This Regulation is issued by the Council of The Amhara National Regional Government pursuant to Article 26 of the Proclamation to provide for the Reorganization of the Executive Organs of the Amhara National Regional State and the determination of their respective Powers and Duties Proclamation No. 60/2001 and Art.19 Sub -rticle 1 of the Amhara National Regional State Income Tax Proclamation No. 76/2002.
PART ONE
GENERAL

1. Short Title

This Regulation may be cited as “The Amhara National Regional Council of Regional Government Income Tax Regulation No.4/2002.”

2. Definitions

1. In this Regulation:
   (a) "Proclamation" means The Amhara National Regional State Income Tax Proclamation No. 76/2002.
   (b) "Tax Authority" shall describe the tax collecting bodies of the Region state established at all levels.

2. Words or terms referred to in this Regulation shall have the same meaning that they have in the Proclamation.

PART TWO
TAX PAYABLE UNDER SCHEDULE "A"

3. Income Exempt from Tax

1. The following categories of payments in cash or benefits in kind shall be excluded from computation of income taxable under Schedule "A":
   (a) Amounts paid by an employer to cover the actual cost of medical treatment of employees;
   (b) Allowances in lieu of means of transportation granted to employees under contract of employment;
   (c) Hardship allowance;
(d) Amounts paid to employees in reimbursement of traveling expenses and perdiems incurred on duty;

(e) Amounts of traveling expense paid to employees recruited from elsewhere than the place of employment on joining and completion of employment or in case of foreigners traveling expenses from or to their country, provided that such payments are made pursuant to specific provisions of the contract;

(f) Allowances paid to members and secretaries of boards of Public Enterprises and public bodies as well as to members and secretaries of study teams set up by the Regional Government and urban administrations;

(g) House rent allowance;

(h) Income of persons employed for domestic duties.

2. The Bureau of Finance and Economic Development of the Amhara National Regional State is hereby empowered, as per this Regulation, to determine the amount of payments specified under (b), (c), (d), (e) and (g) of sub-art. 1 of this Article hereof.

3. Categories of income other than those specified hereabove may be exempted from tax upon belief and by the decision of the Bureau of Finance and Economic Development.
4. Manner Of Assessment Of Fringe Benefits Rendered in kind

The manner in which Taxable fringe Benfits are calculated shall be determined by the directive issued by the Bureau of Finance and Economic Development on the basis of current market price.

5. Adding tax On Income

If the tax on income from employment, instead of being deducted from the salary or wage of the employee, is paid by the employer in whole or in part, the amount so paid shall be added to the taxable income and shall be considered as part thereof.

6. Tax on Income of Person Employed by a contract To Render Service

Income earned by individuals engaged to perform services under an agreement shall be taxable under Schedule "C" here below.

PART THREE

Tax Payable under Schedule "B"

7. Taxable Income

Pursuant to Part 3 of the Proclamation, taxable income from sources chargeable under Schedule B shall be calculated as follows:-

1. Gross income shall include:-

   (a) All payments in cash and all benefits in kind received by the lessor from the lessee;
All payments made by the lessee on behalf of the lessor according to the contract of lease;

The value of any renovation or improvement made under the contract of lease to the land or building, where the cost of such renovation or improvement was borne by the lessee in addition to rent payable to the lessor.

In computing taxable income obtained from the lease of buildings or portion thereof constructed for private dwelling purposes, all taxes paid with respect to the land shall be deducted from income to the extent that their expenses are proven by a legally acceptable vouchers despite the fact that tax payers may not be obliged to maintain books of account.

In calculating taxable income, only those items mentioned under Sub article 2 of this article and Article 16(1) (c) of the Proclamation shall be deductible from gross income.

8. Advance Payments

Unless the tax payer maintains books of account if the amount of rent paid to the lessor or sub-lessee covers a period longer than one (1) year, the total amount of income from such rent shall be attributable to the fiscal year in which the payment was made, but the tax on such income payable for said fiscal year shall be computed by prorating the taxable income over the number of years covered by the amount paid.
9. **Business Lease**

Income from the lease of business, including goods, equipment and buildings which are part of the normal operation of a business, shall be taxable under Schedule "C".

