A NEW INVESTMENT INCENTIVE

Framework in Ethiopia | Council of Ministers Regulation No. 586/2026 | Legal Update

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TGA GLOBAL LAW FIRM

Investment Framework

Ethiopia has introduced a new investment incentive regime through Council of Ministers Regulation No. 586/2026.

For investors looking at Ethiopia, this regulation is important because it reshapes how fiscal incentives are structured and accessed.

Investment Framework

What Investors Should Know

The Previous Approach

The earlier framework under Investment Incentive Regulation No. 517/2022, later amended by Regulation No. 566/2025, relied heavily on full business income tax exemptions for investors in eligible sectors.
In practice, this meant the incentive system focused primarily on tax holidays.

What Changed in 2026

On 23 February 2026, the Council of Ministers issued Regulation No. 586/2026, replacing the earlier incentive regulation.
The new regulation:

- Repeals Regulation No. 517/2022 (as amended)
- Allows existing directives to remain in force unless they conflict with the new regulation

Available Incentives

Key Incentives for Investors

Incentives Available

1. **Customs Duty Incentives**
Customs duties on imported goods required for investment projects may be reduced or eliminated.

2. **Capital Allowance**
Businesses may deduct the cost of qualifying capital assets from taxable income.

3. **Reduced Income Tax**
Certain investments qualify for lower corporate income tax rates.

4. **Capital Gains Tax Exemption**
Gains arising from the transfer of assets may be exempt from taxation in specified circumstances.

5. **Dividend Tax Exemption**
Dividends received from qualifying investments may be exempt from tax.

6. **Minimum Alternative Tax (MAT) Exemption**
Eligible investors may be exempt from minimum alternative tax during the incentive period.

Conditions Investors Must Meet

- Tax registration and proper accounting records
- Ensuring incentives are used only for the approved investment activity
- Compliance with time limits attached to incentives
- Meeting the minimum investment threshold of USD 10 million for non-SMEs
- Avoiding multiple incentives unless specifically permitted
- Demonstrating value addition through the investment
- Entering into performance agreements with the relevant investment authority
- Complying with licensing, regulatory and reporting requirements

Income Tax

Income Tax Incentives Overview

INVESTMENT CATAGORY	ELIGIBILITY	INCOME TAX BENEFIT	ADDITIONAL INCENTIVE
Deductible Capital Expenditure	Expenditure listed in Table 2 of the Annex, or investment of at least USD 2 million in leased capital goods	Capital expenditure deductions allowed as specified in Table 2	-
Environmental Protection Investments	Recognition by the Environmental Protection Authority; project must use more than 50% renewable energy or recycled inputs	15% income tax for 5–10 years, depending on the activity	-
Investors Outside SEZs	Activities listed in Table 1 of the Annex	15% income tax rate	-
Listing on the Securities Markets	Company listed on a licensed securities exchange	25% income tax rate for 3 years	-
Scientific Research	Research expenses incurred for the advancement of business activities	Research expenses are tax deductible	-
SEZ Developers / Sub-Developers	Recognition by the Investment Board	5% income tax for 10 years	Dividend tax exemption for 5 years; MAT exemption for 10 years
SEZ Enterprises	Activities listed in Table 1 of the Annex	15% income tax rate	Fertilizer manufacturing: 5% income tax for 10 years
Startup Ecosystem Builders	Designation by the Ministry of Innovation and Technology	Capital gains tax exemption on the sale of startup ownership interests	Dividend tax exemption for 5 years; MAT exemption for up to 3 years (to the extent of startup investment losses)
Startups	Designation by the Ministry of Innovation and Technology	5% income tax for 10 years	Dividend tax exemption for 5 years

Sector Incentives & Suspension Grounds

Mining, Petroleum and Geothermal Works Sector Incentives

- Special small-scale mining license holders are eligible for customs duty and tax incentives for approved machinery and equipment.
- Mining license holders may import aircraft, helicopters, drones and other exploration equipment with incentives once their necessity is verified by the relevant regulatory authority.
- Natural gas investments are now included within the incentive regime.
- The provision allowing expatriate employees of petroleum license holders to import household goods duty-free has been removed.
- Incentives relating to energy investments now extend to alternative thermal energy sources, including biofuels.
- Agreements or work programs between investors and the regulatory authority require an opinion from the Minister of Finance before approval.

Grounds for Suspension Or Cancellation Of Incentives

The regulation also identifies circumstances where incentives may be suspended or cancelled:

- Failure to meet obligations under performance agreements
- Failure of investment institutions or mining offices to submit required reports
- Improper use of previously imported goods
- Non-compliance with capital market requirements relating to listing incentives

This document is intended for informational purposes only and does not constitute legal or investment advice. Investors are advised to consult relevant authorities or professional advisors before making investment decisions.



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