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Global Payroll Association Presents

Ethiopia



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Ethiopia

A Brief Country Overview and Payroll Highlights

A brief country overview:

Ethiopia is bordered by Eritrea to the north and northeast, Djibouti and Somalia to the east, Sudan and South Sudan to the west, and Kenya to the south. With about 87.9 million inhabitants, Ethiopia is the most populous landlocked country in the world, as well as the second most populated nation on the African continent. It occupies a total area of 1,100,000 square kilometres (420,000 square miles) and its capital and largest city is Addis Ababa.



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Key Country facts

Official Language: Amharic

Currency: Birr (ETB)

Country dial code: +251

Country abbreviation: ET



National minimum wage: None, some largest group of wages earners, earned a monthly minimum wage of 420 BIRR. Employees in the banking government institutions and public enterprises set their own minimum wages: public sector employees, the banking and insurance sector had a minimum monthly wage of 336 BIRR.

Annual filing Deadline: Within 30 days of the end of each calendar year

Time Zone: EAT (UTC+3)

Public Holidays in Ethiopia

Public Holidays in Ethiopia			
2015	2016	Holiday	Holiday Type
7 th January	7 th January	Ethiopian Christmas Day	National holiday
3 rd January		The Prophet's Birthday	National holiday
20 th January	19 th January	Epiphany	National holiday
2 nd March	2 nd March	Adowa Victory Day	National holiday
10 th April	29 th April	Ethiopian Good Friday	National holiday
12 th April	1 st May	Ethiopian Easter Sunday	National holiday
1 st May	1 st May	International Labor Day	National holiday
-	5 th May	Freedom Day	National holiday
28 th May	28 th May	Derg Downfall Day	National holiday
18 th July	7 th July	Eid-al-Fitr	National holiday
12 th September	11 th September	Ethiopian New Year	National holiday
28 th September	-	Finding of the True Cross	National holiday
23 rd September	13 th September	Eid al-Adha	National holiday
21 st December	21 st December	December Solstice	Season

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Business and culture in Ethiopia

What you need to know about processing payroll in Ethiopia

Establishing as an Employer in Ethiopia

To register a company in Ethiopia, an entity must select a company name and submit proper documents to the Documents Authentication and Registration Office (DARO). Once a letter is obtained from the Commercial Registry, the company must open a bank account in Ethiopia. Once a bank account is secured, the entity must register with the Ethiopian Revenue and Customs Authority for income tax and VAT. Before conducting business, an employer must apply for a Taxpayer Identification Number or TIN.

Employment

Average working hours are eight hours per day and a 48-hour workweek. Employees are entitled to a 24-hour rest period each week, which typically falls on Sunday. Overtime may not exceed two hours per day, 20 hours per month, or 100 hours per year. Minor employees under the age of 18 are not permitted to work over seven hours per day and may not work between the hours of 10pm and 6am.



The Blue Nile Falls is a waterfall on the Blue Nile River in Ethiopia. It is known as Tis Abay in Amharic, meaning, 'smoking water'. It is situated on the upper course of the river, about 30 km downstream from the town of Bahir Dar and Lake Tana. The falls are considered one of Ethiopia's best-known tourist attractions.

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Getting down to business

In Ethiopia, greetings are formal and courteous. Handshakes are somewhat prolonged and tend not to be firm and met with direct eye contact. There is generally no touching between the sexes. If a foreign businesswoman were to extend a hand to a local Ethiopian man, he would accept so not to offend her. Business cards should be presented and received with only the right hand or with both hands.

Visas and work permits in Ethiopia

All foreign employees must obtain a work permit in order to lawfully work in Ethiopia. Both the employee and the employer must apply for a work permit. A work permit is provided by the Ministry of Labour and Social Affairs and is renewed on an annual basis. To reside in Ethiopia for more than 90 days, the employee must apply for a residence permit with the Department of Immigration. All foreign workers are exempt from paying social taxes even though they are entitled to the same rights as Ethiopian citizens.

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Tax & Social Security

Tax

2014/2015 Income tax table – resident in ETB	
Range	Percentage
0 to 150	0%
151-650	10%
651-1400	15%
1401-2350	20%
2351-3500	25%
3501-5000	30%
Above 5000	35%

Payroll preparation is mainly governed by the income tax law of Ethiopia which is composed of a progressive taxation system which is applied also to all Ethiopia's regional governments. As well as tax calculations there are also:

1. Provident fund schemes,
2. Private pension schemes,
3. Government backed pension plans
4. Other statutory deductions such as labor union, Court order, etc.

Some of the sections of the Ethiopian tax laws are very "general" and merely stipulate that detailed procedures should be issued by the relevant government agencies by way of directives. These directives sometimes don't exist and can sometimes be in conflict with each other.

Taxes on monthly salaries are calculated during the monthly payroll preparation and have to be paid to tax authorities within one month after having been deducted from the employee. The same applies also for the various provident funds and pension schemes. There are stiff penalties for late submission of tax returns and all other statutory deductions.

The directives for fringe benefits and other income from employment are sometimes difficult to apply due to inefficient distribution of directives to all stakeholders.

In Ethiopia, all income from employment like various allowances like fuel, representation, cash indemnities etc are taxable.

The tax rates for payout for accrued, unutilized annual leave during termination processing are heavy: they are pro-rated over the period of months the income applies to and are subject to the maximum tax rate.

The tax rate for severance pay, however, is much lighter as it is taxed at a monthly salary rate to support the concept that the employee may not have financial difficulties whilst searching for his next employment. Employment contracts whether permanent or temporary are always copied to the private organization employees' pension offices.

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The rates applied for provident fund & pension schemes sometimes confuse accountants and cause inaccuracies as the rates for provident fund varies from company to company.

Payments for outstanding performance or the award of cash prizes at times like marriage are not tax effective. They are taxed at the same rate as the normal monthly salaries.

Most allowances like fuel, representation & house allowances are taxed fully as long as the whole remuneration package is above a certain level.

The payment of accrued leave is complicated. Accrued annual leave paid on termination of contract should be prorated over several months and should reflect that actual income received and the tax rates applicable at time of earnings. It is therefore strongly recommended to get employees to take their vacation.

Tax reporting year

For individuals, the tax year is the government's fiscal year, which runs from 8 July to 7 July.

Payslips

Employers must provide employees with a payslip each month. Each month, the payslip should include a detailed list of all deductions to the employee's salary including taxes, social insurance and voluntary contributions.

Compliance

Employers must make monthly withholding payments within 30 days following the end of the previous month's payroll. Employers contribute about 11 per cent of the payroll towards Ethiopian Social Security. Employees typically contribute seven per cent of their salary towards Social Security.

Data Retention

Employers are recommended to retain data for a minimum of 10 years

Termination pay

Employers or employees who wish to terminate employment must do so in writing. The notice that must be given depends on length of service. For example, for employment up to one year, one month's notice is required. Employment lasting more than one year but less than nine requires two months of notice. Employment exceeding nine years requires three months written notice.

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Statutory Absence/Payments

Annual leave

Employees are entitled to 14 days of annual leave for their first year of service. Employees who complete at least 26 days of service are entitled to annual leave. Annual leave increases by one day for each additional year worked.

Maternity leave

Employees are entitled to 30 days paid leave prior to the due date of the child. After the child is born, the employee is entitled to 60 days of paid leave.

Sickness

Employees, who have completed their probationary period, are entitled to paid sick leave. The leave may not exceed six months in a 12-month period. Sick leave is paid at normal wages for the first month and reduced to 50 per cent thereafter.

Marriage leave

Newlywed employees are entitled to three days of paid leave after their marriage.

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