## PART FOUR

**TAX PAYABLE UNDER SCHEDULE “C”**

10. **Deductible Expenses**

Pursuant to Article 20 of the Proclamation, the following expenses shall be deductible from gross income in calculating taxable income:

1. The direct cost of producing the income, such as the direct cost of manufacturing, purchasing, importation, selling and such other similar costs;

2. General and administrative expenses connected with the business activity;

3. Premiums payable on insurance directly connected with the business activity;

4. Expenses incurred in connection with the promotion of the business inside and outside the country, subject to the limits set by the directive issued by the Bureau;

5. Commissions paid for services rendered to the business, provided that:
   
   (a) Said services were in fact rendered.
6. (b) The amount paid as commission for said services corresponds to the normal rates and paid by other businesses or persons or bodies similarly situated for similar services rendered in similar circumstances.

6. If the Income Tax Authority has reasons to consider that the total amount of salaries and other personal emoluments payable to the manager or managers of a private limited company is exaggerated, it may reduce said amount for taxation purposes to the limit which, in view of operations of the company, appears justifiable, either by disallowing the payments made to more than one managers or in any other way which may be just and appropriate;  

7. Sums paid as salary, wages or other emoluments to the proprietors or partners of the proprietors or to the children of the proprietors or members of the partnership shall only be allowed as deduction if such employees have the qualifications required by the post. Details shall be determined by the directives to be issued by the Bureau of Finance and Economic Development.

11. Non – Deductible Expenses

1. Among other items listed under Article 21 of the Proclamation, expenditures of the following nature shall not be allowed as deduction:—

   (a) Sum paid or taken as personal emoluments or expenditure for maintenance or other private purpose to the proprietor or partners of the enterprise, or partners of the proprietors;

   (b) Losses not connected with or not arising out of the activity of the enterprise;
2. For the purpose of Article 21 sub-art. 1(j) of the Proclamation “Representation Allowance” shall mean hospitality expenses incurred in receiving guests coming from outside of the enterprise in connection with the promotion and enhancement of the business.

3. For the purpose of Article 21 sub-art 1.(n) of the Proclamation “entertainment expense” means expenses used the provision of food, beverages, tobacco, accommodation, amusement, recreation or hospitality of any kind to any person whether directly or indirectly.

12. Deductible Interest

The rate of interest specified under Article 21 sub-art .1(e) of the Proclamation shall be allowed as deductible if it is paid:-

1. To lending institutions recognized by the National Bank of Ethiopia;

2. To foreign banks authorized to lend to enterprises in Ethiopia;

3. Notwithstanding the provisions of sub-Article 2 above, interest paid to foreign banks may only be deductible upon fulfilling the following:-

(a) The lending foreign bank shall, prior to the granting of any loan to any such person, file a declaration in writing with the Tax Authority wherein it informs said Authority concerning all loans granted to any person liable to pay income tax in Ethiopia;
(b) The borrower shall withhold 10% from the gross interest payable to the lender and transfer the same to the Tax Authority within two months of the end of the fiscal year;

13. Conditions for Deducting Gifts and Donations

1. For purposes of Article 21 sub-art.2 of the Proclamation gifts and donations shall be allowed as deductions on the following conditions.

(a) If the recipient of the donation is registered as welfare organization and where it is certified by the registering authority that the organization has record of outstanding achievement and its utilization of resources and accounting system operates with transparency and accountability;

(b) If the contribution is made in response to emergency call issued by the Government to defend the sovereignty and integrity of the country, to prevent man made or natural catastrophe, epidemic or for any other similar cause;

(c) Donation made to non-commercial education or health institutions;

(d) Donation made to non-profit development organizations.

2. The grant and donation made for purposes listed under sub-art 1. hereof may only be allowed as deduction where the amount of the donation or grant does not exceed 10% of taxable income of the taxpayer.
14. Depreciation Allowance

1. Subject to the provisions of Article 23 of the Proclamation, deductions shall be granted only to taxpayers who keep satisfactory records showing:

   (a) The date and cost of acquisition of the asset;

   (b) The total amount deducted for depreciation since the date of acquisition.

2. Any taxpayer claiming deductions for depreciation shall furnish the Tax Authority with satisfactory evidence that the data mentioned in sub-Article 1 shown in the records are true and correct.

3. Except as otherwise provided by law, gain obtained as a result of re-evaluation of assets shall not be the basis for depreciation.

4. Depreciation shall not be allowed for assets in respect of which all capitalized costs have been fully recovered if the transfer of such assets is made between related persons.

5. Subject to the provisions of Sub-Article 1 of this Article the acquisition cost of assets in respect of which all capitalized costs have been fully or partly recovered shall be deducted from income in the following manner:
a) For assets acquired after completing half or more of their life as prescribed by the proclamation, by prorating the acquisition cost over half the number of life years;

b) For assets acquired after completing less than half of their life as prescribed by the proclamation, by prorating the acquisition cost over the rest of its life years.

