Hirko and Associates (HALO) Legal Update

MAJOR OVERHAUL

ETHIOPIA PROPOSES SIGNIFICANT AMENDMENTS TO THE TAX ADMINISTRATION FRAMEWORK

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INTRODUCTION

Ethiopia is currently considering sweeping amendments to its Tax Administration framework through a draft amendment to the Tax Administration Proclamation. The proposed reform introduces substantial procedural, compliance, evidentiary, enforcement, and dispute resolution changes that are expected to significantly impact taxpayers, businesses, financial institutions, and tax practitioners operating in Ethiopia.

If enacted in its current form, the draft amendment would represent one of the most consequential developments in Ethiopia's tax administration regime in recent years. The proposed reform signals a clear policy direction toward stricter tax enforcement, enhanced digitalization, stronger accountability mechanisms, and more structured dispute resolution procedures.

Notably, the draft amendment introduces a hybrid model that combines enhanced enforcement powers with alternative dispute resolution mechanisms such as conciliation. At the same time, it substantially tightens evidentiary rules, expands managerial liability, strengthens penalties for non-compliance, and grants broader corrective powers to the Tax Authority.

This legal update highlights the major reforms proposed under the draft amendment and examines their potential practical implications for taxpayers and businesses.

1. CRITICAL DEFINITIONS INTENDED TO RESOLVE PREVIOUS AMBIGUITIES

The draft amendment formally introduces important legal concepts that are expected to play a central role in future tax assessments, investigations, objections, and appeals if adopted.

The proposed law provides a comprehensive definition of "Tax Fraud," encompassing acts such as concealment of income, falsification of books and records, preparation of fake receipts, destruction of documents, presentation of inconsistent records to different authorities, and submission of false deductions or claims intended to mislead the Tax Authority.

In addition, the draft amendment introduces the concept of "New Evidence," which is narrowly defined to include evidence that was not submitted during the original assessment process, is materially relevant to the correctness of the decision, and has the capacity to significantly affect the amount of tax determined.

2. PROPOSED RISK-BASED TAXPAYER REGISTRATION AND CATEGORIZATION

The draft amendment seeks to modernize taxpayer registration procedures by requiring registration and classification based on internationally recognized industrial classification standards adopted in Ethiopia.

Furthermore, the Tax Authority would be expressly empowered to categorize taxpayers according to risk profiles and operational characteristics for purposes of administration, compliance monitoring, service delivery, and enforcement.

If implemented, this reform would lay the foundation for a more data-driven and risk-based tax administration system.

3. PROPOSED EXPANSION OF THE STATUTE OF LIMITATION FOR TAX ASSESSMENTS

The draft amendment significantly revises the limitation period applicable to amended tax assessments.

Under the proposed framework, the general limitation period would remain five years from the filing of a self-assessment declaration or issuance of a notice of assessment. However, where fraud is established through evidence, the Tax Authority would be granted an extended period of ten years to issue amended assessments.

The draft also clarifies the Authority's power to issue assessments at any time within the ten-year period once fraud has been established, thereby addressing uncertainties that previously existed regarding the timing of fraud discovery.

4. INTRODUCTION OF CONCILIATION AND ALTERNATIVE DISPUTE RESOLUTION MECHANISMS

One of the most transformative features of the draft amendment is the proposed introduction of conciliation procedures for tax disputes.

Under the proposed framework, disputes may be resolved through a structured conciliation process after an objection has been filed but before an appeal is determined. The process may be initiated either by the taxpayer or by the Tax Authority.

The draft law establishes eligibility criteria, procedural timelines, confidentiality obligations, and the role of neutral conciliators who would facilitate negotiations without adjudicating the dispute. Importantly, disputes involving suspected fraud or wilful tax evasion would be excluded from conciliation.

The draft amendment also provides transitional applicability for certain pending disputes. If adopted, this reform would reflect a major shift toward faster and less adversarial dispute resolution mechanisms within Ethiopia's tax system.

5. PROPOSED RESTRICTION ON INTRODUCTION OF NEW EVIDENCE DURING APPEALS

The draft amendment introduces strict evidentiary limitations in tax objections and appeals.

As a general rule, taxpayers would be prohibited from presenting evidence during appeals or correction proceedings if such evidence was not previously submitted during the original assessment or objection process.

Limited exceptions are proposed where:

- Failure to present the evidence would impose severe hardship;
- The evidence became available only after the original decision; or
- The failure resulted from force majeure circumstances.

If enacted, this amendment would fundamentally change the strategic approach to tax disputes by requiring taxpayers to present complete supporting documentation at the earliest stages of tax proceedings.

6. INTRODUCTION OF CONDITIONAL TAX CLEARANCE CERTIFICATES

The draft amendment introduces a mechanism allowing taxpayers with pending disputes or outstanding liabilities to obtain conditional tax clearance certificates under specified circumstances.

Taxpayers may qualify where they have initiated objections or appeals, or where they have entered into credible payment arrangements with the Tax Authority.

However, the issuance of such certificates would not extinguish tax liabilities, waive penalties, or terminate ongoing disputes.

