DADIMOS & PARTNERS LLP

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Tenth Edition

We are delighted to present the tenth edition of our newsletter, featuring insightful updates on recent legal developments shaping Ethiopia's regulatory landscape.

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Welcome to the Tenth Issue of Our Newsletter!

Contents:

In this edition, we offer an overview of notable legislative developments introduced during September and October 2025. These are:

- Startup Proclamation No. 1396/2025
- Directive on Registration for Value Added Tax No. 1104/2025
- TOT to VAT: Procedural Manual

The Ministry of Finance has issued an explanatory note on the Income Tax (Amendment) Proclamation No. 1395/2025 on November 6, 2025. The note highlights the criminal liability applicable to any person who continues to use TOT invoices following their cancellation, Minimum Alternative Tax (MAT), tax on dividends, restrictions on cash-based transactions, and other relevant provisions under the Proclamation.

We will present a detailed analysis in our upcoming eleventh newsletter. Stay tuned.

Furthermore, our contribution on **Renewable Energy in Ethiopia** to the *International Comparative Legal Guide (ICLG) 2026* was published in October 2025. You can access the publication here.

We hope you will find these updates helpful, as they may have important implications for your business.

Contact Us

RIZQ HOUSE, 6th floor, 444 Gabon St
P.O. Box 120448
Kirkos, Addis Ababa, Ethiopia.com

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A. Startup Proclamation No. 1396/2025

Background

After years of discussion and revision, the Parliament unanimously approves the long-awaited Startup Proclamation No. 1396/2025 “the Proclamation” first of its kind on July 17, 2025, as a foundational step toward unlocking the country’s innovative potential and supporting its growing tech ecosystem. The proclamation is a direct outcome of the Digital Ethiopia 2025 Strategy, which emphasized the need to strengthen the digital ecosystem through sound legal and policy frameworks. It complements other major reforms already enacted, including the Electronic Transactions, Personal Data Protection, Digital ID, and Digital Payments Proclamations. It aims at creating a favourable environment for innovation-driven enterprises, particularly those led by youth, while stimulating technological advancement and entrepreneurship across the country.

Key Provisions

- **Definitions**

The proclamation provides definition of important terms like startup, innovative business, accelerator, incubator and other essential terms because it determines who qualifies for support and incentives available under the proclamation and avoiding abuse of benefit by ordinary businesses posing as startups.

- **Institutional Framework**

The Proclamation establishes key institutions to regulate and support the startup ecosystem by clearly defining their powers and responsibilities. The Ministry of Innovation and Technology (“the Ministry”) serves as the lead implementing body, overseeing the registration, promotion, and support of startups and innovative businesses. The National Digital Economy Council ensures that startup initiatives align with Ethiopia’s digital economy strategy, coordinates public and private stakeholders, reviews incentive reports, endorses startup grant directives, and monitors performance. The National Startup Designation Committee is responsible for issuing internal operating procedures, evaluating startup applications, and submitting its decisions to the Ministry for final approval. The Proclamation also introduces a Startup Grant Program to cover costs related to research, implementation, operation and development of initial stage startups, and a Startup Fund of Funds which is a government–private sector initiative to finance startup growth. Additionally, it creates an independent Grievance Committee composed of at least seven members to ensure transparency and accountability in implementation.

- **Eligibility and Registration**

To qualify as a startup, an entity must meet the definitional requirements set out in the Proclamation. An individual who is not yet registered may also be designated as a startup if they meet the legal definition and are the owner of the product, process, or service they provide or intend to provide. In addition, at least 25% of the startup’s capital must be held by the founder, and the entity must not be a public company. Applications for designation are submitted through the digital startup portal by completing the required form and attaching the necessary supporting documents. If the application is approved, the Ministry issues a Certificate of Designation. If the application is rejected, the Ministry must notify the applicant in writing and provide reasons for the decision.

The Certificate of Designation for both startups and startup ecosystem builders must include key details such as the entity’s name, the founder’s name, growth stage or classification, and the relevant economic sector. The Proclamation also sets out the eligibility requirements for startup ecosystem builders, as well as the grounds for suspension, and revocation of a designation.

- **Recognition and Incentives**

Startups that meet the eligibility criteria and receive official recognition are entitled to a Certificate of Designation, allowing them to access a range of legal and financial incentives. These include simplified licensing and administrative procedures, facilitation of access to finance and credit guarantees, and eligibility for tax and customs benefits to be further detailed in forthcoming regulations.

- **Regulatory Sandbox**

The Proclamation allows the Ministry to establish and implement a regulatory sandbox framework that will enable testing and introduction of new and innovative products, services and processes to the market by startups.

- **Foreign startups and Ecosystem Builders**

The Proclamation allows foreigners to establish or invest in startups in Ethiopia encouraging them by making the minimum capital requirement under Article 9 of the Investment Proclamation No. 1180/2020 inapplicable and entitling them to all incentives provided under the Startup Proclamation and allowing foreigners who opt to join a designated startup for work permit valid three years and startup visa. Another notable feature of the Proclamation is its strong emphasis on intellectual property (IP) protection. Startups are encouraged to safeguard their innovations, inventions, and designs under existing IP laws. This helps innovators secure ownership of their ideas and creates confidence when seeking investors or partners.