6. Subject to the provisions of Article 23 Sub-Article 5(b) of the Proclamation, in special circumstances or in respect of particular assets, the Income Tax Authority may permit the application of higher rates of depreciation allowance.

15. Carrying Loss Forward

For purposes of Article 28 of the Proclamation loss may be carried forward where the books of account showing the loss are acceptable to the Tax Authority.

16. Income Tax Exemption of Institutions and Associations

For purposes of Article 30 Sub-Article 2(c) of the Proclamation, income obtained by institutions and associations from activities that are incidental to their operations shall be exempt from tax paid under Schedule “C” on the following conditions:-

a) Where it is known that such institution or association are established for non profit objectives;

b) Where their utilization of resources and their accounting system operates with transparency and accountability:
c) Where it is believed that the income they obtain as a result of their operations is invested to promote activities that are of public benefits.

PART FIVE
OTHER INCOMES

17. Method of Calculating Gain Obtained from the Transfer of Capital Assets

For purposes of Article 37 sub-art.1 of the Proclamation, calculation of capital gains shall be made as follows:-

1. When calculating the gain realized from the alienation of capital assets, the basis of calculation of the tax shall be the historical cost of the building or the par value of the share, as appropriate.

2. The gain obtained from the alienation of capital assets is the gain realized over the historical cost of the building or the par value of the share, as appropriate.

3. When calculating the capital gain specified under sub-Article 2, inflation adjustment at a rate determined by the appropriate authority, in respect of buildings, taxes paid for the land and the building shall be allowed as deduction.

4. When calculating the capital gain realized from the alienation of buildings, the cost registered with the appropriate government body at the time of issuance of permit for the construction of the building, shall be taken to be the cost of constructing the building.
5. Tax payable on gain realized from the alienation of buildings shall be applicable only to buildings in municipal areas.

18. Exemption

For purposes of Article 37 sub-art .2 of the Proclamation, building, whether recently built or not, used for dwelling shall be exempt from capital gains only, if such building is fully used for dwelling for two years prior to the date of alienation.

19. Income from Rental of Property

For purposes of Article 35 of the Proclamation, income from rental of property shall mean gross income derived by a person not engaged in regular trade from casual rent of movable and immovable property.

PART SIX
DECLARATION OF INCOME AND ASSESSMENT OF TAX

20. Categories of Taxpayers

Category "A", category "B" and category "C" taxpayers are classified as follows:-

1. Category "A", shall include the following persons and bodies:-

   (a) Any company incorporated under the laws of Ethiopia or in a foreign country;

   (b) Any other business having an annual turnover of Birr 500,000 (five hundred thousand Birr) or more;
2. Category "B", unless already classified in category "A", any business having an annual turnover of over Birr 100,000 (one hundred thousand Birr);

3. Category "C", unless already classified in Categories "A" and "B" whose annual turnover is estimated by the Tax Authority as being up to Birr 100,000 (one hundred thousand Birr);

4. Any possible increase or decrease, by directives to be issued by the Minister of Finance and Economic Development, of the amount of annual turnover, pursuant to the powers vested in him under the Council of Ministers' Regulation No 78/2002, for the purposes specified in this article hereof, shall be directly applicable to the regional state as well.

21. Maintenance of Books of Account

Category "A" and "B" taxpayers shall maintain the following records and books of accounts:

1. Category "A" taxpayers shall at the end of the year submit to the Tax Authority a balance sheet and a profit and loss statement and the details of the following:

(a) Gross profit and the manner in which it is computed;

(b) Documents showing general and administrative expense

(c) Documents showing deduction as a result of depreciation; and
(d) Documents showing provisions and reserves,

2. Category "B" taxpayers shall at the end of the year submit to the Tax Authority profit and loss statement.

3. All entries in the records and accounts referred to in sub-arts. 1 and 2 hereof shall be supported by appropriate vouchers.

22. Vouchers

1. Taxpayers who have the obligation to maintain books of account shall have to register with the Tax Authority the type and quantity of vouchers they use before having such vouchers printed.

2. Any printing press, before printing vouchers of taxpayers, shall ensure that the type and quantity of such vouchers is registered with the Tax Authority.

23. Standard Assessment for Category "C" Taxpayers

1. For purposes of Article 69 of the Proclamation, category “C” taxpayers shall pay tax in accordance with schedule "1" and "2" attached with this Regulation.

2. Where a taxpayer derives income from more than one business activities and such income has not been aggregated, the Tax Authority shall aggregate the taxable income of each activity indicated in Schedule "2" and "3" of this Regulation and shall apply the tax
rate under which the sum total falls.