7. NEW TAX CLEARANCE REQUIREMENTS FOR FOREIGN INVESTOR REPATRIATION

The draft amendment imposes additional obligations on financial institutions in relation to foreign investment transactions. Banks would be required to verify tax clearance before permitting foreign investors to repatriate profits, dividends, or proceeds arising from the transfer or sale of business interests abroad.

If implemented, this reform would strengthen coordination between tax administration and foreign exchange regulation.

8. EXPANSION OF ELECTRONIC TAX ADMINISTRATION SYSTEMS

The draft amendment reinforces the government's broader digitalization agenda by empowering the Tax Authority to mandate the use of electronic tax systems.
The Authority may require the use of:

- Electronic tax systems;
- QR-code-based receipts;
- Electronic receipts for electronic transactions; and
- Other digital compliance mechanisms through future directives.

Businesses should therefore anticipate increasing digitization and technological integration within tax compliance operations if the amendment is enacted.

9. EXPANDED AUTHORITY TO CORRECT TAX DECISIONS

The draft amendment substantially broadens the Authority's power to correct tax decisions on its own initiative.
Corrections may be made where decisions involve:

- Calculation errors;
- Omissions;
- Inconsistencies with tax laws;
- Newly discovered evidence; or
- Other mistakes resulting in incorrect tax outcomes.

The draft also clarifies the procedural stage at which such corrections may be made.

10. INTRODUCTION OF PENALTIES FOR LATE PRESENTATION OF EVIDENCE

The draft amendment introduces a significant proposed penalty regime relating to evidentiary non-compliance.
Where a taxpayer introduces qualifying "new evidence" during an appeal process after failing to submit it during the initial assessment phase, the taxpayer may be subjected to an additional financial penalty calculated as a percentage of the disputed tax amount.

This proposal further emphasizes the importance of timely disclosure and proper document management during audits and assessments.

11. STRENGTHENING OF ADMINISTRATIVE AND CRIMINAL PENALTIES

The draft amendment substantially increases monetary penalties and criminal exposure for various tax-related offenses.
The proposed law imposes severe sanctions for:

- Failure to issue receipts;
- Underreporting or understating sales values;
- Invoice manipulation;
- Fraudulent tax practices; and
- Repeated non-compliance.

The proposed reform demonstrates a clear policy intention to intensify deterrence and enforcement mechanisms.

12. EXPANSION OF CORPORATE AND MANAGERIAL CRIMINAL LIABILITY

The draft amendment significantly expands personal liability exposure for corporate officers and management personnel.
Where a company commits a tax offense, managers, finance heads, directors, or other responsible officers who authorize, facilitate, direct, or knowingly permit the misconduct may be held personally liable.
The draft law recognizes a limited defense where the individual lacked knowledge of the misconduct and had established adequate internal control mechanisms.
If enacted, this reform would elevate the importance of governance, oversight, and internal compliance systems within corporate structures.

13. PERSONAL LIABILITY FOR WITHHOLDING TAX VIOLATIONS

The draft amendment also strengthens accountability in relation to withholding tax obligations. Managers, chief accountants, and responsible officers may face direct personal penalties where companies fail to properly withhold or remit withholding taxes.
This proposal reinforces the growing trend toward individual accountability in tax administration enforcement.

14. PRACTICAL IMPLICATIONS FOR BUSINESSES AND TAXPAYERS

The draft amendment introduces a fundamentally different compliance environment for taxpayers operating in Ethiopia.
Businesses should proactively reassess:

- Document retention systems;
- Audit preparedness procedures;
- Invoice issuance mechanisms;
- Finance department controls;
- Tax dispute strategies; and
- Internal governance frameworks.

Particular attention should be given to ensuring that all relevant evidence and supporting documentation are submitted during the earliest stages of tax proceedings.
The proposed introduction of conciliation mechanisms may also create new opportunities for efficient dispute resolution, particularly for taxpayers seeking faster settlement of disputes without prolonged litigation.

15. CONCLUSION

The proposed amendment to Ethiopia's Tax Administration framework represents a potentially major transformation in the country's tax enforcement and dispute resolution landscape.
By combining stricter compliance measures with alternative dispute resolution mechanisms and expanded digital administration powers, the proposed reform is expected to significantly reshape taxpayer interactions with the Tax Authority if enacted.
Businesses and taxpayers should closely monitor developments surrounding the draft amendment and begin evaluating the potential operational, compliance, and litigation implications that may arise from its adoption.

HIRKO & ASSOCIATES

DISCLAIMER

This legal update is prepared by Hirko & Associates Law Office for general informational purposes only and is based on the draft version of the proposed amendment to the Tax Administration Proclamation currently under consideration in Ethiopia. Please note that the draft amendment has not yet been officially enacted or published in the Federal Negarit Gazette, and the final version may contain revisions, additions, omissions, or other substantive changes.
Accordingly, this update should not be relied upon as reflecting the final enacted position of the law.

This publication does not constitute legal advice or a legal opinion on any specific matter, transaction, or factual circumstance. Tax laws and proposed legislative amendments are inherently complex, and their interpretation and application may vary depending on the particular facts and regulatory developments applicable to each case.

Readers are therefore strongly advised not to act or refrain from acting solely on the basis of the information contained herein without obtaining independent professional legal advice tailored to their specific circumstances.