

Mining Income Taxation in Ethiopia (Basic features)

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Presentation outline

- Introduction: Income taxation in Ethiopia
- Mining income tax in Ethiopia: Basics
- Mining income tax: Transfer Pricing related issues
- Concluding remarks

1. Introduction: Income taxation in Ethiopia

- Regular income tax (Proc. 286/2002 as amended);
- Petroleum operations income tax (Proc. No 296/1986 as amended);
- Mining income tax (Proc. No. 53/ 1993 as amended)

2. Mining income tax in Ethiopia: Basics

- Large scale mining operations  **joint federal & regional governments;**
- Small scale and artisanal mining operations  **Regional states**
- Joint federal –regional income tax from large scale mining operations: **allocated based on 50%-50%;**
- Mining income tax from large scale operations is administered by ERCA;
- **Mining income tax revenue (at LTO):** 1.86%, 1.35% and 1.85% for FYs 2011/12, 2012/13 and 2013/14 respectively;

Mining Income tax: Basics (cont'd)

- Mining Income tax Proc. 53/1993 (as amended) is currently in use;
- Income tax from large scale mining operations
- Tax rate = 25 percent;
- Taxable income = Gross income less all allowable revenue expenditure, depreciation, reinvestment deduction and permitted losses;

Mining Income tax: Basics (Cont'd)

- **Depreciation:** straight line basis over a useful life of **four** consecutive years;
- **Reinvestment deduction:** 5% of gross income is allowed to be deducted as a reinvestment cost;
- **Permitted losses** from mining operations may be carried forward and deducted from gross income in the next 10 accounting years;

3. Mining income tax: Transfer pricing issues

- **Definition of affiliated persons:** The definition differs from that of affiliated persons in the Income Tax Proc. (286/2002); for example, a 50% threshold of ownership of voting rights is provided in Proc. 53/1993;
- **Determination of gross income and expenditures:** No definition of “market prices for similar arms-length transactions” is provided.
- **Absence of documentation requirement and penalties**

4. Concluding remarks

- Differences between the different income tax regimes are noted;
- The mining income tax law gives power to adjust income and expenditures between affiliated parties to the licensing authority while the tax is administered by the revenue authority;
- Reviewing mining income tax law and harmonizing income tax laws is worth considering;
- Reviewing mining income tax revenue allocation scheme in the context of international practices, and the need for states' capacity building is also worth considering .

Thank You