3. If category "C" taxpayer maintains book of accounts acceptable to the Tax Authority, he shall pay the tax on the basis of such books of account.

4. Where the Tax Authority finds that the taxpayer obtained gross revenue in excess of Birr100,000 as a result of engaging in new business activity, it shall assess the tax on the basis of such findings.

5. The Bureau may modify the standard assessment rate specified in the Schedules attached with this Regulation

24. Declaration of Income

1. Any Category "C" taxpayer shall, within the period prescribed under Article 69 sub-art.2 of the Proclamation declare to the Tax Authority:
   (a) his annual turnover;
   (b) the amount derived from a source other than his regular operations;
   (c) The type of business carried on is changed.

2. The Tax Authority may, on the basis of declaration submitted by category "A", "B" or "C" taxpayers, and on the basis of other information and surrounding circumstances, determine whether the taxpayer shall continue in the same category or his category be modified for the following tax year.

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3. If a non-resident person operates his business activity in Ethiopia through an agent or agents the non-resident person and the agent or agents shall be jointly responsible for submitting the declaration of income and payment of the tax thereon.

25. Place of Declaration of Income

1. Declaration of income shall be made to the Tax Authority of the Regional state or other subordinate revenue-collecting bodies.

2. If a resident taxpayer is engaged in more than one business activities, he shall declare his income to the Tax Authority at the place the head office of the business is situated.

3. A non-resident taxpayer shall declare his income to the Tax Authority at the place where he derived most of his income.

4. Notwithstanding the provisions of the preceding sub-Articles, unless it is specifically provided otherwise by law, a regional tax payer who operates businesses with a licenses issued by more than one regional states or urban administrations shall declare his income and pay the tax thereon, to the Tax Authority of each such Regional state or urban administration which issued the business license.
26. Withholding Scheme

Organizations having legal personality, Government offices, private non-profit organizations, Non-Governmental organizations, institution and associations shall, pursuant to Article 54 sub-art.2 of the Proclamation, withhold income tax of 2% from payments they make to tax payers providing the following goods and services.

1. Supply of goods involving more than Birr 10,000 in any one transaction or one supply contract;

2. Rendering of the following services involving more than Birr 500 in any one transaction or one service contract:

   (a) Consultancy service;
   (b) Designs, works, written materials, lectures and dissemination of information;
   (c) Lawyers, accountants, auditors and others rendering services of similar nature;
   (d) Sales persons, arts and sports professionals, and brokers including insurance brokers and other commission agents;
   (e) Advertisements and entertainment programs through mass media;
   (f) Construction services;
   (g) Patents for scientific and intellectual works;
   (h) rent for lease of machineries building and other goods.
including computers;

(i) Maintenance services
(j) Tailoring;
(k) Printing;
(l) Insurance,

3. The Bureau of Finance and Economic Development may by directive increase or decrease the list of goods and services or the threshold.

4. Splitting procurement which otherwise should be made in a single transaction, with the intention of hindering the withholding of tax, shall be a criminal offense punishable under the proclamation.

27. Obligations of Withholding Agents

1. Any person who by law is required to withhold tax from payments to be made for the supply of goods or rendering of services listed under Article 26 above shall have the following obligations:

(a) Issue serially numbered official receipt to persons and organizations from whom tax is withheld;

(b) Fill in a form to be supplied by the Tax Authority the name, the taxpayer identification number (if supplied) of a person or organization to whom payment is made, and the total amount of money paid and tax withheld;
(c) Person and organization withholding the tax shall transfer to the Tax Authority the amount withheld within the month, together with the form indicated under sub-art.1 (b) above.

2. The Tax Authority shall prepare and distribute the form mentioned under (b) above.

**PART SEVEN**

**MISCELLANEOUS**

28. **Information**

Information shall be supplied only to the extent authorized by Article 39 of the Proclamation, where a person seeking for the information submits a written request to the head of the Tax Authority; and the head of the Tax Authority authorizes in writing the supply of such information.

29. **Power to Issue Directives**

The Bureau of Finance and Economic Development may issue directives helpful for the proper implementation of this Regulation.

30. **Transitory Provisions**

Income Tax Regulations No. 258/1962 shall continue to apply to all liabilities that are already due and payable upon the coming into force of this Regulation.
Inapplicable Laws

All laws which are inconsistent with this Regulation shall not apply to matters covered under this Regulation.

Effective Date

This Regulation shall come into force as of the 9th day of July 2002.

Done at Bahir Dar,
This 13th day of December 2002

Yosef Retta
Head Of Government Of
The Amhara National Regional
State