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LEGAL UPDATE

TAKE AWAYS FROM NEW PROPERTY TAX PROCLMATION



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OVERVIEW OF ETHIOPIA'S NEW PROPERTY TAX SYSTEM

Property taxes are taxes imposed on property (real or personal, immovable or movable, corporeal or incorporeal) that belongs to and appropriated an individual or entity.

On January 14,2025 the Ethiopian federal parliament approved the property tax proclamation number 1365/2025 which introduced a new taxation system for urban land buildings and land improvements.



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PURPOSE OF THE PROCLAMATION



Enabling urban areas to generate their own revenues
Enhancing fair wealth distribution

Collecting tax revenue that can be used for investment expenditures

Ensuring transparency in the property tax system
Achieving the objectives of living as one economic community



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MAIN DEFINED TERMS

Property : means lease right, old possession right, building and land improvement on urban land.

Property tax : means tax levied in respect of property in accordance with this proclamation.

Property market value : means the value of a property determined taking in to consideration the selling price of similar buildings .

Taxable value : means 25% of the market value or replacement cost as appropriate of a property which is used as a base for computation of the tax.

Urban area : means a city with established municipality or having a population size of 2000 or more residents of which 50% of its labor force is primarily engaged in non-agricultural activities.

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CONT.

Building:- means any building whether fully constructed or under construction on urban land intended for residential or business or other purposes.

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SCOPE OF APPLICATION

The proclamation applies to immovable property situated in urban areas throughout the country.

It gives regional governments the power to enact detailed laws in accordance with the proclamation.



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PRINCIPLES OF PROPERTY TAX

When assesing, rating, collecting and determining of the bases of the tax it must comply with the guiding principles like:- Sustainability ,Economic efficiency, Equity, Buoyancy, Consistency, Ease of administration, Benefit from development,Transparency and Simplicity.



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INTRODUCTION OF PRIORITY STATUS

Financial institutions or other lenders in order to have priority right for claims over the loan they give they need to grant the loan if the property as a collateral has a tax clearance certificate from the relevant organ of the city government which confirms that the tax is paid on such property.

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TAX CATAGORIES



The proclamation classified property tax in two catagories which are:-

- Tax that applies on urban land use right :- which determined on the taxable value



- Tax that applies on land improvement and ownership of buildings on urban land :- which is calculated based on market value.

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IMPOSITION OF PROPERTY TAX



The proclamation imposes property tax on all land use right acquired on urban land under:-

- Lease hold tenure
- On urban land through old possession or
- On urban land improvements and/or building ownership

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CONT.

The proclamation stipulates that taxes on urban land use tax and on building tax are assessed separately using different tax rates but will be charged jointly.



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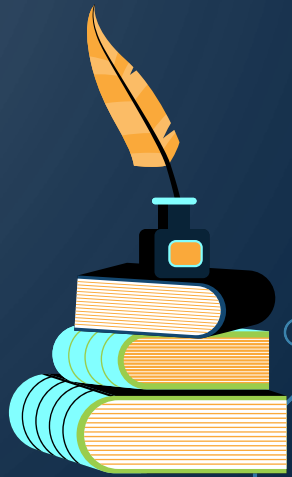
TAXABLE VALUE AND TAX RATE

Taxable Value means 25% of the market value or percentage to be determined by the ministry of finance ,so property tax is levied on its taxable value.

The minimum and maximum range of property tax shall be determined by the council of ministers based on the studies conducted by the ministry of finance, until then as a starting point:-

A)Urban land use tax rate 0.2% -1% of the taxable value.
B)Buildings land improvement 0.1% -1% of the taxable value

Further, the proclamation states that the property tax rate will be gradually implemented over four years starting from the lower rate.



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TAX EXEMPTIONS

Based on the factors like local condition, size and the value of the property the proclamation exempt taxes on a residential building serving for a single house hold, land holding and building used by religious institutions for religious and cemetery purposes and urban land wholly used for agricultural purposes, land uses and buildings owned by the federal government by inter governmental organization and properties for public use are also exempted however these organizations are required to make compensatory good will contribution in lieu of property tax.



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PRINCIPLES OF EXEMPTIONS

When the Federal And Regional Governments determine Property Tax Exemption in lieu of tax good will contribution.

The Following Principles Shall Be Taken into Consideration:-

A)The Relationship Between In Lieu Of Tax Contribution, The Type Of The Tax And Its Category.

B) Fairness And Meaningfulness

C) Interest of the public

D) Non-interference with the tax Jurisdiction of both federal or regional governments

E)Equitable exemption

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TAX LIABILITY AND PENALTY

Persons who acquire the right to use urban land, as well as owners of buildings, shall be liable to pay property tax unless specifically exempted by the proclamation.

For existing owners, the obligation to pay property tax shall commence from the date of enactment of this proclamation. for newly acquired rights, the obligation shall begin from the date the property right is obtained.

If the taxpayer fails to Pay the tax in accordance with the tax notice and has not lodged a formal written complaint penalties will apply, however, the total penalty shall not exceed 100% of the property tax that the taxpayer is liable to pay.

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METHOD AND TIME OF PAYMENT

Property tax shall be paid and collected either in full or in installments, as determined by the relevant regional legislation.

The tax shall be levied on an annual or quarterly basis, in accordance with the Ethiopian fiscal year (hamle to sene).

The tax amount may be adjusted based on periodic property assessments, consumer price index revisions, and annual tax rating evaluations, as provided under this proclamation.

Taxpayers with out income may defer payment until they transfer the property by sale or any other means by entering into an agreement in such cases only the tax for the last 5 years must be paid with earlier

liabilities waived ▪

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GRIEVANCE HANDLING

Establishment of tax review committees to address property tax related claims, decisions by these committees can be appealed to a tax appeal tribunal provided the appellant deposits 50% of the disputed tax amount and files a claim with in 30 days of the tax notice or review decision.

A dedicated tax appeal tribunal separate from existing tax appeal tribunals is introduced to handle property tax related disputes while the tribunal's decision on substantive matter are final, errors of law may be appealed to the high court and subsequently to supreme court.

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DISCLAIMER

The information provided in this legal update is for general informational purposes only and does not constitute legal advice.

No reader should act or refrain from acting based on the content of this update without first seeking appropriate legal counsel in the relevant jurisdiction or area of law.

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THANK YOU!

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