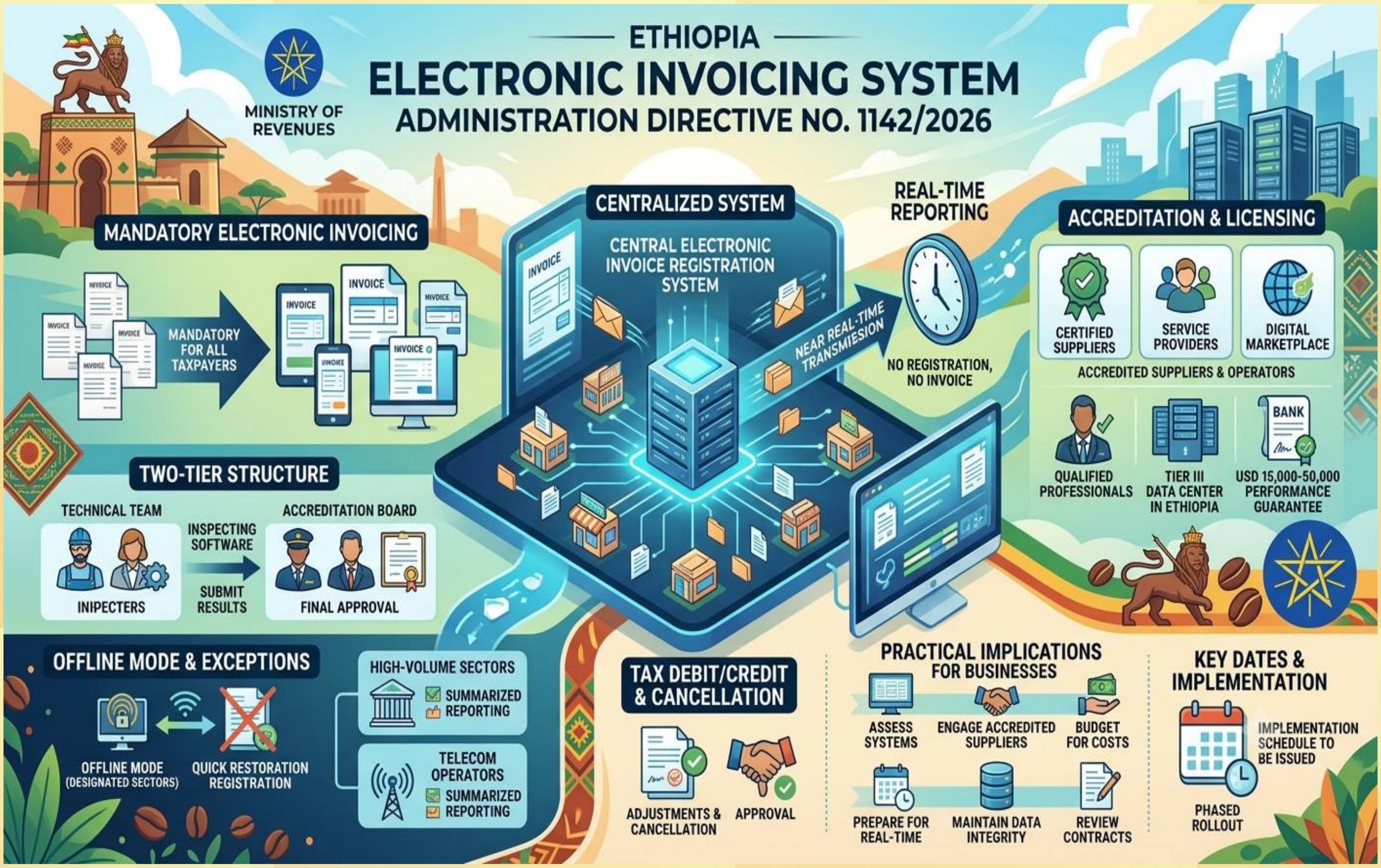
Hirko and Associates (HALO) Legal Update

ELECTRONIC INVOICING SYSTEM ADMINISTRATION DIRECTIVE NO. 1142/2026



COMPREHENSIVE LEGAL UPDATE

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INTRODUCTION

The Ministry of Revenues has enacted the **Electronic Invoicing System Administration Directive No. 1142/2026**, effecting a fundamental transformation of Ethiopia's tax reporting landscape. This Directive shifts the paradigm from traditional paper-based invoicing to a mandatory, real-time digital reporting framework that will fundamentally alter how businesses record and report transactions.

