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HIRKO AND ASSOCIATES (HALO) LEGAL UPDATE

COMPREHENSIVE LEGAL UPDATE

Ethiopia Introduces a Statutory Conciliation Regime for Tax Disputes

Part One of a Four-Part Series on Proclamation No. 1434/2026

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September 2026 | Addis Ababa, Ethiopia

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I. INTRODUCTION

On 30 July 2026, the Federal Negarit Gazette published Proclamation No. 1434/2026, a Proclamation to Amend the Federal Tax Administration Proclamation No. 983/2016. The amendment is the most significant restructuring of Ethiopian tax administration since the principal Proclamation was enacted in 2016. It introduces, for the first time in Ethiopian tax law, a statutory conciliation mechanism for the resolution of tax disputes, reworks the limitation periods governing amended assessments, expands the definition of tax fraud, tightens the rules on the presentation of new evidence, hardens the penalty regime for invoice-related violations, and creates a conditional tax clearance certificate with direct consequences for banks and foreign investors.

This update is the first in a four-part series examining the amendment. Part One addresses the new conciliation regime. Part Two will examine assessment powers, revision of assessments, and limitation periods. Part Three will address enforcement, sanctions, and criminal liability. Part Four will address institutional, administrative, and transitional changes, together with practical compliance implications.

II. THE STATUTORY BASIS OF THE NEW CONCILIATION REGIME

The amendment inserts a self-contained framework comprising new Articles 61 to 71, which, upon the renumbering effected by the same instrument, become Articles 72 to 83 of the Proclamation. Until now, a taxpayer dissatisfied with an assessment had essentially two avenues: an objection to the Authority and, thereafter, an appeal to the Tax Appeal Commission and ultimately to the Federal High Court and the Federal Supreme Court. Each of those avenues was adjudicatory in character, adversarial in procedure, and binary in outcome. The amendment now adds a structured, consensual alternative that permits the taxpayer and the tax administration to resolve their disagreement by agreement rather than by adjudication.

The amendment begins by supplying the conceptual vocabulary on which the new regime rests. Article 2(46) of the Proclamation defines conciliation as a voluntary and confidential alternative dispute resolution mechanism comprising a structured dialogue between the taxpayer and the Tax Authority, led by an independent third-party facilitator providing advisory opinions and aimed at finding a mutually acceptable solution to a tax dispute. Article 2(47) defines the conciliator as an independent and impartial person appointed by the Office of the Prime Minister to facilitate resolution of a tax dispute through conciliation, expressly stating that the conciliator shall have no power to render a binding decision. The definitional architecture is therefore careful to distinguish the new mechanism from arbitration and from adjudication. The conciliator facilitates; the parties decide. A third definition, that of tax fraud in Article 2(48), is of immediate practical significance to the scope of the new mechanism, because the presence of suspected fraud is one of the express statutory bars to conciliation.

III. SCOPE, EXCLUSIONS, AND THE VOLUNTARY CHARACTER OF CONCILIATION

The power to settle a tax dispute through conciliation is conferred on the Authority by new Article 61(1), renumbered as Article 72(1). Any dispute so resolved must be reduced to writing and signed by the contracting parties. The mechanism is voluntary in the strict sense: it operates only where both the Authority and the taxpayer agree to use it.

The amendment is equally deliberate in specifying what may not be conciliated. New Article 61(3), renumbered as Article 72(3), prohibits settlement through conciliation in three circumstances. The first is where fraud, intentional tax evasion, or another tax-related crime is suspected to have been committed. The second is where settlement would be contrary to the Constitution of the Federal Democratic Republic of Ethiopia or to the relevant tax laws. The third is where one of the parties has not given its consent. These exclusions are not merely procedural. They reflect a legislative judgement that the public interest in the detection and punishment of tax crime cannot be bargained away, and that the conciliation mechanism is intended to resolve disputes about the correct application of the law to facts, not to legitimise conduct that the law treats as criminal. Practitioners should note that the first exclusion is framed in terms of suspicion rather than proof, which may in practice give the Authority considerable latitude in declining to conciliate.

IV. REFERRAL TO CONCILIATION

The routes by which a matter may reach conciliation are threefold. The parties may agree to conciliation at the outset. A taxpayer who has filed an appeal may, within thirty days from the date of filing that appeal, submit a written request in the prescribed form for the dispute to be resolved through conciliation. Alternatively, where the Authority considers that conciliation would ensure tax certainty and administrative efficiency, it may, with the consent of the taxpayer, refer the matter to conciliation at any stage of the appeal proceedings. This third route is notable for two reasons. It permits conciliation to be initiated even after litigation has commenced, and it places the initiative in the hands of the Authority as well as the taxpayer, thereby signalling that the legislature views conciliation as a tool of tax administration and not merely as a concession to taxpayers.

