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# Global tax

Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in global tax.





# Ethiopia ■

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Getu Jemaneh is a senior partner, tax and business support leader at HST Consulting PLC. He is a fellow chartered certified accountant with significant experience in tax compliance and planning for financial institutions, commercial enterprises, energy sector and trading companies. His experience includes advising clients on compliance reviews, corporate tax return review, due diligence, tax investigation assistance and tax refund management.

■ **Q. Could you outline what you consider to be the key developments relating to tax regulations that you have seen in Ethiopia over the last 12-18 months?**

**JEMANEH:** The Ethiopian government has introduced a series of reforms that include revising some existing tax laws. To effectively realise these reforms, new tax laws have been enacted, including excise tax on import and production on selected items such as beverages, automobiles and other basic goods. New directives have also been issued to clarify implementation of existing tax laws. These directives significantly reduce the confusion that had faced taxpayers. The government is also undergoing new investment laws to streamline tax and investment incentives. The tax authority is also working on building up its internal staff to strengthen tax collections. In addition to human resources, the tax authority has been modernising its tax collection process, including promoting online tax filing and payment. These new developments are important for the government to increase the efficiency of tax administration.

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**■ Q. What factors are driving the political agenda on tax-related decisions? Does there seem to be a motivation to get tougher on tax enforcement, for example?**

**JEMANEH:** The Ethiopian government is currently reforming its political and economic agenda – making changes to its policies on the role of the private sector in development. The government is promoting private businesses and, at the same time, striving to fill budget requirements through tax collection. This implies that the government is getting tougher on enforcing tax laws. Most taxpayers expect to be audited for tax compliances within one or two years.

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**■ Q. To what extent is transfer pricing a key challenge for multinational enterprises? Are too many companies underestimating the importance of compliance and risk management in this area?**

**JEMANEH:** Transfer pricing (TP) is becoming a key topic for the tax authority. The Ethiopian government is working hard to attract multinationals to invest in the country. Apart

from direct investment, multinational companies are actively involved in mega projects. Any financial transactions that take place between principal and local offices are considered key transactions by TP tax audits. Recently, the tax authority created a TP audit directorate, with the objective of auditing transactions that attract TP. The authority is working aggressively in this area and companies should be vigilant. Most, however, consider TP to be normal and do not pay it particular attention. This reluctance could lead to excessive tax liabilities following a tax audit, so care should be taken in this respect.

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**■ Q. How would you describe the tax laws in Ethiopia as they relate to foreign entities? Has there been an effort to tighten laws and crack down on issues such as offshore tax jurisdictions?**

**JEMANEH:** Ethiopian tax law is equally applicable to both foreign and local entities. Moreover, the tax authority is clarifying tax provisions in the law which helps taxpayers to understand the impact of specific provisions on their business. Offshore operations are fully taxable in Ethiopia if this income is generated in the name of an Ethiopian entity. Particular



attention is focused on splitting contracts in Ethiopia. According to a recent directive issued by the tax authority, any foreign entity which has registered a permanent establishment (PE) in any form of registration will be liable to pay tax on worldwide income that is attributable to the PE.

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■ **Q. Have you seen an increase in tax disputes in Ethiopia? What lessons can companies learn from their outcome?**

**JEMANEH:** Tax disputes are increasing due to the comprehensive tax audits being conducted by the tax authority. Since the authority has the right to undertake tax audits going back five years, tax penalties can be significant. There is also a tendency for taxpayers to appeal tax audit findings. Companies should seriously consider early tax compliance rather than waiting for a tax audit. Tax audit findings are generally not reversed following an appeal.

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■ **Q. If a company does find itself the subject of a tax-related audit, investigation or enquiry, what steps should it take to manage its relationship with tax authorities?**

**JEMANEH:** Any taxpayer can be subject to a tax audit. The tax authority has the right to conduct various types of audits, including a desk audit, comprehensive audit or investigative audit. The first step to take when a tax audit begins is to understand what type of audit will be conducted. An official letter is sent to the taxpayer with a list of assigned auditors. The second step is to welcome the assigned tax auditors and explain the nature of business the taxpayer is engaged in, including significant operational areas and how financial transactions are processed. If the company being audited is using a specialised transaction processing system, it is always advisable to allow the tax audit team to properly understand how the system operates. Thirdly, it is important to assign a senior person to liaise with the tax auditors. Finally, the taxpayer should attend meetings, document any areas of disagreement, and provide additional information and explanation should the need arise.



*“ Companies should seriously consider early tax compliance rather than waiting for a tax audit. Tax audit findings are generally not reversed following an appeal. ”*

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**■ Q. What general advice would you give to companies on effective tax planning? How important is it to create tax efficient structures and improve internal functions and processes across the organisation?**

**JEMANEH:** Organisations should consider tax compliance as one of the key areas of their business. Hence, having an internal tax department or external tax adviser is critical when considering potential tax efficiencies through effective tax planning. A tax-efficient structure can be explored during the initial stages, however changing company structure is a time-consuming process. ■



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