The Directive establishes a comprehensive regime governing the use, licensing, and oversight of electronic sales registration systems across Ethiopia. This legal update provides an exhaustive overview of the Directive's major features and the critical compliance obligations imposed on all stakeholders.

I. MAJOR FEATURES OF THE DIRECTIVE

1. Mandatory Electronic Invoicing for All Taxpayers

The use of an Electronic Sales Register System that integrates with the Ministry's central Electronic Invoice Registration System is now mandatory for all taxpayers that maintain books of accounts under Ethiopian tax law. The Directive also permits taxpayers to voluntarily adopt the system, even if not statutorily required, providing flexibility for businesses seeking to modernize their operations. This mandatory framework represents a significant departure from previous practice, where electronic invoicing was optional or limited to specific sectors.

2. Definition and Legal Status of Electronic Invoices

Under the Directive, an "Electronic Invoice" is defined as a digital transaction document issued using sales registration software officially recognized and authorized by the Ministry of Revenues. This definition is significant because electronic invoices now legally replace physical paper vouchers and carry identical evidentiary weight under Ethiopian tax law. For the first time, the legal framework provides clear statutory recognition of digital transaction records, eliminating prior ambiguity regarding their admissibility in tax audits and legal proceedings.

3. Centralized Electronic Invoice Registration System

The Directive establishes a centralized Electronic Invoice Registration System, a software platform developed by the Ministry to: centrally register, verify, and process invoice data; integrate with taxpayers' systems for data reception; and provide various invoice-related services to both the Authority and taxpayers. This centralization enables the Ministry to monitor transactions in near-real-time, significantly enhancing enforcement capabilities while simplifying compliance for taxpayers.

4. Comprehensive Licensing Regime for Sales Registration Systems

The Directive introduces a comprehensive licensing framework for all sales registration systems, categorizing them into distinct types with specific requirements. Sales Registration Software must meet technical, security, and data exchange standards and pass inspection by a designated Technical Team. Software as a Service (SaaS) providers must additionally ensure data isolation, portability, and redundancy across data centers. E-Commerce and Digital Marketplace Platforms must separately register users, enable seller-specific invoicing, and allow the Authority to suspend users. Taxpayer-Exclusive Use Systems are available only where accredited suppliers cannot adequately cover the taxpayer's business needs. This tiered approach ensures that all system types, regardless of their complexity or delivery model, meet minimum standards for security, reliability, and tax compliance.

5. Rigorous Accreditation Framework for Suppliers and Service Providers

The Directive establishes a rigorous accreditation framework for Sales Registration System Suppliers, Sales Registration System Service Providers, and E-Commerce and Digital Marketplace Operators. Accreditation requires a valid Ethiopian business license; qualified professionals with degrees in Computer Science or related fields and at least two years of experience; performance guarantees ranging from USD 15,000 to USD 50,000 depending on the category, renewable every two years; and infrastructure meeting Tier III data center standards with data centers located in Ethiopia. This accreditation system is designed to ensure that only competent and financially stable entities provide invoicing systems, protecting taxpayers from unreliable or non-compliant solutions.

6. Two-Tier Inspection and Accreditation Structure

The Directive establishes a two-tier inspection and accreditation structure comprising a Technical Team of up to nine members, including Software Engineers and E-Invoicing Experts, responsible for conducting system testing, verifying compliance, and submitting results to the Board; and an Accreditation Board of nine members chaired by the Head of the Authority, which reviews technical findings, approves licensing, renewals, and revocations, and issues accreditation certificates. This separation of technical and decision-making functions ensures objectivity and professional rigor in the accreditation process.

7. Real-Time Transaction Reporting

The system mandates near-real-time transmission of transaction data directly to the Ministry's centralized servers. Critically, invoices are issued only after the system transmits data to the Electronic Invoice Registration System and receives an Invoice Reference Number and QR Code. This "no registration, no invoice" principle ensures that the Ministry has immediate visibility into all taxable transactions, virtually eliminating the possibility of unrecorded sales.

8. Offline Mode for Designated Sectors

The Directive makes offline functionality mandatory for taxpayers in sectors listed in Annex Two of the Directive, recognizing that certain businesses operate in areas with limited internet connectivity. The Authority retains the power to modify the list of sectors subject to this requirement, providing flexibility to respond to changing economic and infrastructural conditions. Offline systems must be capable of transmitting and registering transaction data as soon as the real-time connection is restored.