B. Directive on Registration for Value Added Tax

Background

The Ministry of Finance ("the Ministry") issued Directive No. 1104/2025 on the Registration for Value Added Tax ("the Directive") on September 3, 2025. The Directive was issued pursuant to the authority granted to the Ministry under Article 12 of the VAT Proclamation ("the Proclamation"). The objective of the Directive is to clarify the registration obligations of body and taxpayers engaged in mixed supplies, thereby ensuring fairness and consistency in the application of VAT. It also aims to require any person providing professional services to register for VAT, even if their annual turnover is less than two million Birr, provided that such a person is not classified as a Category "B" taxpayer under Article 50 of the Income Tax Proclamation No. 979/2016 (as amended).

Key Points

The Directive identified taxpayers who are required to register for VAT in accordance with the Proclamation as Follows:

- Category "A" taxpayers;
- Taxpayers who are obligated to maintain books of account; and
- Taxpayers who voluntarily maintain books of account.
- Taxpayers whose aggregate turnover from taxable and exempt transactions exceeds Birr 2,000,000 (two million Birr).

The Directive further specifies the timeline for registration and collection of VAT. Existing taxpayers who are obligated to register must do so within thirty (30) days from the effective date of the Directive. They are also required to collect VAT on all taxable goods and services supplied to the market from the date of their registration.

C. TOT to VAT: Procedural Manual

Introduction

The Ministry of Revenues has issued a procedural manual ("Manual") to facilitate the conversion of taxpayers from the Turnover Tax (TOT) to the Value Added Tax (VAT) system, following the cancellation of TOT on July 8, 2025, in accordance with Article 2(40) of the Income Tax (Amendment) Proclamation No. 1395/2017. The manual aims to ensure effective and transparent collection of information from TOT taxpayers, enabling a smooth and orderly transition to the VAT system.

Key Points

- **Scope of Application**: The Manual applies to all TOT taxpayers registered before July 8, 2025.
- **Classification of Taxpayers:** The manual categorises all TOT taxpayers into two groups, Group One and Group Two. Group One consists of taxpayers who have generally complied with their tax obligations in the 2025 fiscal year and prior periods. These taxpayers have settled or arranged payment agreements for outstanding debts, converted their sales registration devices to the 15% VAT rate, and properly managed their unused TOT receipts with QR codes. Conversely, taxpayers who are non-compliant or who have failed to meet these requirements are categorised under Group Two.
- **Registration for VAT:** Taxpayers are required to complete a form to register for VAT in accordance with Proclamation No. 1341/2016 and Directive No. 1104/2017. As outlined in the Manual, branch offices and regional or city tax authorities, register TOT payers identified under Group One within 30 days, in line with Section 3 of Directive No. 1104/2017. For TOT payers under Group Two are required to register for VAT according to the issued schedule, completing the process within six months. The tax payment period for registered taxpayers is determined by the Tax Debt Management Department and authorised by the head of the branch or main office.
- **Information clearing and organization:** To ensure effective transition to the VAT system, the tax administration first organises and manages taxpayer information, including names, identification numbers, tax return status (monthly or quarterly), outstanding debts, undistributed TOT receipts with QR Codes, and other registration details. It also reviews and reconciles information for taxpayers who, for various reasons, maintain two separate tax accounts for VAT and TOT. Furthermore, the administration uses tracker tool to monitor taxpayers with cases pending in court, enabling the facilitation of debt settlements or the establishment of payment agreements. Also, taxpayers who have failed to file tax returns for over six months, or who have submitted empty declarations, settle their outstanding liabilities before registering for VAT.
- **Use of unused TOT Invoices:** Taxpayers may temporarily use unused TOT invoices for VAT transactions by replacing the title with "VAT Invoice," indicating the applicable 15% VAT rate, and clearly displaying their VAT registration number in bold. Once the official VAT invoice book is received, any remaining TOT invoices must be properly disposed.
- **Complaint resolution system:** A taxpayer complaint regarding services shall be reviewed within 10 days by relevant professionals in areas such as registration, tax declaration, debt management, and receipt issuance. If dissatisfied with the initial decision, the taxpayer may submit a written complaint to the Deputy Manager of the Tax Operations Sector of the Branch Office, and if still unresolved, to the Chief Executive of the Branch Office. Should the issue remain unsettled at the Branch Office level, the complaint may then be escalated to the Tax Operations Sector for a final decision.

ABOUT US

Dadimos & Partners LLP is a premier, full-service law firm in Ethiopia. From commercial and corporate law, including cross-border M&A, to banking and finance, international arbitration, tax, competition, intellectual property, employment, and non-profit law, we deliver legal solutions tailored to meet our clients’ diverse needs. Our team is composed of lawyers with wide-ranging expertise, rich local and international experience, and in-depth knowledge of the law. We blend Ethiopian legal expertise with global perspectives. Our vision of modern legal practice forms the foundation of our innovative, reliable, and results oriented legal advice and support.