Conciliation may be referred only after an objection has been lodged and only in respect of an appealable decision. The Authority must determine whether the dispute is eligible for conciliation. The submission of a request for conciliation does not discharge the taxpayer from the obligation to pay the undisputed tax amount assessed by the Authority, and the referral of a dispute to conciliation does not preclude the use of other dispute resolution mechanisms provided under the Proclamation, save that an application to the Complaint Review Office is excluded. The commencement of conciliation suspends the running of the limitation periods provided under the Proclamation. Where conciliation fails, those periods resume from the date the conciliation process concludes. The amendment thereby ensures that recourse to conciliation neither prejudices the taxpayer's position nor grants an unintended extension of time to the revenue.

V. CONDUCT OF THE CONCILIATION PROCESS

The conduct of the process is governed by principles of neutrality, confidentiality, and informality. The conciliator is to act as an independent and impartial professional, assisting the parties to examine the factual, legal, technical, and evidentiary issues underlying the dispute. The conciliator may require the parties to submit written statements and supporting evidence, may draft and present settlement proposals at any stage, and may, where the parties fail to agree, render a non-binding professional opinion on the likely outcome should the matter proceed to an appellate body or a court of law. The conciliator does not decide. Formal rules of procedure need not be applied.

The process must be completed within sixty days from the date on which the parties agree to settle the dispute through conciliation, although the Ministry is empowered to issue a Directive determining the conditions under which that period may be extended. All communications during conciliation are confidential, and the result of conciliation may not serve as evidence in any appeal process except as provided by law or with the consent of the parties.

VI. THE LEGAL EFFECT OF A CONCILIATION SETTLEMENT

Where the parties reach agreement, the agreement must be in writing, signed by both, and is binding and enforceable. The Authority is obliged to implement it. The agreement applies only to the specific taxpayer and the tax period or periods underlying the dispute, and it has no binding effect on any other dispute, any other tax period, or any other taxpayer, even where the factual or legal issues are identical. Where agreement is reached only on partial matters, it applies solely to the matters agreed. Where conciliation fails, the taxpayer may file an appeal to the Tax Appeal Commission or to the competent court pursuant to Article 105 of the Proclamation, as renumbered.

VII. COST ALLOCATION AND THE QUESTION OF INSTITUTIONAL INDEPENDENCE

Two features of the new regime merit particular attention. The first concerns cost. Under new Article 71, renumbered as Article 83, each participant bears its own costs, but the service fee payable to the conciliator is borne by the taxpayer. This allocation is distinctive. The conciliator is appointed by the Office of the Prime Minister, an organ of the executive, yet is remunerated by the party with whom the revenue authority is in dispute. Whether this arrangement is consistent with the statutory requirement of independence and impartiality is a question that may well attract scrutiny in practice.

VIII. TRANSITIONAL ACCESS FOR PENDING DISPUTES

The second feature concerns accessibility. The amendment includes a transitional facility under which a taxpayer who has filed an appeal and has a pending dispute prior to the effective date of the Proclamation may, if it wishes to resolve that dispute through conciliation, submit an application to the Authority within sixty days from the effective date. This provision is significant because it allows existing litigants to exit pending proceedings and pursue a negotiated outcome, and it creates a defined window within which that choice must be made. The amendment further provides that pending cases started before its issuance shall be settled based on the provisions of the amended Proclamation, a direction whose retroactive operation will require careful analysis in individual cases.

IX. CONCLUSION

The introduction of conciliation represents a substantial reorientation of Ethiopian tax dispute resolution. It acknowledges, in the language of the preamble itself, that modern tax systems increasingly utilise conciliation and other alternative dispute resolution mechanisms, and that the acceptability and efficacy of the existing dispute resolution system required alignment with international best practice. For taxpayers, the amendment offers a route to certainty that is faster, less formal, and less costly than protracted litigation, and a mechanism through which complex factual and technical disagreements may be narrowed without the risk of an all-or-nothing judgment. For the revenue authority, it offers the prospect of earlier collection, reduced litigation, and the preservation of resources. For advisers, it introduces a new strategic decision point in every contentious matter, namely whether to litigate or to conciliate.

The prudent course for any taxpayer presently facing an assessment, or presently engaged in appeal proceedings, is to assess eligibility for conciliation without delay, to note the sixty-day windows applicable both to requests made after the filing of an appeal and to pending disputes existing at the effective date, and to obtain legal advice on the interaction between conciliation and the prepayment requirements applicable to appeals before the Tax Appeal Commission and the Federal High Court. The Ministry is expected to issue a detailed implementation Directive governing the procedure for conciliating conciliation, including the educational and professional qualifications of the conciliator, and further guidance will follow.

Disclaimer

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September 14,2026