturing (*excluding ceramic products*)

1.19 Handicrafts, Cultural Products, Artificial Jewelry, Musical and Sports Goods Manufacturing

1.20 Agro-integrated Manufacturing Industry

1.21 Industrial Park Development and Leasing

(including ICT Parks)

1.22 Packaging and Labeling Manufacturing

1.23 Sandal Manufacturing

1.24 Aircraft Manufacturing

1.25 Aircraft Parts Manufacturing

1.26 Drone and Drone Parts Manufacturing

1.27 Furnace Oil Manufacturing

2. Agriculture Sector

2.1 Crop Development

- Annual crops development
 - Cereals and sugarcane
 - Oil crops
 - Pulses
 - Vegetables, fruits, herbs, and certified seed production
 - Fiber crops cultivation and preparation
 - Animal feed crops
 - Medicinal, aromatic, spice, and similar crops
- Medium-term perennial crops
 - Floriculture
 - Spices and peppers
- Permanent crops
 - Coffee and/or tea plantations
 - Rubber tree, jatropha, and palm plantations

2.2 Livestock Development

- Livestock and wildlife breeding and production (excluding fattening)
- Poultry and bird farming
- Beekeeping / honey production
- Sericulture (silkworm farming)
- Aquaculture (fish farming in artificial ponds)

2.3 Integrated Crop–Livestock Agriculture

2.4 Forestry Development and Related Activities

2.5 Seedling Propagation, Tissue Culture, and Seed Multiplication

2.6 Coffee Washing, Hulling, Export Preparation, and Roasting

2.7 Natural Honey and Beeswax Processing / Production

3. Information and Communication Technology (ICT) Development Sectors

1. Software development

2. Data center and cloud services
 3. Business process outsourcing (BPO)
 4. Startup development services
 5. Research, innovation, incubation, and/or development activities
 6. Information technology services
 7. Other services enabled by information technology
-

4. Electric Power Generation, Transmission, and Distribution

- 4.1 Electricity power generation
 - 4.2 Electricity power transmission and distribution
-

5. Hotel and Tourism

- 5.1 Star-rated hotels (including resort hotels), motels, and lodges
 - 5.2 Star-rated restaurants
 - 5.3 Tour guiding services
-

6. Construction Contracting Services

- 6.1.1 Construction contracting services
 - 6.1.2 Water well drilling
 - 6.1.3 Mining, petroleum, and geothermal drilling services
-

7. Education and Training

- 7.1 Secondary and higher education
 - 7.2 Kindergarten, primary education, and lower secondary education
 - 7.3 Technical and vocational education and training (including sports training) services
-

8. Health Services

- 8.1 Tertiary specialized hospital services
(The detailed scope shall be determined by a directive issued by the Ministry)
 - 8.2 Hospital services
 - 8.3 Diagnostic center services
 - 8.4 Clinic services
-

9. Architecture, Engineering, Technical Testing, and Analysis Services

- 9.1 Architecture and engineering services and related technical consultancy services
 - 9.2 Technical testing and analysis
 - 9.3 Geophysics and laboratory services
-

10. Logistics Services

- 10.1 Cold storage warehouse services
 - 10.2 Bulk cargo (silo) warehouse services
 - 10.3 Dry port services
-

11. Capital Goods Leasing (Excluding Vehicles)

12. Import Trade

- Importation of liquefied petroleum gas (LPG) or bitumen
-

13. Wholesale Trade

- Supply of petroleum and petroleum products and wholesale sale of own-produced goods
-

14. Special Economic Zone (SEZ)

- 14.1 Special Economic Zone developer
 - 14.2 Special Economic Zone sub-developer
 - 14.3 Special Economic Zone administrator
 - 14.4 Special Economic Zone enterprise
-

15. Other Services

- 15.1 Aerial pesticide spraying services
- 15.2 Transportation services using small aircraft
- 15.3 Liquid waste treatment and disposal services
- 15.4 Water-based sports and recreational services
- 15.5 Telecommunications services
- 15.6 Cryptocurrency mining