KEY CHANGES IN PROPOSED VAT PROCLAMATION NO. 1341/2024



The Government of Ethiopia proposed a new Value Added Tax (VAT) Proclamation No. 1341/2024, the new proclamation will replace the earlier VAT Proclamation No. 285/2002 and its sebsequent amendements. This update aims to highlights key changes made in specific areas of the new endorsed proclamation. It is crucial for businesses and individuals involved in taxable activities to understand these changes to ensure compliance and avoid penalties.

SELF-SUPPLIES

The old proclamation did not explicitly address the application of goods for non-creditable purposes. However, the new proclamation specifies that the application of goods by a registered person to a non-creditable purpose is treated as a taxable supply. This ensures that VAT is accounted for on goods used for purposes not related to taxable activities.

SUPPLIES OF SECOND-HAND GOODS

Proclamation No. 285/2002 lacked detailed provisions regarding second-hand goods. However, the new proclamation introduces detailed conditions under which the supply of second-hand goods is taxable. It emphasizes the status of the supplier and the condition of the goods, ensuring clarity on the treatment of second-hand goods.

REVERSE CHARGED VAT

The old proclamation did not have specific requirements for reverse charged VAT. In contrast, the new proclamation mandates that registered persons, government entities, or large unregistered persons receiving services from suppliers without a physical place of business in Ethiopia must notify the supplier about the reverse charged VAT. This change aims to enhance compliance and VAT collection from international service providers.

BRANCHES AND DIVISIONS

The old proclamation did not provide provisions for separate registration of branches or divisions. The new proclamation allows for the possibility of separate registration of branches or divisions under specific conditions, providing greater flexibility for large organizations with multiple branches or divisions.

VAT REPRESENTATIVE

The old proclamation did not outline the role and responsibilities of a VAT representative. The new proclamation defines the registration and responsibilities of a VAT representative, including personal liability for the VAT liability of the person they represent. This addition ensures that non-resident businesses have a designated representative to manage their VAT obligations.

RECORD KEEPING AND NOTIFICATIONS

The old proclamation emphasized record-keeping requirements and notifications of changes by registered persons. The new proclamation reinforces the importance of maintaining accurate records and timely notifications to the tax authorities, ensuring continued emphasis on compliance and transparency.

IMPLICATIONS FOR BUSINESSES AND INDIVIDUALS



The changes introduced in the new proposed VAT Proclamation No. 1341/2024 have several implications for businesses and individuals.

INCREASED COMPLIANCE REQUIREMENTS

Businesses must ensure they are aware of the new provisions and update their internal processes accordingly.

VAT ON SELF-SUPPLIES

Companies need to account for VAT on goods applied to non-creditable purposes, affecting their VAT returns.

HANDLING SECOND-HAND GOODS

Clear guidelines on second-hand goods require businesses dealing in such items to comply with the new conditions.

REVERSE CHARGE MECHANISM

Entities receiving international services must adhere to the reverse charge requirements, impacting how VAT is reported and paid.

BRANCH AND DIVISION REGISTRATION

Large organizations with multiple branches may benefit from separate registration, but must ensure compliance with the conditions.

VAT REPRESENTATIVES

Non-resident businesses must appoint a VAT representative, adding a layer of responsibility and compliance.

This document serves as a tax alert to help businesses and individuals understand the changes in the new endorsed VAT proclamation and take necessary actions to comply. For further information or assistance, please contact us at tax@feyselandassociates.com