9. QR-Coded Manual Invoices

The Directive permits the use of manual invoices with QR codes only in limited circumstances: system unavailability, taxpayer system failure, or large-scale IT or power outages. Such use is strictly temporary until the problem is resolved, and all transactions conducted through manual QR invoices must be registered in the central system within 72 hours of restoration. This provision ensures business continuity while maintaining the integrity of the reporting system.

10. Tax Debit, Credit Notes, and Invoice Cancellation

Taxpayers may perform sales price adjustments using Tax Debit or Tax Credit Notes through the system. The Directive also establishes a procedure for cancelling registered invoices, requiring Authority approval and registration in the central system. The Authority may impose limits on cancellation frequency and timing, preventing abuse of the cancellation mechanism to evade tax liabilities.

11. Special Exemptions for High-Volume Sectors

The Directive permits the Authority to authorize certain sectors, including banks, securities markets, digital payment processors, and telecom operators, to issue invoices without a direct connection to the central system. This exemption is subject to conditions including summarized sales reporting within prescribed time limits, storage of invoice data for the legally prescribed period, and provision of a publicly accessible invoice verification service. This recognizes that high-volume sectors face unique operational challenges while ensuring they remain subject to effective oversight.

12. Cloud Sales Register System

Taxpayers may use the Authority's Cloud Sales Register System in specific circumstances, including for newly registered taxpayers for up to two months until they implement an accredited system; for taxpayers lacking capacity to use an accredited system; in cases where the Authority requires or authorizes its use; and during system suspension or defects until alternative arrangements are made. This provides a fallback option to ensure that all taxpayers can comply with the mandatory invoicing requirement regardless of their technical capabilities.

13. License Renewal and Revocation

Licensed systems must undergo renewal every two years, with inspections as necessary. Licenses may be revoked for failure to implement Authority-issued modifications, renewal overdue by more than three months, expiry or revocation of security certificates, unrectified system defects, unauthorized system modifications, or unauthorized sharing or misuse of transaction data. This enforcement mechanism ensures ongoing compliance and provides clear consequences for non-compliance.

14. Transitional Provisions and Repeal of Prior Provisions

Implementation shall follow a schedule issued by the Authority, and taxpayers already obligated under the previous Tax Invoice Utilization and Administration Directive No. 149/2018 must adopt compliant systems according to the new schedule. The Directive expressly repeals Articles 8 and 23 of the previous directive, eliminating prior inconsistent provisions and establishing a unified legal framework.

II. EXHAUSTIVE COMPLIANCE OBLIGATIONS

A. Taxpayer Obligations

All taxpayers maintaining books of accounts must use an accredited Electronic Sales Register System. A registered electronic invoice must be issued for every sale, and transactions must be transmitted and registered in real-time with the central system. Taxpayers in designated sectors must use systems with offline functionality.

Taxpayers must register through the Taxpayer Portal to obtain a System Number, API Key, and Client Secret, and must obtain a Digital Signature Certificate from the Information Network Security Administration or an authorized body. Systems must be configured using the issued credentials.

If requested by the buyer, the buyer's identity, Taxpayer Identification Number, or phone number must be recorded on the invoice. Invoice data must be stored for the legally prescribed period and provided upon request. Transactions conducted during system disconnection must be registered within 72 hours of restoration.

Taxpayers may not make any software changes or modifications not authorized by the Authority. During inspections, taxpayers must provide information, grant access, and cooperate fully. Taxpayers under special authorization must submit summarized sales information within the prescribed time limit and provide a publicly accessible invoice verification service.

Each invoice must have a unique number and QR code. Taxpayers must notify the Authority when the system is non-functional. All transactions using manual QR invoices must be registered within 72 hours after restoration, and registered invoices must be delivered to the buyer through digital means upon request.

Cancellation requests must be submitted immediately upon discovery of an error, and taxpayers must respond to additional evidence requests within 48 hours. Taxpayers using a system for exclusive use may not transfer it to a third party without Authority approval.

Failure to comply triggers administrative penalties under the Federal Tax Administration Proclamation and potential criminal liability.

B. Supplier and Service Provider Obligations

Suppliers and service providers must be accredited by the Authority to develop, distribute, or provide sales registration software or services in Ethiopia. Systems must comply with the Directive's technical requirements regarding data exchange, security, offline capability, and mobile POS requirements. Systems must undergo and pass testing by the Technical Team.

Suppliers must maintain minimum staffing levels based on the number of taxpayers or annual sales volume, and must provide a bank- or insurance-guaranteed bond renewable every two years. Data centers must meet Tier III standards and be located in Ethiopia, with redundant communication links and Public IP addresses.

System updates, security patches, and modifications issued by the Authority must be implemented within the specified timeframe. Any system modifications must be reported to the Authority in advance. Suppliers must cooperate with monitoring, provide requested information and reports in a timely manner, and extract and provide customer and transaction data during Authority investigations.

Systems must not collect data beyond what is required for operation, transfer data to other software or databases, or use taxpayer data for other purposes without a legally valid special agreement. Standardized maintenance and support must be provided under a Service Level Agreement. The Authority must be notified whenever a taxpayer commences or terminates system use.

Supplier licenses must be renewed every two years. Upon service termination or license cancellation, a six-month notice must be given, and an approved exit strategy must be provided. Taxpayers must be able to export, transfer, and delete their data.

Failure to comply triggers forfeiture of the performance guarantee, plus criminal and civil liability under relevant laws.

C. E-Commerce and Digital Marketplace Operator Obligations

E-Commerce and Digital Marketplace Operators must be accredited by the Authority. Market-user taxpayers must be separately registered and notified to the Authority. Interaction and data exchange between users and the platform must be secure. The Authority must be able to suspend and reinstate market-user taxpayers.

Invoices must display the correct seller or service provider information. Where multiple sellers are involved, each must issue an individual invoice using their own TIN, address, and name. Operators must provide a performance guarantee of USD 25,000, renewable every two years, calculated based on user count or annual sales volume.

D. Taxpayer Exclusive-Use System Obligations

Taxpayers using exclusive-use systems must demonstrate that accredited suppliers cannot adequately cover their business operations. The system must comply with the Directive's technical requirements regarding data exchange, security, and other standards. The taxpayer must have a distinct ownership and management structure or be administered by a Board. The taxpayer must follow standard accounting records and procedures convenient for audit. The system must be developed in-house or maintained under a support agreement with the developer. A performance guarantee of USD 15,000, renewable every two years, calculated based on annual sales volume, must be provided.

III. PRACTICAL IMPLICATIONS FOR BUSINESSES

Immediate System Assessment

Businesses must urgently evaluate whether their current invoicing systems, including Point of Sale systems and Enterprise Resource Planning systems, can integrate with the Ministry's Electronic Invoice Registration System. If not, they must acquire an accredited system from a licensed supplier. This assessment should be conducted as a matter of priority, given the mandatory nature of the requirement and the likelihood of phased implementation schedules.

Engage Only Accredited Suppliers

Taxpayers are legally prohibited from purchasing or deploying invoicing software from uncertified vendors. Transactions recorded on unauthorized software risk being voided for tax deduction purposes. Businesses should verify the accreditation status of their current and potential suppliers before entering into any agreements.

Budget for Compliance Costs

Accreditation and system upgrades may require significant investment, including performance guarantees ranging from USD 15,000 to USD 50,000, professional staffing, and infrastructure costs. Businesses should incorporate these expenses into their financial planning to avoid disruption when the implementation schedule takes effect.

Prepare for Real-Time Reporting

The shift from retrospective monthly reporting to near-real-time data transmission requires businesses to have stable internet connectivity, reliable power, and robust IT support. Businesses operating in areas with unreliable infrastructure should prioritize the acquisition of systems with robust offline capabilities as permitted by the Directive.

Maintain Data Integrity

Businesses must take proactive precautions to maintain data integrity, secure digital signatures, and prevent unauthorized alterations to the digital sales ledger. This includes implementing appropriate internal controls, restricting system access to authorized personnel, and maintaining audit trails of all system activities.

Review Contracts with Suppliers

Existing agreements with software developers and IT service providers should be reviewed to ensure they include provisions for compliance with the Directive, including data portability, exit strategies, service level agreements, and liability allocation. Contracts should also address the handling of system updates, security patches, and modifications issued by the Authority.

IV. KEY DATES AND IMPLEMENTATION SCHEDULE

The Directive enters into force upon its registration by the Ministry of Justice and publication on the website of the Ministry of Revenues. Implementation will follow a schedule to be issued by the Authority, which will determine the phased rollout of the mandatory system use across different taxpayer categories and sectors. Taxpayers should monitor official communications from the Ministry for announcements regarding applicable deadlines.

Disclaimer

This legal update is provided for informational purposes only and does not constitute legal advice. Specific legal advice should be sought based on individual circumstances and operations.